

Kuwait Pillars for Financial Investment (K.S.C.C)

And its subsidiaries

State of Kuwait

**Consolidated Financial Statements and Independent Auditor Report
For the year ended 31 December 2021**

Kuwait Pillars for Financial Investment (K.S.C.C)

And its subsidiaries

State of Kuwait

**Consolidated Financial Statements and Independent Auditor Report
For the year ended 31 December 2021**

INDEX	Page
Independent Auditor's Report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Income	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8 -33

Independent Auditor's Report

To the Shareholders of Kuwait Pillars for Financial Investment (K.S.C.C)

State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Pillars For Investment – K.S.C.C (the "Parent Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, 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 the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

Independent Auditor's Report to the Shareholders (continued)

Kuwait Pillars for Financial Investment (K.S.C.C)

State of Kuwait

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 skepticism throughout the audit. We also:

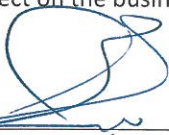
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts 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 the information that we deemed necessary for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 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 and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2021 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 material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the financial year ended 31 December 2021, that might have had a material effect on the business of the Parent Company or on its financial position.



Bader A. Al-Wazzan

Licence No. 62 A

Deloitte & Touche – Al-Wazzan & Co.

Kuwait, 21 March 2022

Consolidated Statement of Financial Position as at 31 December 2021

(All amounts are in Kuwaiti Dinar)

	Note	2021	2020
Assets			
Cash and cash equivalents	5	640,044	2,126,869
Financial assets at fair value through profit or loss	6	7,164,204	2,450,686
Financial assets at fair value through OCI	6	3,978,006	3,838,260
Investments at amortized cost	7	648,628	1,743,113
Receivables and other debit balances		298,062	318,842
Investment in an associate	8	23,529,997	19,559,996
Investment properties	9	3,327,602	3,302,581
Finance receivables	10	4,145,711	4,186,548
Other assets		55,380	104,262
Total assets		43,787,634	37,631,157
Liabilities and equity			
Liabilities			
Payables and other credit balances	11	1,164,207	705,398
Due to banks	12	8,150,000	5,610,000
		9,314,207	6,315,398
Equity			
Share capital	13.1	30,000,000	30,000,000
Share premium		697,235	697,235
Statutory reserve	13.2	1,093,415	724,425
Voluntary reserve	13.3	109,340	72,441
Foreign currency translation reserve		14,347	13,295
Change in fair value reserve		315,454	175,708
Group's share of an associate's reserve		(2,426,749)	(2,156,549)
Treasury shares	14	(639)	(484)
Gain from sale of treasury shares		146,663	146,663
Retained earnings		4,524,361	1,643,025
Total equity		34,473,427	31,315,759
Total liabilities and equity		43,787,634	37,631,157

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



Ghazi Ahmed Al Osaimi
Chairman

Kuwait Pillars for Financial Investment K.S.C.C

And its subsidiaries

State of Kuwait

Consolidated Statement of Income for the year ended 31 December 2021*(All amounts are in Kuwaiti Dinar)*

	Note	2021	2020
Revenues			
Management fees		33,467	36,499
Investment income	15	893,160	416,069
Shares of results from an associate	8	4,474,873	(450,872)
Interest income		216,996	361,923
Rental income		82,042	81,190
Impairment on investment in associate		-	(3,693,582)
Change in fair value of investment properties	9	(569,455)	(912,723)
Other income		(60,610)	190,760
		<u>5,070,473</u>	<u>(3,970,736)</u>
Expenses			
Staff costs		825,327	615,028
General and administrative expenses		271,450	251,642
Depreciation		81,074	79,875
Interest expense		202,725	153,707
		<u>1,380,576</u>	<u>1,100,252</u>
Profit before statutory deductions		3,689,897	(5,070,988)
BOD Remunerations		168,000	-
Net profit / (loss) for the year		<u>3,521,897</u>	<u>(5,070,988)</u>

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

Consolidated Statement of Comprehensive Income for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar)

	2021	2020
Net profit/(loss) for the year	<u>3,521,897</u>	<u>(5,070,988)</u>
Other comprehensive income items		
<i>Items that are or may be reclassified subsequently to the consolidated statement of income</i>		
Foreign currency translation differences	1,052	(158)
Group's share of an associate's reserves	<u>(270,200)</u>	<u>38,858</u>
	<u>(269,148)</u>	<u>38,700</u>
<i>Items that may be not reclassified subsequently to the consolidated statement of income</i>		
Change in fair value of investments at FVOCI	<u>139,746</u>	<u>158,330</u>
Total other comprehensive (loss)/income items	<u>(129,402)</u>	<u>197,030</u>
Total comprehensive income / (loss) for the year	<u><u>3,392,495</u></u>	<u><u>(4,873,958)</u></u>

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

Kuwait Pillars for Financial Investment K.S.C.C
And its subsidiaries
State of Kuwait

Consolidated Statement of Changes in Equity for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar)

	Share Capital	Share premium	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Change in fair value reserve	Group's share of an associate reserve	Treasury shares	Gain from sale of treasury shares	Retained earnings	Total
Balance as at 1 January 2020	30,000,000	697,235	724,425	72,441	13,453	17,378	(2,195,407)	(268)	146,663	6,718,564	36,194,484
Net loss for the year	-	-	-	-	-	-	-	-	-	(5,070,988)	(5,070,988)
Other comprehensive income/ (loss) items	-	-	-	-	(158)	158,330	38,858	-	-	-	197,030
Total comprehensive income/ (loss)	-	-	-	-	(158)	158,330	38,858	-	-	(5,070,988)	(4,873,958)
Effect of change in ownership percentage of subsidiaries in associate	-	-	-	-	-	-	-	-	-	(4,551)	(4,551)
Purchase of treasury shares	-	-	-	-	-	-	-	(216)	-	-	(216)
Balance as at 31 December 2020	30,000,000	697,235	724,425	72,441	13,295	175,708	(2,156,549)	(484)	146,663	1,643,025	31,315,759
Balance as at 1 January 2021	30,000,000	697,235	724,425	72,441	13,295	175,708	(2,156,549)	(484)	146,663	1,643,025	31,315,759
Net profit for the year	-	-	-	-	-	-	-	-	-	3,521,897	3,521,897
Other comprehensive (loss) / income items	-	-	-	-	1,052	139,746	(270,200)	-	-	-	(129,402)
Total comprehensive (loss) / income	-	-	-	-	1,052	139,746	(270,200)	-	-	3,521,897	3,392,495
Effect of change in ownership percentage of subsidiaries in associate	-	-	-	-	-	-	-	-	-	(234,672)	(234,672)
Purchase of treasury shares	-	-	-	-	-	-	-	(155)	-	-	(155)
Transfer to reserves	-	-	368,990	36,899	-	-	-	-	-	(405,889)	-
Balance as at 31 December 2021	30,000,000	697,235	1,093,415	109,340	14,347	315,454	(2,426,749)	(639)	146,663	4,524,361	34,473,427

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

Consolidated Statement of Cash Flows for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar)

	Note	2021	2020
Cash flow from operating activities			
Net profit/(loss) for the year		3,619,897	(5,070,988)
<i>Adjustments:</i>			
Depreciation		81,074	79,875
Investment income	15	(893,160)	(416,069)
Share of result from an associate	8	(4,474,873)	450,872
Interest income		(216,996)	(361,923)
Impairment in associate		-	3,693,582
Impairment in investment properties	9	569,455	912,723
Interest expense		202,725	153,707
Operating losses before changes in working capital		(1,111,878)	(558,221)
Receivables and other debit balances		20,780	(10,527)
Finance receivables		40,837	893,218
Payables and other credit balances		360,809	(275,693)
Net cash (used in)/ generated operating activities		(689,452)	48,777
Cash flow from investing activities			
Paid for purchase of investments		(6,083,482)	(671,133)
Proceeds from sale of investments		2,022,328	880,799
Paid for purchase of additional shares in an associate		-	(388,079)
Dividends received from an associate		-	690,761
Paid for addition to investment properties		(622,811)	(613,392)
Paid for purchase of property and equipment		(2,804)	(31,634)
Paid for purchase of investment held to maturity		(300,000)	(50,000)
Proceeds from investment held to maturity		1,394,485	-
Proceeds from sale of joint venture		-	1,099,131
Dividends received		240,796	323,433
Interest income received		216,996	361,923
Net cash (used in) / generated from investing activities		(3,134,492)	1,601,809
Cash flow from financing activities			
Due to banks		2,540,000	87,200
Finance cost paid		(202,725)	(153,707)
Paid for purchase of treasury shares		(156)	(216)
Net cash generated/(used in) from financing activities		2,337,119	(66,723)
Net (decrease) / increase in cash and cash equivalents		(1,486,825)	1,583,863
Cash and cash equivalents at the beginning of the year		2,126,869	543,006
Cash and cash equivalents at the end of the year	5	640,044	2,126,869

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

Kuwait Pillars for Financial Investment K.S.C.C

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2021*(All amounts are in Kuwaiti Dinar unless otherwise stated)***1. Incorporation and activities**

Kuwait Pillars for Financial Investment-KSCC, the "Parent Company" is a Kuwaiti Shareholding Company incorporated in Kuwait in 1998 and is regulated by the Central Bank of Kuwait and Capital Markets Authority. The Parent Company was listed in the Kuwait Stock Exchange on 3 December 2008. On 8 July 2016 based on the shareholders extraordinary General Assembly meeting, the Company has voluntarily elected to delist from Kuwait stock exchange effective from 1 March 2016. The Company has obtained the approval from CMA to delist on 31 August 2015.

The objectives of the Parent Company are:

Financial investment operations in all economic sectors by all legal means deemed appropriate by the Parent Company to achieve its objectives inside and outside Kuwait for its benefit or others, including:

- Sale and purchase of financial securities for the Company and others with no violation to provisions of law.
- Lending or borrowing and issuing bonds as per Law and financing the foreign trade operations.
- Carrying out financial brokerage operations and managing investments for others.
- Providing and preparing studies and technical, economic and revaluation consultancies, as well as studying the related investment projects and preparing the necessary studies for those institutions and companies (provided the necessary conditions should be met).
- Establishing or participating in the establishing of companies of all types, objectives and nationalities and deal in selling and purchasing of shares, bonds and financial rights of those companies.
- Managing financial and real estate portfolios for the company and for others and investing and developing its customers' funds through placing them in all aspects of local and global investment.
- Investing in real estate, industrial, agricultural and other economic sectors either directly or by contributing in the establishment of specialized companies or purchasing shares or bonds of those companies in different sectors.
- Establishing, managing and marketing investment funds of all types as per Law.
- Carrying out the function of bonds issuing manager, which are issued by companies and authorities, and investment custodian's functions.
- Dealing and trading in the foreign exchange market and precious metals market inside and outside Kuwait for the company's benefit only.
- Providing all services that assist developing and supporting the ability of the financial and monetary market in Kuwait within limits of Law and as per CBK's instructions and procedures through offering new trading financial instruments or providing consulting services to Kuwait Stock Exchange's management and other services.
- Executing the activities of investment controller.

The Parent Company may have an interest or participate in any way in any entity that conducts similar business or which may assist it to achieve its objectives inside and outside Kuwait and it may also purchase such entities or affiliate thereof to it.

The Parent Company's registered office is at Al Qibla Tower, Fahed Al Salem Street, P.O Box 1346, Kuwait.

On 5th May 2021, the General Assembly for Shareholders of the Parent Company approved the Financial Statement for the year ended 31 December 2020 and also approved the Board of Director's recommendation not to distribute dividends.

The consolidated financial statements for the year ended 31 December 2021 were authorized for issue by the Parent Company's Board of Directors on 21st March 2021. The General Assembly for the shareholders has the authority to amend the consolidated financial statements after issuance.

The consolidated financial statements include the financial statement of the Parent Company and its subsidiaries, which are fully owned and mentioned below together referred to as "the Group".

Name	Country of Incorporation	Principal Activities
Strategia Investors Inc.	United States	Investment manager and advisor
Strategia Investors Service Limited	Antigua and Bermuda	Investment manager and advisor to a real estate fund
Strategia Private Equity Limited	Cayman Islands	Investment

For the purposes of consolidation, it had been relied on the audit financial statements of the Strategia Investors Inc. and the management accounts for other subsidiaries. The total assets of these subsidiaries amounted to KD 1,401,441 as at 31 December 2021 (KD 1,617,859 - 31 December 2020), and net profit amounted to KD 831 for the year ended 31 December 2021 (KD 16,190 for the year ended 31 December 2020).

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

2. Basis of preparation and Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") and the Capital market Authority "CMA" 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 have been prepared under the historical cost basis except for measurement of financial assets at fair value.

2.2 Application of new and revised International Financial Reporting Standards (IFRS)

2.2.1 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021:

Interest Rate Benchmark Reform
"phase two" amendments to IFRS 9,
IAS 39, IFRS 7, IFRS 4, and IFRS 16

The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The amendments affect many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform.

- The amendments apply to all entities and are not optional.
- The amendments are effective for annual periods beginning on or after 1 January 2021 with early application permitted.

Covid-19-Related Rent Concessions
beyond 30 June 2021 [IFRS 16]

In May 2020 The International Accounting Standards Board (IASB) amends IFRS 16, which relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification, that applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. In March 2021, IASB extended the availability of the practical expedient to rent concessions for which any reduction in lease payments affects payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. This is the only change made to the practical expedient.

- The amendments are effective for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted.
- This amendment have no impact on the consolidated financial statement of the group

2.2.2 IFRSs issued but not yet mandatorily effective

At the date of authorization of these consolidated financial statements, the group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17 *Insurance Contracts*

The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023.

Amendments to IAS 1

Classification of Liabilities as Current or Non-current

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Amendments to IFRS 3 <i>Reference to the Conceptual Framework</i>	The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated <i>Conceptual Framework</i>) at the same or earlier.
Amendments to IAS 16 <i>Property, Plant and Equipment—Proceeds before Intended Use</i>	The amendments are effective for annual periods beginning on or after 1 January 2022, with early application Permitted.
Amendments to IAS 37 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i> The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 The amendment is effective for annual periods beginning on or after 1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies the amendment is effective for annual periods beginning on or after 1 January 2023
Amendments to IAS 8	Definition of accounting estimates The amendment is effective for annual periods beginning on or after 1 January 2023

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

2.3 Significant Accounting Policies

2.3.1 Basis of Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company and its subsidiaries. Control is achieved when the Company (a) has power over the investee (b) is exposed, or has rights, to variable returns from its involvement with the investee and (c) has the ability to use its power to affects its returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three components of controls listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group losses control over subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of income or other comprehensive income from the date the Group gains control until the date when Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses combination are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value at the acquisition date, except deferred tax assets or liabilities, liabilities or equity instruments related to share based payment arrangements and assets that are classified as held for sale in which cases they are accounted for in accordance with the related IFRS.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated statement of income as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed off.

Investments in associates and joint ventures

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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations taken in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate and joint venture are accounted for using the equity method.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted in order to recognise the changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

Goodwill relating to the associate or joint venture is included in the investment's carrying amount and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. 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 or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of results of an associate and a joint venture is shown on top of the consolidated statement of income off the operating profit and also represents the profit or loss after deducting tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

2.3.2 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through consolidated statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through consolidated statement of income are recognised immediately in consolidated statement of income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Classification and measurement of financial assets

The Group classifies its financial assets as follows

- Financial assets at amortised cost
- Financial assets fair value through other comprehensive income ("FVTOCI")
- Financial assets fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

Assessment of whether contractual cash flows are solely payments of principal and profit (SPPP test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPP test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Profit is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin.

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of profit rates.

Contractual terms that introduce a more than minimize exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and profit. In such cases, the financial asset is measured at fair value through profit or loss.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant periods.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit impaired.

Interest income is recognized in statement of income.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in the statement of income to the extent they are not part of a designated hedging relationship.

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

Investments in equity instruments designated as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investment's revaluation reserve. The cumulative gain or loss will not be reclassified to statement of income on disposal of these investments, instead, they will be transferred to retained earnings.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investment's revaluation reserve.

Impairment of financial assets

The Group applies the general approach to the creation of provisions against expected credit losses in accordance with IFRS 9 related to the financial instruments within cash and cash equivalents. The Group uses credit rating by external rating agencies to assess the credit risk exposure to these financial assets. These ratings are continuously monitored and updated.

Credit facilities - (Finance Receivables)

The CBK 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

Provisions for credit losses in accordance with CBK instructions

accordance with Central Bank of Kuwait instructions, a minimum general provision of 1% of all receivables net of certain restricted categories of collateral and not subject to specific provision. The specific provisions are recorded based on the duration of the past due of the Credit Facility as below, net of eligible collaterals:

<u>Category</u>	<u>Criteria</u>	<u>Specific provisions</u>
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%

ECL provision under IFRS 9 according to the CBK guideline

The ECL provision is based on the credit losses expected to arise over the life of the asset (the Lifetime Expected Credit Loss or LT ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' Expected Credit Loss (12m ECL).

The 12m ECL is the portion of LT ECLs that represent the ECLs that result from default events on a Credit Facilities that are possible within the 12 months after the reporting date.

Both LT ECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of Credit Facilities.

The Group has established policy to perform an assessment, at the end of each reporting period, of whether a Credit Facilities' credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the Credit Facility.

The Group classifies its Credit Facilities into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1: 12-month ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally recognised definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Significant increase in credit risk

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of 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 more than 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.

Credit Impaired

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are more than 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- 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
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Calculation of ECL

The Group calculates ECL based on highest probable scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Profit Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses point in time PD (PITPD) for each rating to calculate the ECL. The minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade financing facilities except for financing facilities granted to Government and banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing financing.
- The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized cash.
- The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Other than the above LGD estimation mechanics, the Group also complies with the guidelines mentioned in the CBK Instruction, as follows:

- The Group applies minimum 50% LGD on unsecured Credit Facility and minimum 75% LGD for unsecured subordinated financing receivable.
- The Group applies a minimum haircut to the collateral values as per CBK instructions.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

As per Central Bank of Kuwait's (CBK) instructions, the Group measures loss provisions at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure to identified collaterals including 100% of loss given default of irregular payment (non-performing) cases as per CBK's instructions concerning rules and bases of classifying the credit facilities, investment and funding operations mentioned above as of the date of meeting the conditions of irregularity and/or based on the customer's financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in statement of income for financial liabilities that are not part of a designated hedging relationship.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognized in statement of income.

2.3.3 Investment properties

Investment properties held by the Group are the properties held for capital appreciation or to earn rental income. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investments properties are carried out at historical cost less accumulated depreciation and any accumulated impairment losses.

Freehold land is not depreciated. Depreciation on the building is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful life of 39 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the year of derecognition.

2.3.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. In situations, where it is clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalized.

Depreciation is calculated based on estimated useful life of the applicable assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The assets' residual values, useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Gains or losses on disposals are determined by the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income.

2.3.5 Impairment of non-monetary assets

At the end of each reporting period, the Group reviews the carrying amount of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Impairment losses are recognised in the statement of income for the period in which they arise. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.3.6 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the consideration expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.3.7 End of service indemnity

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment, regarding the labour in other countries; the indemnity is calculated based on law identified in these countries. Such payment is made on a lump sum basis at the end of an employee service.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the financial position date. This basis is considered to be a reliable approximation of the present value of the Group's liability.

2.3.8 Revenue recognition

Gain on sale of investments is recognised at the completion of the transaction. Dividend income is recognised when the right to receive payment is established. Interest income is recognised on a time proportion basis based on the maturity dates of the related assets by using the effective yield method. Management and subscription fees are recognized when the services are provided.

2.3.9 Leases

The Group as a lessee

The Group assesses whether contract is or contains a lease, at inception of the Contract. The Group recognizes a right of use asset and a corresponding lease liability on the date on which the lessor makes the asset available for use by the Group (the commencement date).

On that date, the Group measures the right of use at cost, which comprises of:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right of use asset when the Group incurs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with leases of short-term leases and low-value assets are recognized on a straight-line basis as an expense in statement of income.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Subsequent Measurement

After the commencement date, the Group measures the right-of-use asset at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the shorter of the asset's useful life and the lease term. The Group determines whether a right of use asset is impaired and recognizes any impairment loss identified in the statement of income. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

After the commencement date, the Group measures lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to statement income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

For a contract that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Sale and leaseback

The Group enters into sale and leaseback transactions whereby it sells certain assets to a third-party and immediately leases them back. Where sale proceeds received are judged to reflect the fair value, any gain or loss arising on disposal is recognised in the statement of income, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognised at commencement of the lease. Where sale proceeds received are not at the fair value, any below market terms are recognised as a prepayment of lease payments, and above market terms are recognised as additional financing provided by the lessor.

Where the Group is the lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

2.3.10 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD), which is the Parent Company's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are resulted from the settlement of such transactions and from the translation at year-end in the statement of income.

Kuwait Pillars for Financial Investment K.S.C.C

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows (other than companies which are operating in high inflation countries):

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial position.
- Income and expenses for each statement of income are translated at average exchange rates.
- All resulting exchange differences are recognized as a separate component of other comprehensive income items.

2.3.11 Dividends

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

2.3.12 Fiduciary assets

Assets which are kept by the Group as an agency or under a fiduciary capacity are not considered as Group's assets.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies.

(a) Market risk

Foreign currency risks

The Group is exposed to the risk of foreign currency resulting primarily from dealing in financial instruments with US Dollar. The risk of foreign exchange is resulting from future transactions on financial instruments in foreign currency recorded in the consolidated financial statements of the Group.

The Group has set policies for managing foreign exchange risk through careful monitoring of changes in currency rates and its respective impact on the financial position of the Group, during the year. Also the Group is dealing with financial institutions with high experience in this field to provide the Group with necessary advisory in case of any significant change in foreign currencies' rates.

In case of a change in the US Dollar against the Kuwaiti Dinar by 5% as at 31 December, the Group's profit would have changed by KD 9,004 and equity would have changed by KD 29,494 (profit KD 76,899 and equity KD 71,282 - 2020).

Following is the net position of the foreign currencies as at 31 December:

	2021	2020
US\$ Surplus	1,401,441	1,617,859

Price risk

Price risk is the risk arising from fluctuation of financial instrument value resulting from changes in market price. For managing this risk, the Group is monitoring market prices of these investments, and performing a periodic evaluation of the financial statements of the investees and determining its fair values through financial data available for these investments.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

The following sensitivity analysis shows the impact of the change in the index of the stock market on the Group's equity. This analysis is based on the index change by 5% with all other variables held constant.

	Impact on equity	
	2021	2020
Kuwait Stock Exchange	29,494	29,567

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from bonds. The bonds placed at variable rates expose the Company to cash flow interest rate risk.

The Group manages interest rate risk by diversification of interest rates between fixed and variable and borrowing funds at market linked floating interest rates and placing time deposits at the best available rates.

At 31 December 2021, if interest rates at that date had been 0.25% higher/lower with all other variables held constant, loss for the year would have been lower/higher by KD 2,859 (KD 529 - 2020).

The Group is managing this risk by locking the deposits for a short-term period relatively. The Group is periodically studying the factors related to interest rates to assess the possibility of an increase or decrease in interest rates for future periods, and the related impacts on the Group's cash flows and profits in addition to take the necessary action in order to mitigate such impact.

(b) Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk is managed by the Group by monitoring credit policy on regular basis taking into account to maintain non-concentration of credit risk.

Credit risk is highly concentrated in cash and cash equivalents, bonds, receivables and finance receivables. The Group keeps its cash and cash equivalents in financial institutions with high credit reputation and invests in bonds which have been issued from financial companies and institutions with high credit reputation. The Group grants credit only within the limits of the requirements and the normal course of business taking into consideration its financial position, past experience and reputation.

Maximum exposure to credit risk

An analysis of the Groups financial assets before taking into account other credit enhancements is as follows:

	2021	2020
Cash at banks	640,044	2,126,869
Receivables	255,198	264,457
Finance receivables	4,145,711	4,186,548
Investments at amortized cost	648,628	1,743,113
	<u>5,689,581</u>	<u>8,320,987</u>

Note 10 shows aging analysis of finance receivables and movement of provision.

Credit risk measurement

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. One of the main activities of the group that generates revenue is lending to customers. Credit risk is therefore a principal risk. Credit risk arises mainly from financing receivables. The Group considers all elements of credit risk exposure, such as default risk, geographic risk and sector risk for risk management purposes.

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral values which is amounted to KD 9,568,169 against the finance receivable as of 31 December 2021 providing coverage percentage of 204%, as a mean of mitigating the risk of financial loss from defaults. The group only transacts with entities that are rated the equivalent of investment grade. Investment at amortised cost as detailed in note 7, where the counterparties have a minimum BBB credit rating, are considered to have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available,

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

the Group uses other publicly available financial information. The Group's exposure and the credit ratings of its counterparties are continuously monitored as well as the aggregate value of transactions.

The finance receivable balances as at the end of the year of KD 4,145,711 (2020: KD 4,186,548) is due from NIG, the group's related party with a good credit rating. Apart from that the group does not have other exposures.

Also, the Group manages the credit risk by setting credit policies focus on careful assessment of creditworthiness of borrowers, in addition to the identification of the necessary guarantees received from the customers as well as setting a credit approval limit.

The Group utilizes collaterals in reducing balances that are exposed to credit risk to an acceptable level. The credit policy identifies the type of collateral required for each type of transaction. The bases for assessment of those collaterals and the frequency of such assessment are also determined.

The Group measures the credit risks in terms of the asset's credit quality using two main methods, namely provisions proportion and non-performing finance receivables proportion. The non-performing finance receivables proportion is the ratio of non-performing finance receivables to the total finance receivables.

The Group's current credit risk grading framework comprise the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12- Months ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write – off	There is evidence indicating that the debtor is in severe financial difficulty and the Group have no realistic prospect of recovery	Amount is written off

However, the ECL provision on these balances are not material to the Group's consolidated financial statements. The credit risk for bank balances and trade receivable is considered negligible, since the counterparties are reputable financial institution with high credit quality and no history of default, as well as the trade receivable is a minor amount, which majorly comprise of staff receivable. Based on the management assessment, the expected credit loss impact arising from such financial assets are insignificant to the Group as the risk of default has not increased significantly.

Moreover, as per the CBK guidance, the company is supposed to report the higher of ECL or provision as per CBK regulations (note 2.3.2).

Assessment of expected credit losses

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

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

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

31 Dec 2021	Note	External Credit Rating	Internal Credit Rating	12-month or lifetime ECL	Stage	Gross Carrying amount	Loss allowance	CBK Provision	Net carrying amount
Finance receivable	10	BBB	BBB	12 Month ECL	1	4,198,450	Nil	52,739	4,145,711
Investment held to maturity	7	A2-Baa3	A2-Baa3	12 Month ECL	1	650,000	2,502	-	647,498

The Group do not hold any financial guarantee contracts as of 31 December 2021

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

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's do not indicate a significant increase in credit risk.

The potential for default is that the obligor may fail to meet its obligations in the future. IFRS 9 requires the use of probability of default separately for a period of 12 months or over the life of the instruments based on the stage distribution for the obligor. The probability of default used in IFRS 9 should reflect the Group's estimate of the quality of the asset in the future.

The calculation is based on statistical models. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

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 variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off-balance sheet values. EAD is estimated taking into consideration the contractual terms such as rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

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 on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For all unsecured credit facilities, the Group considers a minimum of 50% LGD for senior debt and 75% LGD for subordinated debt.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

(c) Liquidity risk

The liquidity risk is the risk that the Group becomes unable to settle its liabilities when due.

The management of liquidity risk is mainly to maintain sufficient balance of cash, highly liquid financial instruments and financial resources are made available to meet the needs of liquidity.

The Group monitors liquidity risk by maintaining Group of highly liquid financial investments. This facilitates the Group, the availability of liquidity when needed. In addition, the Group studies the extent of liquidity in these investments on a regular basis and adjusts the components of these assets when this is necessary.

All outstanding liabilities as at 31 December 2021 and 2020 mature within one year from the consolidated financial statements date.

3.2 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the equity balance.

The capital structure of the Group consists of equity of the Group comprising issued capital, reserves and retained earnings. The Parent Company's current strategy is to rely on the self-finance for the Group's activities instead of depending on debts, and to maintain the external finance at minimum.

3.3 Fair value estimation

The fair values of financial assets and financial liabilities are determined as follows:

- Level one: Quoted prices in active markets for identical financial instruments.
- Level two: Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in market that are not active. Inputs other than quoted prices that are observable for assets and liabilities.
- Level three: Inputs for the asset or liabilities that are not based on observable market data.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The table below gives information about how the fair values of the financial assets are determined:

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and Key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31/12/21	31/12/20				
Equity instruments designated as FVTPL						
Quoted Shares	4,288,133	2,450,686	1	Last bid price	-	-
Unquoted Shares	2,876,071	-	2	Market Multiple	Discount rate, etc.	The higher market risk the lower the fair value
Equity instruments designated as FVTOCI						
Quoted Shares	3,090,145	2,718,043	1	Last bid price	-	-
Unquoted shares	887,861	1,120,217	3	Adjusted Net book value	Book value adjusted with market risk	The higher market risk the lower the fair value

The fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis approximately equals their carrying values as at the consolidated financial statements date.

4. Critical accounting estimates and judgments

In the application of the Group's accounting policies, the management are required to make judgments and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects future periods.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

During the year, the outbreak of COVID-19 pandemic has brought disruptions in business operations of the Company and the economies in which the Company operates. Consistent with its risk management framework, the management has followed prudent steps in minimizing the impact on key risk parameters. Refer note 20 for details.

Judgements

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

Classification of investments in equity instruments

On acquisition of an investment, the Group decides whether it should be classified as "FVTPL" or "FVTOCI". The Group follows the guidance of IFRS 9 on classifying its investments.

The Group has designated all investments in equity instruments as at FVTOCI as these investments are strategic investments and are not held for trading.

Sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements and valuation techniques

Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the financial statements. The Group's management determines the main appropriate techniques and inputs required for measuring the fair value. In determining the fair value of assets and liabilities, management uses observable market data as appropriate, in case no observable market data is available the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in notes (3.3 and 6).

Impairment ECL of financial assets

The Group estimates ECL for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Impairment of associates

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss on the Group's investment in its associated companies, at each statement of financial position date based on existence of any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and it is carrying value and recognises the impairment loss in the consolidated statement of profit or loss.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying value of the above assets (Note 8).

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

5. Cash and cash equivalents

	2021	2020
Cash at banks	638,820	2,125,009
Cash on hand	787	1,422
Cash in investment portfolios	437	438
	<u>640,044</u>	<u>2,126,869</u>

6. Financial Investments

Financial assets at fair value through profit or loss

	2021	2020
Quoted shares	4,288,133	2,450,686
Unquoted shares	2,876,071	-
	<u>7,164,204</u>	<u>2,450,686</u>

Financial assets at fair value through other comprehensive income

	2021	2020
Quoted shares	3,090,145	2,718,043
Unquoted shares	887,861	1,120,217
	<u>3,978,006</u>	<u>3,838,260</u>

The fair value has been determined based on valuation basis mentioned in note (3.3).

The Group has pledged quoted securities with carrying amount of KD 5,358,150 as of 31 December 2021 (KD 3,031,922 – 31 December 2020) against the credit facilities (Note 12).

7. Investments at amortized cost

The effective interest rates on these bonds is 4.25% per annum (4.2% - 2020). The bonds have maturity dates ranging between 3 to 6 years from the end of the reporting period. The balance includes an amount of KD 298,822 represented in bonds which have been issued by related parties (Note 16).

8. Investment in an Associate

8.1 Investment in an Associate

Company's name	Country of Incorporation	Principal Activities	Proportion of ownership interest (%)	
			2021	2020
Kuwait Financial Centre	Kuwait	Investment management and financial advisory	29.86	29.86

The Group's share in the associate's result and reserves are calculated using equity method based on the audited financial statements for the year ended 31 December 2021. Summarized financial information of the associate as at 31 December is as follows:

	2021	2020
Total assets	210,769,031	192,164,000
Total liabilities	100,730,971	100,147,000
Non-controlling interest	31,229,000	34,568,000
Revenues	30,642,000	13,161,000
Profits for the year	14,988,000	(1,715,000)
Total other comprehensive income	(905,000)	149,000
Dividend received from the associate during the year	-	690,761

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Movement on investments balance in the associate during the year are as follows:

	2021	2020
Balance as at 1 January	19,559,996	23,972,825
Additions during the year	-	388,079
Cash dividends	-	(690,761)
Group's share in associate's results	4,474,873	(450,872)
Group's share in associate's reserves	(270,200)	38,858
Impairment on associate	-	(3,693,582)
Effect of change in ownership percentage of subsidiaries of associate	(234,672)	(4,551)
	<u>23,529,997</u>	<u>19,559,996</u>

The fair value of investment in an associate amounted to KD 25,556,491 (KD 11,493,282 – 2020) based on quoted price on Kuwait stock exchange which is Level 1 as at the consolidated financial position date.

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that an associate may be impaired or there is any indication that impairment loss recognized in prior periods may no longer exist or may have decrease. Kuwait financial centre (Markaz) is engaged in the business of financial services under a license from the CMA.

Investments in associates is tested for impairment/ reverse of impairment as a single asset, by comparing its recoverable amount with its carrying amount. The recoverable amount is determined based on the higher of value-in-use calculations and fair value less cost to sell.

In order to assess the impairment in associate management have used multiple techniques relevant to the nature and operations of the associate to determine the fair value less cost to sell in addition to the discounted cash flows method to determine the value in use.

Following are the key assumption used in determining the value in use calculation.

Key assumption	Basis used to determine value to be assigned to key assumption
Growth rate	2.5% per annum, considering the pandemic effects on GDP (Gross Domestic Product)
Discount rate	Discount rates range from 10% to 20% per annum. Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The management has used the market approach and net asset value (NAV) approach to estimate the fair value of its investment in the associate using the past three years financial data with applying discount factors ranging from 10-20% to certain assets classes held by the associate while applying the NAV, these are mainly financial assets and investment properties.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in the aggregate carrying amount.

Based on the above analysis, the Group concluded that the recoverable amount is approximately equivalent to the carrying value as at 31 December 2021, (recoverable amount less than carrying value by KD 3,693,582 as at 31 December 2020).

The Group has pledged 98 Mio shares of its associate with fair value of KD 17,542,000 against the credit facilities (Note 12).

9. Investment properties

The movement for the investment properties is as follows:

	2021	2020
Balance as at 1 January	3,302,581	3,631,880
Additions during the year	623,864	613,392
Depreciation during the year	(29,388)	(29,968)
Impairment loss recorded during the year	(569,455)	(912,723)
Closing as at 31 Dec	<u>3,327,602</u>	<u>3,302,581</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

The investment properties are located outside Kuwait and categorised as follow:

	2021	2020
Land	2,408,985	2,352,139
Developed property	918,617	950,442
	<u>3,327,602</u>	<u>3,302,581</u>

The fair value of investment properties amounted to KD 3,769,369 as at 31 December 2021 (KD 3,678,230 – 2020) has been determined based on valuations prepared by independent valuers, the independent valuers are licensed from relevant regulating bodies, and are industry specialised in valuing such type of investment properties.

During the year, the company have recorded impairment loss for its Land located in Sharjah of KD 569,455 (YE 2020 KD 912,723).

The rental income generated from the developed land is KD 82,042 (YE 2020 KD 81,190).

The land is valued based on income approach, adopting discounted cashflow method (Level 3).

The fair value of developed property was determined based on capitalization of net income method (Level 3), where the market rental of all rentable units of the properties are assessed by reference to the rental achieved and letting of similar properties in neighbourhood.

In estimating the fair value of the properties, the highest and best use of the property is its current use.

10. Finance receivables

Finance receivables are represented in commercial loans granted to related parties. The effective interest rate on these finance receivables is 3.750%. The fair value of the collaterals held against certain finance receivables is KD 9,568,169 as at 31 December 2021 (KD 8,415,240 – 31 December 2020). The following is an analysis of outstanding balances and related provision.

	2021	2020
Gross balance of commercial loans	4,250,729	4,291,566
Less: deferred revenue	(52,279)	(52,279)
	<u>4,198,450</u>	<u>4,239,287</u>
Less: Provision for credit losses – CBK general provision	(52,739)	(52,739)
Balance as at 31 December	<u>4,145,711</u>	<u>4,186,548</u>

The balances of receivables as at 31 December 2021 and 31 December 2020 do not include matured past due, or impaired balances, and the entire balance is under stage 1 for the purpose of the ECL measurement.

The finance receivables (gross) amounted to KD 4,250,729 as at 31 December 2021 mature within one year.

The general provision for credit losses is calculated in accordance with the instructions of the Central Bank of Kuwait.

The movements on the general provision for credit losses is as follows:

	2021	2020
Balance at 1 January	52,739	66,167
Reversal	-	(13,428)
Balance at 31 December 2021	<u>52,739</u>	<u>52,739</u>

The ECL for finance receivables to customers as at 31 December 2021 is Nil Which is lower than the provision for impairment of finance receivables to customers required by CBK.

11. Payables and other credit balances

	2021	2020
Accrued expenses	104,005	61,183
Staff leave and other benefits	833,336	585,345
Others	226,866	58,870
	<u>1,164,207</u>	<u>705,398</u>

Notes to the Consolidated Financial Statements for the year ended 31 December 2021*(All amounts are in Kuwaiti Dinar unless otherwise stated)***12. Bank facilities:**

	2021	2020
Bank facilities	8,150,000	5,610,000

The average interest rate on the credit facilities is 4% and the maturity date is 1 October 2022. The following assets are pledged against bank facilities as at 31 December 2021:

- 98,000,000 shares of investments in associate (Note 8).
- 11,025,001 shares of quoted investments (Note 6).

13. Share capital and reserves**13.1 Share capital**

As at 31 December 2021, the authorized issued and paid-up share capital is KD 30 million distributed over 300 million shares with a nominal value of 100 fils each (30 million distributed over 300 million shares with a nominal value of 100 fils each - 2020), and all shares are in cash.

On 4 February 2018, the extraordinary General Assembly decided to increase the issued and fully paid-up capital from KD 30 million to authorized amount of KD 50 million and gave the authority to the BOD to decide the amount, time of the issuance and the share premium (If any).

Based on the above on 9 November 2021 the Board of Directors have decided to increase the issued and paid-up capital from KD 30 M to KD 39M at a nominal value of 100 Fils per share and no issuance premium. The necessary procedures are being completed and the approval of the regulatory authorities is being obtained.

13.2 Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of net profit before Board of Directors' remuneration, National Labour Support Tax, Zakat expense and KFAS are transferred to statutory reserve. When the balance of the reserve exceeds 50% of share capital, the General Assembly is permitted to discontinue this transfer. The reserve could be utilized to secure payment of a dividend of 5% of share capital in years when retained earnings are not sufficient for payment of dividends.

13.3 Voluntary reserve

In accordance with the Parent Company's Articles of Association, 1% of net profit before Board of Directors' remuneration, National Labour Support Tax, Zakat expense and KFAS as proposed by the Board of Directors and approved by the General Assembly is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the General Assembly based on the proposal of the Board of Directors.

14. Treasury shares

	2021	2020
Number of shares	26,576	20,277
Percentage of issued shares (%)	0.008	0.007

The Parent Company is required to retain reserves and retained earnings equivalent to the cost of treasury shares throughout the year, in which they are held by the Parent Company, in accordance with the instructions of the relevant regulatory authorities. These shares are not pledged. During the year, the Group purchase treasury shares amounting to KD 156.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

15. Investment income

Investment income from financial assets at FVTPL

	2021	2020
Cash dividends	214,163	285,258
Gain on sale of joint venture	-	883,967
Gain on reversal of provision	-	3,869
Gain on change in fair value of investments through profit & loss	440,851	(423,183)
Realized gains	211,513	(373,394)
	<u>866,527</u>	<u>376,517</u>

Investment income from financial assets at FVOCI

	2021	2020
Cash dividends	26,633	39,552
Total Investment income	<u>893,160</u>	<u>416,069</u>

16. Related party transactions

Related parties are the shareholders of Parent Company who are represented in Board of Directors as well as major shareholders and the companies in which any of its members is at the same time a board member in the Company's Board of Directors and associated companies. In the ordinary course of business, the Group has carried out some transactions during the year with related parties. Transactions and balances are included in the consolidated financial statements are as follows:

	2021	2020
Transactions		
Remuneration of Key management personal		
Salaries and other short-term benefits	466,246	330,516
End of service indemnity	55,784	44,834
Investments		
Acquisition of financial assets at FVTPL	2,540,731	-
Interest income – Shareholders	193,817	309,464
Balances		
Investments at amortized cost (Note 7)		
Associate	298,822	298,822
Share holders	-	597,666
Finance receivable (Note 10) – Shareholders	4,145,711	4,186,548
Payables and other credit balances	799,943	453,052

Finance receivable details are disclosed in note 10.

Related parties' transactions are subject to approval of shareholders' general assembly.

17. Dividends

On 5th May 2021, the General Assembly for Shareholders of the Parent Company approved the Financial Statement for the year ended 31 December 2020 and also approved the Board of Director's recommendation not to distribute dividends.

On 21 March 2022, The Board of Directors of the Parent Company have proposed distribution of cash dividends of 5 fils share for the year ended 31 December 2021.

18. Fiduciary Assets

The Group manages portfolios on behalf of customers and maintains cash balances and securities in fiduciary accounts which are not reflected on the Group's consolidated financial statements. The aggregate net asset value held in a fiduciary capacity by the Group is KD 24,039,067 as at 31 December 2021 (KD 21,770,501 as at 31 December 2020).

Notes to the Consolidated Financial Statements for the year ended 31 December 2021*(All amounts are in Kuwaiti Dinar unless otherwise stated)***19. Segment information**

In the purpose of management, the Group organizes its operations in two main sectors of business. The following are the main activities and services that are underlined in such two sectors.

Investment activities: Investing in securities, funds, properties lending to corporate and individual customers and managing the Group's liquidity requirements.

Asset management and advisory services: Discretionary and non-discretionary investment portfolio management, managing of local and international investment funds and providing advisory and structured finance services and other related financial services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the return on investments. The Group does not have any significant inter-segment transactions.

The following table presents segment revenues, profits, assets, and liabilities related to the Group's business segments:

	2021		
	Investment activities	Asset management and advisory services	Total
Segment revenues	5,037,006	33,467	5,070,473
Net loss	3,488,430	33,467	3,521,897
Segment assets	43,676,671	110,963	43,787,634
Segment liabilities	9,288,368	25,839	9,314,207

	2020		
	Investment activities	Asset management and advisory services	Total
Segment revenues	(4,007,235)	36,499	(3,970,736)
Net profit	(5,107,487)	36,499	(5,070,988)
Segment assets	37,555,078	76,079	37,631,157
Segment liabilities	6,289,086	26,312	6,315,398

Geographical distribution of Group's revenues, profits, assets and liabilities is set out below:

	2021			
	Middle East	USA	Europe	Total
Segment revenues	4,949,895	120,578		5,070,473
Net Profit	3,497,634	34,936	(10,673)	3,521,897
Assets	42,362,568	1,423,024	2,042	43,787,634
Liabilities	9,288,368	25,839		9,314,207

	2020			
	Middle East	USA	Europe	Total
Segment revenues	(5,052,642)	125,397	956,508	(3,970,736)
Net profits	(6,061,438)	44,859	945,591	(5,070,988)
Assets	36,201,249	1,427,861	2,047	37,631,157
Liabilities	6,289,085	26,313	-	6,315,398

20. Impact of COVID-19

The COVID-19 pandemic continues to spread across global geographies causing disruption to business and economic activities and bringing significant uncertainties to the global economic environment. Fiscal and monetary authorities worldwide launched extensive responses designed to mitigate the severe consequences of the pandemic. With improved vaccination, business sentiments have significantly improved during the year, though the uncertainties continue.

The Group has performed an assessment of COVID-19 implications on the financial results of the Group and incorporated the outcome in these consolidated financial statements and explained the changes in light of the available guidance of IFRS related to critical judgments and estimates for the year ended 31 December 2021.

Notes to the Consolidated Financial Statements for the year ended 31 December 2021

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Valuation estimates and judgements

The Group has considered potential impacts of the current market volatility in determination of the reported amounts of the Group's unquoted financial assets and investment in associate, this represents management's best assessment based on observable available information as at the reporting date. Given the impact of COVID-19, the Group is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario. Further information on the Group's policy in relation to fair value measurements is disclosed in Note 2.3.2.

Impairment of Investment properties

The Group has considered any impairment indicators arising and any significant uncertainties around its investment's properties and concluded that the impairment losses booked during the year for the investment property of KD 569,455 represent the best estimate of the pandemic impact and the assets values reported as of 31 December 2021 represent the best recoverable amounts that would be achieved for transactions between market participants in the current scenario.

Markets however remain volatile, and the recorded amounts remain sensitive to market fluctuations. Based on the external third-party expert and management expert, the Group's management believes that recorded amounts represent the best estimate in light of the available information.

Going concern

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Group's future performance, capital and liquidity. The impact of COVID-19 may continue to evolve, but at the present time the projections show that Group has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged. As a result, these consolidated financial statements have been appropriately prepared on a going concern basis.