

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 2019**

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 2019

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 -30

Independent Auditor's Report to the Shareholders

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

Basis for Opinion

We conducted our audit in accordance with 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' Code of Ethics for Professional Accountants (*including International Independence Standards*) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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 2019 that might have had a material effect on the business of the Group or on its consolidated 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 2019, that might have had a material effect on the business of the Group or on its consolidated financial position.



Talal Yousef Al-Muzaini

Licence No. 209A

Deloitte & Touche – Al-Wazzan & Co.

Kuwait, 12 March 2020

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

And its subsidiaries

State of Kuwait

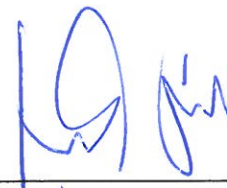
Consolidated Statement of Financial Position as at 31 December 2019*(All amounts are in Kuwaiti Dinar)*

	Note	2019	2018
Assets			
Cash and cash equivalents	5	543,006	2,454,547
Financial assets at fair value through profit or loss	6	2,654,002	42,314
Financial assets at fair value through OCI	6	3,679,930	4,108,238
Investments at amortized cost	7	1,689,244	1,689,244
Receivables and other debit balances	8	308,315	332,397
Investment in an associate and joint venture	9	23,998,608	22,676,827
Investment properties	10	3,631,880	2,775,981
Finance receivables	11	6,070,697	6,086,587
Other assets		122,693	26,434
Total assets		<u>42,698,375</u>	<u>40,192,569</u>
Liabilities and equity			
Liabilities			
Payables and other credit balances	12	981,091	881,962
Due to banks	13	5,522,800	4,748,900
		<u>6,503,891</u>	<u>5,630,862</u>
Equity			
Share capital	14.1	30,000,000	30,000,000
Share premium		697,235	697,235
Statutory reserve	14.2	724,425	565,398
Voluntary reserve	14.3	72,441	56,538
Foreign currency translation reserve		13,453	13,088
Change in fair value reserve		17,378	64,992
Group's share of an associate's reserve		(2,195,407)	(2,091,802)
Treasury shares	15	(268)	-
Gain from sale of treasury shares		146,663	146,663
Retained earnings		6,718,564	5,109,595
Total equity		<u>36,194,484</u>	<u>34,561,707</u>
Total liabilities and equity		<u>42,698,375</u>	<u>40,192,569</u>

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



Ghazi Ahmed Al Osaimi
Chairman



Mishal Nasser Habib
Vice Chairman & CEO

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 2019*(All amounts are in Kuwaiti Dinar)*

	Note	2019	2018
Revenues			
Management fees		42,335	53,788
Investments income	16	236,644	256,431
Shares of results from an associate	9	2,000,446	616,405
Interest income		470,833	410,124
Rental income		78,608	76,290
Other income		77,548	2,049
		<u>2,906,414</u>	<u>1,415,087</u>
Expenses			
Staff costs		805,186	757,722
General and administrative expenses		357,717	417,849
Depreciation		41,738	39,843
Interest expense		111,307	92,300
Provision	11	196	36,476
		<u>1,316,144</u>	<u>1,344,190</u>
Net profit for the year		<u>1,590,270</u>	<u>70,897</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 Comprehensive Income for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar)*

	<u>2019</u>	<u>2018</u>
Net profit for the year	1,590,270	70,897
Other comprehensive income items		
<i>Items that are or may be reclassified subsequently to the consolidated statement of income</i>		
Foreign currency translation differences	365	(2,062)
Group's share of an associate's reserves	<u>(103,605)</u>	<u>18,781</u>
	(103,240)	16,719
<i>Items that may be not reclassified subsequently to the consolidated statement of income</i>		
Change in fair value of investments at FVOCI	<u>146,015</u>	<u>(128,884)</u>
Total other comprehensive loss items	<u>42,775</u>	<u>(112,165)</u>
Total comprehensive income /(loss) for the year	<u>1,633,045</u>	<u>(41,268)</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 2019

(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 2018	30,000,000	697,235	558,308	55,829	15,150	211,140	(2,110,583)	(282,682)	-	5,029,233	34,173,630
Net profit for the year	-	-	-	-	-	-	-	-	-	70,897	70,897
Other comprehensive income/ (loss) items	-	-	-	-	(2,062)	(128,884)	18,781	-	-	-	(112,165)
Total comprehensive income/ (loss)	-	-	-	-	(2,062)	(128,884)	18,781	-	-	70,897	(41,268)
Profit on sale of investments	-	-	-	-	-	(17,264)	-	-	-	17,264	-
Sale of treasury shares	-	-	-	-	-	-	-	282,682	146,663	-	429,345
Transfer to reserves	-	-	7,090	709	-	-	-	-	-	(7,799)	-
Balance as at 31 December 2018	30,000,000	697,235	565,398	56,538	13,088	64,992	(2,091,802)	-	146,663	5,109,595	34,561,707
Balance as at 1 January 2019	30,000,000	697,235	565,398	56,538	13,088	64,992	(2,091,802)	-	146,663	5,109,595	34,561,707
Net profit for the year	-	-	-	-	-	-	-	-	-	1,590,270	1,590,270
Other comprehensive income/(loss) items	-	-	-	-	365	146,015	(103,605)	-	-	-	42,775
Total comprehensive income/(loss)	-	-	-	-	365	146,015	(103,605)	-	-	1,590,270	1,633,045
Profit on sale of investments	-	-	-	-	-	(193,629)	-	-	-	193,629	-
Purchase of treasury shares	-	-	-	-	-	-	-	(268)	-	-	(268)
Transfer to reserves	-	-	159,027	15,903	-	-	-	-	-	(174,930)	-
Balance as at 31 December 2019	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

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 Cash Flows for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar)

	Note	2019	2018
Cash flow from operating activities			
Net profit for the year		1,590,270	70,897
<i>Adjustments:</i>			
Depreciation		41,738	39,843
Investment income		(236,644)	(256,431)
Share of result from an associate		(2,000,446)	(616,405)
Interest income		(470,833)	(410,124)
Interest expense		111,307	92,300
Provisions charged during the year		196	36,476
Operating losses before changes in working capital		(964,412)	(1,043,444)
Receivables and other debit balances		24,082	(52,124)
Finance receivables		15,694	(3,457,492)
Payables and other credit balances		99,129	154,191
Net cash used in operating activities		<u>(825,507)</u>	<u>(4,398,869)</u>
Cash flow from investing activities			
Paid for purchase of investments		(2,914,460)	(753,647)
Proceeds from sale of investments		871,090	593,770
Paid for purchase of additional shares in an associate		(112,539)	(57,054)
Dividends received from an associate		687,599	954,633
Paid for addition to investment properties		(885,117)	(812,720)
Paid for purchase of property and equipment		(108,414)	(31,096)
Dividends received		242,649	260,908
Interest income received		470,833	410,124
Net cash (used in)/ generated from investing activities		<u>(1,748,359)</u>	<u>564,918</u>
Cash flow from financing activities			
Due to banks		773,900	4,748,900
Finance cost paid		(111,307)	(52,752)
Paid for purchase of treasury shares		(268)	-
Proceeds from sale of treasury shares		-	429,345
Net cash generated from financing activities		<u>662,325</u>	<u>5,125,493</u>
Net increase/ (decrease) in cash and cash equivalents		(1,911,541)	1,291,542
Cash and cash equivalents at the beginning of the year		<u>2,454,547</u>	<u>1,163,005</u>
Cash and cash equivalents at the end of the year	5	<u><u>543,006</u></u>	<u><u>2,454,547</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

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(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.

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 23 April 2019, the General Assembly for Shareholders of the Parent Company approved the Financial Statement for the year ended 31 December 2018 and also approved the Board of Director's recommendation not to distribute dividends.

The consolidated financial statements for the year ended 31 December 2019 were authorized for issue by the Parent Company's Board of Directors on 12 March 2020. 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
Marquee Fund Manager Limited*	United Kingdom	Investment manager and advisory services
Strategia Investors Service Limited	Antigua and Burmuda	Investment manager and advisor to a real estate fund
Strategia Private Equity Limited	Cayman Islands	Investment

* During the year, the Parent Company decided to liquidate Marquee Fund Manager Limited. The Company is under the process of carrying out legal requirements.

For the purposes of consolidation, it had been relied on management accounts prepared by the management of the subsidiaries. The total assets of these subsidiaries amounted to KD 1,654,463 as at 31 December 2019 (KD 1,713,698 - 31 December 2018), and net profits amounted to KD 23,129 for the year ended 31 December 2019 (KD 43,737 for the year ended 31 December 2018).

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(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, as below accounting policies:

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

2.2.1 New and revised IFRSs that are effective for the current year

The Group has adopted the new and amended standards and interpretations that became effective in the current period. The adoption of these standards and interpretations has no material impact on the financial statements of the Group, except as mentioned below:

IFRS 16 "Leases"

General impact

IFRS 16 'Leases' replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019.

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Impact on accounting policy:

Until the 2018 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to income statement on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group unless the term is 12 months or less or the lease for low value asset. Assets and liabilities arising from a lease are initially measured on a present value basis. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to income statement over the lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Practical expedient

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

2.2.2 New and revised IFRS in issue but not yet effective and not early adopted

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

New and revised IFRSs

Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Effective for annual periods beginning on or after

January 1, 2020

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

Definition of a Business – Amendments to IFRS 3 *Business Combinations*

January 1, 2020

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

Amendments to references to the Conceptual Framework in IFRS Standards.

January 1, 2020

Amendments to references to the Conceptual Framework in IFRS Standards related to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

IFRS 7 Financial Instruments: Disclosures and IFRS 9 – Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform

January 1, 2020

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred indefinitely. Adoption is still permitted.

The Group does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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 (including structured 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.

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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.

Goodwill

Goodwill arising on an acquisition of subsidiaries is carried at cost as established at the date of acquisition of the subsidiaries less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to classifying in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised 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 amortised cost of the debt instrument on initial recognition.

The amortised 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 amortisation 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 amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised 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 recognised by applying the effective interest rate to the amortised 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 recognised 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 recognises interest income by applying the credit-adjusted effective interest rate to the amortised 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 recognised in statement of income.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised 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 recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Equity instruments designated as at FVTOCI

On initial recognition, the Company 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 recognised 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 Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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 recognised in other comprehensive income and accumulated in the investments 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 Company has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Dividends on these investments in equity instruments are recognised in statement of income when the Company's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'investment income' line item in statement of income.

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 investments revaluation reserve.

Impairment of financial assets

Impairment of financial assets other than finance facilities

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

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:

Category	Criteria	Specific provisions
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 Life Time 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 Bank 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'.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and backstop indicators and analysis based on the Bank's historical experience and expert credit risk assessment, including forward-looking information.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained below (and not restricted to) are indicators of significant increase in credit risk as opposed to a default.

- The customer requesting emergency funding from the Bank;
- The customer having past due liabilities to public creditors or employees;
- The customer is deceased;
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral;
- A material decrease in the customer's turnover, loss of major customers or deterioration of customer financial position;
- The obligor (or any legal entity within the obligor's group) filing for bankruptcy application / protection or liquidation;
- Obligor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;
- Legal measures and action against customer by other creditors;
- Clear evidence that the customer is unable to repay financing receivable on maturity dates;

Other than the above staging rules, the Group also complies with the guidelines mentioned in the CBK Instruction, as follows:

- Credit facilities are classified under Stage 2 where there has been a default in principal or interest payment for more than 30 days.
- All rescheduled credit facilities are classified under the Stage 2 unless it qualifies for Stage 3 classification.

Calculation of ECL

The Company calculates ECL based on a three probability-weighted 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 Company 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 financings (except for credit cards).

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

- 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 Company 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 Company also complies with the guidelines mentioned in the CBK Instruction, as follows:

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

When estimating the ECLs, the Company considers three scenarios (a base case, upside case, and a downside case). Each of these is associated with different PDs, EADs and LGDs, as set out in this basis of preparation. When relevant, the assessment of multiple scenarios also incorporates how defaulted Credit Facilities, are expected to be recovered, including the probability that the Credit Facility will cure and the value of collateral or the amount that might be received from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Company has the legal right to call it earlier except for financial assets in Stage 2, the Company considers a minimum maturity of 7 years for all financing facilities (excluding consumer financing, credit cards and personal housing financing which is regulated by CBK based on salary) unless financing facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings & credit cards and personal housing financings which is regulated by CBK based on salary in Stage 2, the Company considers minimum maturity of 5 years and 15 years respectively.

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Financial liabilities

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

Financial liabilities subsequently measured at amortised 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.

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, investment 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

2.3.5 Impairment of tangible 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. 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

Policy applicable from 1 January 2019

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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.

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 contracts 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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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.

Policy applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognized in consolidated statement of income as expenses on a straight-line basis over the lease term.

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.

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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 73,423 and equity would have changed by KD 7,644 (profit KD 80,925 and equity KD 8,811 - 2018).

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

	<u>2019</u>	<u>2018</u>
US\$ Surplus	1,615,572	1,618,492

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.

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.

	<u>Impact on equity</u>	
	<u>2019</u>	<u>2018</u>
Kuwait Stock Exchange	29,547	34,163

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 2019, if interest rates at that date had been 0.25% higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 17,861 (KD 11,872 - 2018).

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

Maximum exposure to credit risk

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

	<u>2019</u>	<u>2018</u>
Cash at banks	543,006	2,454,047
Receivables	265,363	274,322
Finance receivables	6,246,042	6,287,538
Investments at amortized cost	<u>1,689,244</u>	<u>1,689,244</u>
	<u>8,743,655</u>	<u>10,705,151</u>

Note 11 shows 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. The main activity of the group that generates revenue is lending to customers. Credit risk is therefore a significant 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.

The Group manages the credit risk related to cash, Wakala and Murabaha, through dealing with financial institutions with a good reputation in the market. Also the Group manages the credit risk by setting credit policies in order to avoid the concentration of credit limit via diversifying the finance portfolio over a large number of customers 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 monitors credit policies periodically and the Board of Directors approves any amendments to the credit policies.

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.

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.

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

- breaches of covenants.
- borrower having past due liabilities to public creditors or employees.
- borrower is deceased.

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.

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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 coupon 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 (GCorr macro model) 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.

(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 2019 and 2018 will 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

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 2019

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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
	31/12/19	31/12/18				
Equity instruments designated as FVTPL						
Quoted Shares	2,654,002	42,314	1	Last bid price	-	-
Equity instruments designated as FVTOCI						
Quoted Shares	2,389,361	2,821,466	1	Last bid price	-	-
Unquoted shares	1,290,569	1,286,772	3	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.

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 10).

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.

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 2019*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

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

Impairment testing of the associate is carried out when there is an indication of such impairment. Impairment is assessed for the entire carrying value of the Group's investment in the associate including goodwill, therefore no impairment study for goodwill is required independently (Note 9.1).

5. Cash and cash equivalents

	2019	2018
Cash at banks	542,068	1,053,608
Time deposits	-	1,400,000
Cash on hand	500	500
Cash in investment portfolios	438	439
	<u>543,006</u>	<u>2,454,547</u>

6. Financial Investments**Financial assets at fair value through profit or loss**

	2019	2018
Quoted shares	2,654,002	42,314

Financial assets at fair value through other comprehensive income

	2019	2018
Quoted shares	2,389,361	2,821,466
Unquoted shares	1,290,569	1,286,772
	<u>3,679,930</u>	<u>4,108,238</u>

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

The Group has pledged quoted through OCI securities with carrying amount of KD 1,919,693 against the credit facilities (Note 13).

7. Investments at amortized cost

The effective interest rates on these bonds is 5.85 % per annum (5.85% - 2018). The bonds have maturity dates ranging between 4 to 9 years from the end of the reporting period. The balance includes an amount of KD 839,753 represented in bonds which have been issued by related parties (Note 17).

8. Receivables and other debit balances

	2019	2018
Management fees – net	12,668	9,684
Receivables – net of provisions	253,026	264,637
Prepaid expenses	42,621	58,076
	<u>308,315</u>	<u>332,397</u>

The Group has implemented ECL on other debit balances as of 1 January 2019 and 31 December 2019, and there is no material impact on the provision.

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 2019*(All amounts are in Kuwaiti Dinar unless otherwise stated)***9. Investment in an Associate and Joint Venture****9.1 Investment in an Associate**

Company's name	Country of Incorporation	Principal Activities	Proportion of ownership interest (%)	
			2019	2018

Kuwait Financial Centre	Kuwait	Investment management and financial advisory	28.89	28.63
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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 2019. Summarized financial information of the associate as at 31 December is as follows:

	2019	2018
Total assets	191,378,000	162,962,000
Total liabilities	105,707,000	81,471,000
Revenues	23,491,000	15,301,000
Profits for the year	6,977,000	1,647,000
Total other comprehensive income	6,435,000	1,730,000
Dividend received from the associate during the year	687,599	954,633

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

	2019	2018
Balance as at 1 January	22,651,044	22,913,437
Additions during the year	112,539	57,054
Cash dividends	(687,599)	(954,633)
Group's share in associate's results	2,000,446	616,405
Group's share in associate's reserves	(103,605)	18,781
	<u>23,972,825</u>	<u>22,651,044</u>

Following is the reconciliation of the above summarized financial information to the carrying amount of Group's interest recognized in the consolidated financial statements:

	2019	2018
Net assets of the associate	85,671,000	81,491,000
Group ownership percentage (%)	28.89	28.637
	24,750,352	23,336,578
Other adjustments	(777,527)	(685,534)
	<u>23,972,823</u>	<u>22,651,044</u>

The fair value of investment in an associate amounted to KD 14,505,988 (KD 13,092,110 – 2018) based on quoted price on Kuwait stock exchange which is Level 1 as at the consolidated financial position date.

The Group has assessed the investment in associate for the indication of impairment and based on the study prepared by the Group, there is no impairment in value.

The Group has pledged 95 Mio shares of its associate with carrying amount of KD 8,170,000 against the credit facilities (Note 13).

9.2 Investment in joint venture

The investment in a joint venture amounted to KD 25,783 as at 31 December 2019 (KD 25,783 – 2018). The investment represents a joint venture agreement with a third party to participate equally in one of the real estate companies that owns properties in Germany.

10. Investment properties

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

	2019	2018
Land	2,652,536	1,766,277
Developed property	979,344	1,009,704
	<u>3,631,880</u>	<u>2,775,981</u>

The fair value of investment properties amounted to KD 3,640,778 as at 31 December 2019 (KD 2,999,385 – 2018) 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.

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 2019*(All amounts are in Kuwaiti Dinar unless otherwise stated)*

The land is valued based on market approach for similar properties and recent arm length market transactions considering nature, location or condition of the specific property (Level 2).

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.

11. Finance receivables

Finance receivables are represented in commercial loans granted to related parties. The effective rate on these finance receivables is 6.63%. The fair value of the collaterals held against certain finance receivables is KD 9,203,446 as at 31 December 2019 (KD 5,521,723 – 31 December 2018). The following is an analysis of outstanding balances and related provision.

	2019	2018
Gross balance of commercial loans	6,246,041	6,287,538
Less: deferred revenue	<u>(109,177)</u>	<u>(134,980)</u>
	6,136,864	6,152,558
Less: Provision for credit losses- general	<u>(66,167)</u>	<u>(65,971)</u>
Balance as at 31 December	<u>6,070,697</u>	<u>6,086,587</u>

The balances of receivables as at 31 December 2019 and 31 December 2018 do not include matured or impaired balances.

The finance receivables (gross) amounted to KD 6,246,041 as at 31 December 2019 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:

	2019	2018
Balance at 1 January	65,971	29,495
Charged to consolidated statement of income	<u>196</u>	<u>36,476</u>
Balance at 31 December 2019	<u>66,167</u>	<u>65,971</u>

The ECL for finance receivables to customers as at 31 December 2019 is KD 4,212 Which is lower than the provision for impairment of finance receivables to customers required by CBK.

12. Payables and other credit balances

	2019	2018
Accrued expenses	88,047	68,700
Staff leave and other benefits	728,514	679,975
Others	<u>164,530</u>	<u>133,287</u>
	<u>981,091</u>	<u>881,962</u>

13. Bank facilities:

	2019	2018
Bank facilities	5,522,800	4,748,900

The average interest rate on the credit facilities is 6% and the maturity date is 1 October 2020. The following assets are pledged against bank facilities as at 31 December 2019:

- 95,000,000 shares investments in associate for the Group (Note 9).
- 4,516,924 shares of quoted investments through OCI for the Group (Note 6).

14. Share capital and reserves**14.1 Share capital**

During the year, on 16 June 2019, the Board of Directors approved the revision of call capital with KD 6 Million which represents the increase in the issued and paid up share capital from KD 30 Million to KD 36 Million. That has been approval by the Board of Director during the year. This amendment has been registered in the commercial register on 1 July 2019.

As at 31 December 2019, the authorized share capital is KD 50 million distributed over 500 million shares with a nominal value of 100 fils per share, and shares are in cash.

As at 31 December 2019, the 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 - 2018), and all shares are in cash.

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 2019*(All amounts are in Kuwaiti Dinar unless otherwise stated)***14.2 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.

14.3 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.

15. Treasury shares

	<u>2019</u>	<u>2018</u>
Number of shares	10,873	-
Percentage of issued shares (%)	0.004	-

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 268.

16. Investments income

	<u>2019</u>	<u>2018</u>
Cash dividends	242,649	260,908
Loss on change in fair value of investments through profit & loss	(6,005)	(4,477)
	<u>236,644</u>	<u>256,431</u>

17. 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:

	<u>2019</u>	<u>2018</u>
Transactions		
Salaries and other benefits	466,989	418,361
End of service indemnity	54,662	48,423
Interest income	405,107	337,276
Committee remuneration	70,000	55,000
Balances		
Investments at amortized cost (Note 7)	839,753	839,753
Finance receivable (Note 11)	6,070,697	6,086,588
Payables and other credit balances	641,913	486,794

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

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 21,770,501 as at 31 December 2019 (KD 15,741,011 as at 31 December 2018).

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 2019*(All amounts are in Kuwaiti Dinar unless otherwise stated)***19. Segment information**

In the purpose of management, the Group organizes its operations in main two 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 regarding the Group's business segments:

	2019		
	Investment activities	Asset management and advisory services	Total
Segment revenues	2,864,079	42,335	2,906,414
Net profit	1,547,935	42,335	1,590,270
Segment assets	42,614,203	84,172	42,698,375
Segment liabilities	6,440,989	62,902	6,503,891
	2018		
	Investment activities	Asset management and advisory services	Total
Segment revenues	1,361,299	53,788	1,415,087
Net profit	17,109	53,788	70,897
Segment assets	40,080,009	112,560	40,192,569
Segment liabilities	5,530,277	100,585	5,630,862

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

	2019			
	Middle East	USA	Europe	Total
Segment revenues	2,609,749	194,252	102,413	2,906,414
Net profits	1,382,142	115,891	92,237	1,590,270
Assets	39,837,751	1,647,838	1,212,786	42,698,375
Liabilities	6,440,989	37,818	25,084	6,503,891
	2018			
	Middle East	USA	Europe	Total
Segment revenues	1,297,185	121,129	(3,227)	1,415,087
Net profits	68,333	24,525	(21,961)	70,897
Assets	37,296,509	1,676,893	1,219,167	40,192,569
Liabilities	5,530,277	77,365	23,220	5,630,862