

الرمز	الاسم	القيمة	التغير	الرمز	الاسم	القيمة	التغير
49179450	1716	493780000	6.62	417.97	22.6	92702.3	4047
2306	صافي	102470000		18190000		98140000	
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351.28		3764.1		182		4791.4	
431.481				118166700		3730000	
357.131							
2.2184							



# Annual Report & Financial Statements 2019





**H. H. Sheikh**  
**Sabah Al Ahmad Al Jaber Al Sabah**  
Amir of State of Kuwait



**H. H. Sheikh**  
**Nawaf Al Ahmad Al Jaber Al Sabah**  
The Crown Prince of State of Kuwait



Women  
Empowerment

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## Contents

	<b>Page</b>
Board of Directors .....	07
Annual General Meeting's Agenda .....	09
Chairman's Message .....	10
Executive Management Message .....	11
Governance Report .....	15
Independent Auditor's Report .....	43
Consolidated Statement of Financial Position .....	44
Consolidated Statement of Income .....	45
Consolidated Statement of Comprehensive Income .....	46
Consolidated Statement of Changes in Equity .....	47
Consolidated Statement of Cash Flows .....	48
Notes to the Consolidated Financial Statements .....	48



# Board of Directors



**Mr. Ghazi Ahmed Al-Osaimi**  
Chairman



**Mr. Mishal Naser Habib**  
Vice Chairman & CEO



**Mr. Soud Abdulaziz Al-Mansour**  
Board Member



**Mr. Jamal Abdullah Al-Saleem**  
Board Member



**Mr. Hassan Kamal Caedbey**  
Board Member



**Mr. Bandar Abdullah Al-Ghemlas**  
Board Member



Agenda of the Annual  
Ordinary General Meeting  
for the Fiscal Year ended  
31/12/2019



- Item 1: Listening to the Board of Director's Report for the financial year ending 31/12/2019 and approving the same.
- Item 2: Listening to both the Governance Report and the Audit Committee Report for the financial year ending 31/12/2019 and approving the same.
- Item 3: Reciting penalties (financial or non-financial) that was imposed on the company by regulators during the financial year ending 31/12/2019 (if any).
- Item 4: Listening to the Auditors Report / Deloitte & Touche for the financial year ending 31/12/2019 and approving the same.
- Item 5: Discussing the financial statement for the financial year ending 31/12/2019 and approving the same.
- Item 6: Discussing the deduction of 10% of the net profit for the compulsory reserve so the total amount will be KD 724,425.
- Item 7: Discussing the deduction of 1% of the net profit for the optional reserve, so the total amount will be KD 72,441.
- Item 8: Approving the Board of Director's proposal of not distributing cash dividends for the financial year ending 31/12/2019 and posting profits to shareholders equity.
- Item 9: Approving the Board of Directors's recommendation not to distribute a remuneration to the Board Members for the fiscal year ending on 31/12/2019 and to recommend an allowance of 66,000KD (Sixty Six Thousand Kuwaiti Dinars ) to the Board Members for the attendance allowances of the emerging committees and approving the same.
- Item 10: Authorizing the Board of Directors to buy or sell company's shares not exceeding 10% of the total number of the company's shares in accordance with the articles of law no. 7 for the year 2010 and its implementing regulations and amendments.
- Item 11: Listening to the transactions report with related parties during the year ending 31/12/2019, and authorizing the Board of Directors to deal with relevant parties until the next general assembly meeting date for the financial year ended 31/12/2020.
- Item 12: Discussing the allocation of an amount of KD 2500 for social responsibility for the fiscal year ending on 31/12/2020 for donation and authorizing the CEO to determine the entity to which it will be disbursed.
- Item 13: Approving to release the Board of Directors Members of all matters relevant to their actions for the financial year ending 31/12/2019.
- Item 14: Approving appointing or re-appointing of company's auditor from within the approved auditors name list in Capital Markets Authority - taking into consideration the period of mandatory change of the account auditors - for the financial year ending 31/12/2020 and authorize the Board of Directors to determine their fees.
- Item 15: Approving to occupy one of the Board of Directors Members for membership in the Board of Directors of Kuwait Investment Company and approving of the appointment of one of the Board of Directors Members to occupy a position in the Kuwaiti Financial Center Company pursuant to article 197 of firms law.
- Item 16: Electing Members of the company's Board of Directors for the next three-year term.

# Chairman Message

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Dear Valued Shareholders,

I am pleased to present to you, on behalf of my fellow Board Members, the annual report and financial statements of the company for the fiscal year ended 31 December 2019.

The year 2019 was a positive year for the global economies and markets, which had a positive impact on the local economy and the performance of the capital market in Kuwait, which has achieved significant gains in its indices during the year in addition to the increase in market activity.

The company achieved a net profit of KWD 1.590 million, which represents a significant increase from the profits achieved last year, and this increase came as a result of the increase in the company's share of the results of the associate company, in addition to the decrease in general and administrative expenses. Shareholders' equity stabilized at KWD 36.2 million by the end of the current year. The Board also recommended not to distribute remuneration to the Board of Directors for the financial year ended 31/12/2019.

The Board of Directors, in coordination with the Executive Management, followed up the company's investment strategy and risk management policy, through which the company focused on fixed-income investments as indicated in our annual report for last year, in addition to international and regional investments, managing the company's portfolio in the Kuwaiti market and managing clients' portfolios. Thankfully, more than 71 percent of the development has been completed in our residential project in Sharjah, UAE, and it is expected that the project work will be completed within the half year, God willing.

Despite expectations of a decline in oil prices during the coming period and its fluctuation at its current levels, and its negative impact on the state's public finances, the outlook for the Kuwaiti economy remains stable, which reinforces the need to accelerate the pace of diversification of economic activity through the implementation of strategic development plans and long-term economic reform.

On behalf of the Board of Directors and on my own behalf, I would like to extend my sincere thanks and gratitude to H.H. Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah the Amir of Kuwait, H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, the Crown Prince of Kuwait; H.H. Sheikh Sabah Al-Khaled Al-Sabah, the Prime Minister; and all the regulators, asking God, to safeguard them all and bless their continuous endeavors and support aimed at achieving prosperity and progress of our country's economy at all levels. I would also like to extend my thanks to our valued shareholders for their confidence and continuous support to the company management. Also, I extend my thanks to the company's staff for their efforts to achieve the business plans.



Ghazi Ahmed Al-Osaimi  
Chairman

# Executive Management Report

## Dear Valued Shareholders,

KPFI's Management is pleased to present you the annual report and financial statements of the company for the fiscal year ending on 31 December 2019.

## Key Financial Highlights in 2019

Statement	2018	2019	Percentage Change%
Investment income	873	2237	156.24%
Interest income	410	471	14.88%
Total assets	40,193	42,698	6.23%
Total liabilities	5,631	6,504	15.50%
Shareholders' equity	34,562	36,194	4.72%
Retained earnings	5,110	6,719	31.49%
Net profit	71	1,590	2139.44%
Earnings per share (fils)	0.24 fils	5 fils	2143.15%
Book value	115 fils	121 fils	4.73%

\* Figures in thousands

## Key Events in 2019

During the past two years, the company continued to follow the strategy set by the executive management and approved by the Board of Directors by making investments with a low risk to return ratio to achieve stable cash flows in the long term in order to achieve balanced returns for shareholders.

- Fixed income investments occupy a large part of the company's liquidity, and it consists of bonds issued by local institutions. These bonds carry fixed and floating interest rates of an average of 5.75 percent and have a high credit rating, so that the company guarantees stable cash flows with low credit risk. The total volume of the fixed income investments of the company amounts to approximately KD 2.25 million.
- The value of the company's real estate investment portfolio at the end of the year was approximately 12.67 million Kuwaiti dinars, an increase of 13% over the value of the portfolio at the end of 2018. It consists of direct and indirect real estate investments, and the portfolio is distinguished by its global geographical diversity (North America, Europe and the Middle East) and a balanced risk/return profile.

## Sharjah real estate project development

- In 2015, the company purchased a plot of land of approximately 1,000 square meters in the Al Nahda area in the Emirate of Sharjah, United Arab Emirates.
- The area of Al Nahda was chosen due to its commercial and residential nature and its close proximity to the Emirate of Dubai, which facilitates mobility and increases the attractiveness of Al Nahda as a housing option for people working in Dubai.
- The project, will be a residential investment tower consisting of a ground floor and five floors allocated for parking and 18 residential floors (a total of 24 floors).
- At the end of 2015, the company selected the Sharjah Engineering Consulting Office to carry out the design and supervision work for the project, due to the professionalism of the senior management and the company's technical staff, in addition to the company's extensive experience and the diversity of its projects in the local market, which will constitute an added value during the design and development phase, Finally, the competitiveness of the price offer, which was also taken into consideration after verifying the company's competence, experience and staff.



## Executive Management Report

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- During the year 2017, the company signed a construction contracting contract with a contracting company that has a high technical rating from the Sharjah Municipality, where work on developing the project began in December of 2017 and the construction process will take approximately 30 months.
- Thankfully, the external structure of the project has been completed and internal and external finishing works have commenced during this year. The project completion rate as of the date of writing this report is 71%.
- As we mentioned in our previous annual report, the company was keen on the quality of the finishing of the project in order to stimulate the demand for leasing in light of the high competitiveness of the real estate market in Sharjah.

### Overview of the Kuwaiti Economy

Expectations indicate that the Kuwaiti gross domestic product will grow by 0.60 percent in 2019 according to the reports of the International Monetary Fund, and the outlook for the local economy is stable, despite the continuing expected financial pressures over the next year, as the deficit in the estimated draft budget reached in the fiscal year 2020/2021 to 9.2 billion dinars, after deducting the allocations of the Future Generations Fund. It is expected that the inflation rate will rise next year by about 1.50 percent, after hitting its lowest levels in 2017 and 2018 by 1.50 and 0.60 percent, respectively. It is also expected that the state will rationalize spending as it will cast a shadow over the financial markets, especially financing and general contracting, due to the drop in oil prices.

As for the oil sector, it is expected that the decision to extend the last agreement of the Organization of Petroleum Exporting Countries (OPEC) in December 2019 regarding further production cuts will restrict growth in the short term in addition to the Russian and Saudi agreement as they are the largest oil producers in the world.

The non-oil sector, in turn, witnessed modest growth during the past year, and this growth is expected to continue at the same pace over the next year, supported by relatively high consumer spending rates and low interest rates that stimulate investment.

### Financial Sector

The year 2019 was a good year in terms of the performance of the Kuwaiti capital market, and the news of Kuwait's inclusion in the MSCI Emerging Markets Index in May 2020, which was announced in the fourth quarter of 2019, contributed to this increase, as it is expected to contribute to an increase in capital flows to the Kuwaiti index stocks. Where the first market index rose by 32.4 per cent, which had a major role in the general market index's rise by 23.7 percent. The value of transactions increased by 92 percent to reach 7.9 billion Kuwaiti dinars during the year 2019, after the value of transactions was 4.13 billion Kuwaiti dinars in 2018. In turn, the market capitalization increased to reach 36 billion Kuwaiti dinars. The positive performance of the market is expected to continue during the next year, but investors should be cautious of the market being affected by global market fluctuations, oil prices, the negative economic effects of the outbreak of the new Corona virus, and China's ability to remedy its negative impacts and repercussions on global and local economies.

### Overview of the Global Economy

The International Monetary Fund reports that global economic growth for 2019 reached 2.9 percent, with expectations of a modest improvement in 2020 to 3.3 percent. Global economic growth depends on the performance of emerging economies and maintaining good growth rates at a time when advanced economies and China continue their gradual slowdown. It is expected that the global economy will continue to be affected in 2020 by the monetary easing policies adopted by developed and emerging markets in 2019.

These economic expectations depend to a large extent on several influencing factors, including avoiding further escalation in US-Chinese trade tensions, and also on the application of the economic agreements that will be concluded between the United Kingdom and the European Union, and the continued containment of the economic repercussions of social unrest and geopolitical tensions, in addition to the effects. The negativity that the emerging corona virus crisis will leave on the global economy.

# Executive Management Report

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As for global financial markets, the main indices closed in 2019, achieving record highs, unlike their performance last year. The MSCI World Index, which measures the performance of stocks in developed markets, achieved a rise of 26 percent during the year, the highest increase since 2009. In the United States, the S&P 500 index witnessed its highest annual performance since 2013, achieving a rise of 28.88 percent. In Britain, the FTSE 100 index rose by 12.10 per cent, the French CAC 40 index rose by 26.40 per cent, and the German DAX stock market index recorded a gain of 25.40 per cent.

## Performance of the Company

Praise be to God, the company achieved a net profit of 1.590 million Kuwaiti dinars for the year 2019, which represents a significant increase from the profits achieved last year. The reason for this increase is due to the increase in the company's share of the results of the associate company. In turn, the company's interest income from fixed income investments and credit facilities increased by 14.80%. The company also achieved rental income of 87.60 thousand Kuwaiti dinars.

The company achieved a net profit of KD 1,989,484 for the year 2017, representing a 113.87% increase over the profits achieved in 2016. The increase was due to the significant growth in the company's investment profits, in addition to the fact that during the year the company exited some of the investments with attractive return. As well as the increase in interest income realized by the company from fixed income investments and credit facilities granted. This remarkable improvement in the company's net profit comes despite the slight decline in the company's share of the associate's profits. The company also generated KD 168,000 in profits from subsidiaries and foreign exchange earnings. On the other hand, the total expenses of the company decreased by 3.75% as a result of the prudent management approach in monitoring the overall business of the company.

## Performance of the Associate

The main investment for the company - which is classified as an associate - is its share of the shares of Kuwait Financial Center Company, "Markaz". The total amount of shares in the Kuwait Financial Center Company is approximately 138.15 million shares, which represents 28.89% of the company's shares.

The associate company was able to achieve a net profit for the shareholders of the parent company, amounting to 6.96 million Kuwaiti dinars in 2019, compared to a net profit of 2.29 million dinars at the end of 2018, and the main reason for the increase in net profit this year is attributable to achieving profits from financial assets, in addition to the increase in rental income. Our company's share of the results of Markaz for this year amounted to about two million Kuwaiti dinars. Since the date of this investment, our company has been able to achieve combined cash returns with a total amount of 5.19 million Kuwaiti dinars, while the management expects that this associate company will maintain stable returns from working capital and distribute a good percentage of profits in dividends in the coming years. God willing, which reflects the quality of this strategic investment to achieve balanced returns for our shareholders in the long term. The value of the assets managed by the company reached 1.14 billion Kuwaiti dinars by the end of 2019 (1.09 billion dinars in 2018), and fees amounted to 8.11 million Kuwaiti dinars from managing those assets (7.21 million dinars in 2018). Markaz was able to achieve growth in management fees and the volume of managed assets thanks to its highly qualified administrative and technical staff and a good reputation in the market, which had a great impact in achieving rewarding returns with measured risk ratios for all its shareholders and customers.

## Executive Management Report

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### Thanks and Gratitude

At the end, I would like to extend my sincere thanks and gratitude to His Highness the Emir, Sheikh Sabah Al-Ahmad Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Sabah, His Highness the Prime Minister Sheikh Sabah Al-Khaled Al-Sabah and all the regulatory authorities for their efforts to achieve what is in the good and progress of our country at all levels. Thanks are due to our valued shareholders for their support, which we hope will continue further in the future, and to our esteemed clients for the trust they have placed in us. Also, I would like to thank the management team and all company employees for their efforts to implement current and future business plans.



**Mishal Nasser Habib**  
**Vice Chairman & CEO**

# Governance Report

## Kuwait Pillars for Financial Investment Company

For the year ended 31/12/2019



## Contents

## Page

Board of Directors & Board Secretary .....	17
Executive Management Members .....	18
Chairman Message.....	19
Major shareholders.....	20
KPFI and its subsidiaries and associates .....	20
Rule 1: Construct a balanced board composition.....	21
Rule 2: Establish appropriate roles and responsibilities .....	23
Rule 3: Recruit highly qualified candidates for members of a board of directors & the executive management .....	27
Rule 4: Safeguard the integrity of financial reporting .....	29
Rule 5: Apply sound systems of risk management & internal audit .....	30
Rule 6: Promote code of conduct and ethical standards .....	32
Rule 7: Ensure timely and high quality disclosure and transparency .....	32
Rule 8: Respect the rights of shareholders.....	34
Rule 9: Recognizing the roles of stakeholders .....	34
Rule 10: Encourage and enhance performance .....	35
Rule 11: Focus on the importance of corporate social responsibility .....	35
Confirmation (Internal auditor - Independent) of adequacy of internal control & control systems (ICR) .....	37
Board of director's confirmation about adequacy on internal control & control systems (Internal Audit) Audit Committee	38

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## Board of Directors & Board Secretary



**Mr./ Ghazi Ahmed Al-Osaimi**  
Chairman



**Mr./ Mishal Naser Habib**  
Vice Chairman & CEO



**Mr./ Soud Abdulaziz Al-Mansour**  
Board Member



**Mr./ Jamal Abdullah Al-Saleem**  
Board Member



**Mr./ Hassan Kamal Caedbey**  
Board Member



**Mr./ Bandar Abdullah Al-Ghemlas**  
Board Member



**Mr./ Mohamed Al-Sayed Taha**  
Board Secretary

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## Executive Management Members



Mr. Mishal Naser Habib  
Vice Chairman & CEO



Mr. Essam Abdulrahman Al-Youssef  
Executive Vice President  
Compliance



Mr. Ahmed Mohamed Sobhy  
Executive Vice President  
Finance



Mr. Raed Ibrahim Al-Sadhan  
Executive Vice President  
Administration & HR



Mr. Borhan Kamali  
Executive Vice President  
International Investments



Mr. Abdulaziz Jassem Al-Jassem  
Senior Vice President  
Business Development & Private Equity



Mr. Sohail Jaberi  
Vice President  
Risk Management



Mr. Fahed Mohamed Al-Osaimi  
Vice President  
Local & Regional Investments

## Chairman Message

Dear KPFI shareholders,

I am pleased to present to you the annual corporate governance report for the year 2019.

In the light of the growing concern of our shareholders, including potential shareholders and investors, Kuwait Pillars decided to strengthen its corporate governance system in line with the finest local and international practices in this area. In this regard, Kuwait Pillars planned to strengthen the role of independent Board members and adopted sophisticated and distinguished work ethics in its sector as well as creating new regulatory laws and applying the delegation of authority system and integrate the role of the board of directors and committees at the heart of our business.

In this regard, we support the need for strict adherence to principles that help establish the concept of transparency, accountability, integrity and ethics and honesty in our business which form without a doubt the cornerstone of any successful organization. Precisely for this reason comes our promise to ourselves and our investors and all our stakeholders to uphold the highest standards of probity and integrity in the management of the company.

The annual corporate governance report as a whole confirms our commitment to always providing the best value for our shareholders. This stems from our recognition as a closed joint stock company that the sustainability of good corporate governance practices has become an ethical and economic imperative in the modern world of business development.

We also are looking to achieve the desired objectives to improve existing practices and procedures in addition to implement developed governance framework for Kuwait Pillars and its affiliates so we can take a prestigious position in our business areas and thus achieve the vision of our shareholders.

Finally we would like to take this opportunity to thank all the authorities and regulators that have contributed to better support the principles and practices of corporate governance and their implementation in State of Kuwait.



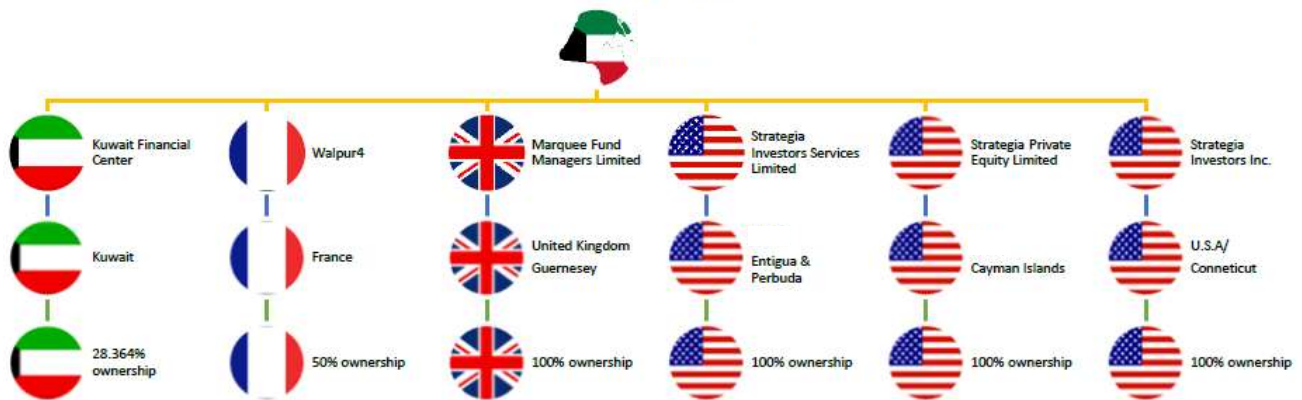
**Ghazi Al-Oseimi**

**Chairman**

### Major Shareholders of Kuwait Pillars that own 5% and more

	Major Shareholders	Ownership Percentage
1	Privatization Holding Company & its Subsidiaries	42.97%
2	National Industries Group Holding	6.42%

### KPFI and its subsidiaries & associates



Percentage referred to as statements of

## Rule 1: Construct a balanced board composition

### Brief on the composition of the Board of Directors, as follows:

The Board of Directors consists of executive, non-executive and independent members who are elected through the General Assembly and the Board of Directors includes a sufficient number of members to form committees within the framework of corporate governance.

The Board of Directors consists of six elected members, and the election and renewal of the membership of Board of Directors members takes place every three years in accordance with the rules and regulations in force and the instructions issued by the Capital Markets Authority and other supervisory bodies.

Name	Member Classification (Executive, Non-Executive, Independent) Board Secretary	Qualifications & Professional Experience	Date of Election/ Appointment of Board Secretary	Representative of
Ghazi Ahmed Al-Oseimi	Chairman Non-executive	BA in Business Administration – Finance / Gulf University for Science and Technology – Jun 2006	13 July 2017	Global Profession General Trading Company
Mishal Nasser Habib	Vice Chairman & CEO Executive	BA in Accounting / Kuwait University 1996 - Computer science Diploma / Commercial Institute “Public Authority for Applied Sciences” - 1992	13 July 2017	Elected
Soud Abdulaziz Al-Mansour	Board Member Independent	BA in Business Administration & Finance- California – USA/ 2000	13 July 2017	Elected
Hassan Kamal Caedbey	Board Member Non-executive	BA in Business Administration / Saint Louis University – USA - 1993	13 July 2017	Commercial Global Privatization Company
Jamal Abdullah Al-Saleem	Board Member Non-executive	BA in Accounting - Kuwait University- Master's degree in Accounting with first class honors – Oklahoma City University USA - 1987	13 July 2017	Combined Trust Real Estate Company
Bandar Abdullah Al-Ghemlas	Board Member Non-executive	BA in Accounting - Kuwait University - 1994	13 July 2017	First Equilease for Equipment & Transportation Company
Mohamed El-Sayed Taha	Board Secretary	Bachelor of Arts-English Literature- Mansoura University- Egypt -1998	Appointed 11 March 2014	

**Brief on the Company's Board of Directors' meetings, through the following statement:**

Meetings of the Board of Directors are held with a full quorum and the attendance by majority of the members. The members of the board of directors were keen to carry out the duties of leadership and responsibility through extensive meetings to supervise the management of the company in various fields and work on the proper utilization of the company's human and financial resources. The board held 13 meetings during the past year, while the articles of association states to meet at least 6 times. Details of the meetings are as follows:

Statement of Board meetings			Board of Directors Members					
Serial	Meeting Number	Date of Meeting	Ghazi Al-Osaimi Chairman	Mishal Habib Vice Chairman	Jamal Al-Saleem Member	Hassan Caedbey Member	Soud Al-Mansour Member	Bandar Al-Ghemlas Member
1	144	21/01/2019	✓	✓	✓	✓	✓	✓
2	145	10/02/2019	✓	✓	✓	✓	✓	✓
3	146	21/02/2019	✓	✓	✓	✓	✓	✓
4	147	07/03/2019	✓	✓	✓	✓	✓	✓
5	148	14/03/2019	✓	✓	✓	✓	✓	✓
6	149	14/05/2019	✓	✓	✓	X	✓	✓
7	150	16/06/2019	✓	✓	✓	✓	✓	✓
8	151	04/07/2019	✓	✓	✓	✓	✓	X
9	152	01/08/2019	✓	✓	✓	✓	✓	✓
10	153	30/09/2019	✓	✓	✓	✓	✓	✓
11	154	20/11/2019	✓	✓	✓	✓	✓	✓
12	155	18/12/2019	✓	✓	✓	✓	✓	✓
13	156	26/12/2019	✓	✓	✓	✓	✓	X
Attendance Percentage			100%	100%	100%	92%	100%	84.6%

**A summary of how to apply the requirements of registration and coordination and keeping the minutes of meetings of the Board of Directors of the company.**

All meeting minutes are recorded through the Board Secretary, who in turn prepares all meeting related matters, communicates with all members, and coordinates with them for all meetings. It also provides board members with immediate and quick access to board meeting minutes, information's, documents and records that help them make the right decisions in a timely and appropriate format.

## **Rule 2: Establish appropriate roles & responsibilities**

### **Brief on how the company defines the policy of the tasks, responsibilities, and duties of each of the Members of the Board of Directors and executive management members, as well as the powers and authorities delegated to the executive management.**

The company has a policy to define the duties, responsibilities and powers of the board of directors, which defines the powers that the members of the board of directors perform and the powers that have been granted or delegated to the executive management to carry out them, where a matrix of financial and administrative authorities has been approved for all levels of the executive body and the board of directors and the separation between them in contradiction with the tasks of each person who has authority or authorization in the members of the executive body, as the system defines dual control over the powers and there is no absolute authority or authorization for any person of board of directors members or the executive body.

### **Achievements of the Board of Directors during year 2019**

- Approval and review Risk Report, Compliance Report and Money Laundering and Terrorism Financing Report.
- Discuss the 2018 risk management report.
- Discuss the compliance department's report for the year 2018.
- Discuss the annual work plan for 2019.
- Discuss the annual budget for the year 2019.
- Review the agenda of the Ordinary General Assembly for the fiscal year ending December 31, 2018, and invite to the Assembly Meeting.
- Discuss and approve updates on the company's policies and procedures.
- Discuss and approve the annual report of the authorized person for the year 2018 related to combating money laundering and terrorist financing.
- Discuss and approve the AML / CFT Report for the year 2018 issued by the AML / CFT Department.
- Discuss the internal audit department's report on combating money laundering and terrorist financing for the year 2018.
- Discuss the issue of the invitation to subscribe to increase the issued and paid-up capital of the company.
- Discuss and approve the amendments made to the policies and procedures for combating money laundering and terrorist financing.
- Discuss the 2018 ICR report.
- Discuss the annual report prepared by the external auditor for the year 2018 regarding the assessment of the extent of Kuwait Pillars' compliance with all the determinants and legislative requirements contained in the Anti-Money Laundering and Terrorism Financing Law, as well as the instructions issued by the Authority in this regard.
- Discuss moving the company's office to the new headquarters.
- Discuss the general evaluation report of the Internal Audit Department for the period from 2016 to 2018 (three years).
- Discuss the annual report of the custodian's activity.
- Discuss the governance report according to the form prepared by the Capital Markets Authority (CG online report).
- Discuss the risk management report for the first half of 2019.
- Review and discuss credit facilities granted to companies and take the necessary decisions in this regard.
- Discuss and approve the profit distribution policy and procedures.
- Discuss the renewal of the credit facilities provided by Burgan Bank.
- Discuss the semi-annual report of the Compliance Department for the first half of 2019.
- Discuss the semi-annual report on combating money laundering and combating the financing of terrorism for the first half of 2019.
- Discuss the risk assessment and anti-money laundering procedures for the first and second quarters of the first half of 2019.
- Discuss the Marquee Fund Liquidation.

**Brief about the application of the formation requirements of independent specialized committees by the Board of Directors. The following information shall be mentioned about each committee:**

The Board of Directors has approved the formation of its committees in order to enhance the effective supervision and control of all its operations and the activities of the company to ensure best practices. The following is an overview of those committees:

**Audit Committee**

The Audit Committee consists of (3) members, including at least one independent member, and its membership is not occupied by the Chairman or the Executive Board members. It was formed on 23/07/2017 for a period of three years. The audit committee shall also hold periodic meetings with the external auditors and at least four meetings annually with the internal auditor.

**The tasks and achievements of the audit committee during the year 2019**

- Recommendation to the Board of Directors to approve the annual and quarterly financial statements.
- Discuss the 2019 audit plan.
- Discuss the appointment of an audit firm to carry out the evaluation and review of internal control systems (ICR) for the fiscal year ending December 31, 2018.
- Discuss the appointment of an audit firm to conduct a Quality Assurance Review performance.
- Discuss the internal audit department's report on combating money laundering and terrorist financing for the year 2018.
- Discuss business continuity reports for the IT department.
- Discuss the annual report of the auditor Deloitte and Touche about the commitment of Kuwait Pillars for Financial Investment to the rules stipulated in Book Seven of the Executive Regulations of the Capital Markets Authority. As on December 31, 2018.
- Discuss the internal audit report for the year 2018.
- Review and approve the ICR Report for the year 2018.
- Discuss and approve internal audit reports for all departments.
- Discuss the overall assessment of the Internal Audit Quality Assurance Review (QAR).

**Members of the Audit Committee**

Name	Position within the Committee	Membership
Mr. / Jamal Abdullah Al-Saleem	Chairman	Non-Executive
Mr. / Soud Abdulaziz Al-Mansour	Member	Independent
Mr. / Bandar Abdullah Al-Ghemlas	Member	Non-Executive

**The number of meetings held by the audit committee during the year 2019**

During the year 2019, the committee held (7) meetings.

## Risk Committee

The Risk Committee consists of (3) members, and its chairman shall be non-executive board members. The Chairman of the Board of Directors may not be a member of the Risk Committee. It was formed on 23/07/2017 for a period of three years. The Risk Committee shall meet periodically during the year (4) times.

### The tasks and achievements of the risk committee during the year 2019

- Review and discuss the risk management action plan for the year 2019.
- Review and approve risk management reports for regulatory authorities.
- Review periodic reports on the company's risks that may be exposed to.
- Discuss and approve the risk assessment and anti-money laundering measures for the first and second quarters of 2019.

### Members of the Audit Committee

Name	Position within the Committee	Membership
Mr. / Soud Abdulaziz Al-Mansour	Chairman	Independent
Mr. / Jamal Abdullah Al-Saleem	Member	Non-Executive
Mr. / Bandar Abdullah Al-Ghemlas	Member	Non-Executive

### The number of meetings held by the risk committee during the year 2019

During the year 2019, the committee held (5) meetings.

## Remuneration & Nomination Committee

The Remuneration and Nomination Committee consists of (3) members, including an independent member, and it is chaired by a non-executive member. It was formed on 23/07/2017 for a period of three years. The Remuneration and Nomination Committee holds at least one meeting annually.

### The tasks and achievements of the remuneration & nomination committee during the year 2019

- Discuss the results of the annual evaluation of the company's employees for the year 2018.
- Discuss the annual evaluation of the company's employees for independent positions for the year 2018.
- Discuss bonuses and salary increases for company employees for the year 2018.
- Discuss the remuneration of the company's advisor.
- Discuss the remuneration of the members of the committees and the secretary of the committees emanating from the Board of Directors for the year 2018
- Discuss the CEO reward for the year 2018
- Prepare a detailed annual report on all remunerations granted to members of the Board of Directors and the Executive Management, whether they are sums, benefits or benefits of whatever nature or name, and presenting it to the general assembly of shareholders for approval and approval.
- Discuss the invitation to elect the company's board of directors for the next three-year term from 2020-2022.
- Discuss the policy of granting good loans to employees of Kuwait Pillars for Financial Investment.

### Members of Remuneration & Nomination Committee

Name	Position within the Committee	Membership
Mr. / Soud Abdulaziz Al-Mansour	Chairman	Independent
Mr. / Ghazi Ahmed Al-Oseimi	Member	Non-Executive
Mr./ Jamal Abdullah Al-Saleem	Member	Non-Executive

### The number of meetings held by the remuneration & nomination committee during the year 2019

During the year 2019, the committee held (3) meetings.

### **Investment Committee**

The Investment Committee consists of (3) members and was formed on 23/07/2017 for a period of three years. The Investment Committee holds (4) meetings during the year.

#### **The tasks and achievements of the investment committee during the year 2019**

- Take appropriate corrective measures in order to preserve the company's interests and asset quality.
- Monitor the performance of the company's investment portfolio.
- Review and approve the recommendations made by the Asset Management Department regarding investment operations.

#### **Members of Remuneration & Nomination Committee**

<b>Name</b>	<b>Position within the Committee</b>	<b>Membership</b>
Mr. / Mishal Nasser Habib	Chairman	Executive
Mr. / Hassan Kamal Caedbey	Member	Non-Executive
Mr. / Jamal Abdullah Al-Saleem	Member	Non-Executive

#### **The number of meetings held by the investment committee during the year 2019**

During the year 2019, the committee held (5) meetings.

#### **A summary of how to apply the requirements of registration and coordination and keeping the minutes of meetings of the Board of Directors of the company.**

The Board members are provided with all information and data by hand or through e-mail and by sending them comprehensive reports for viewing. Communication is done via e-mail and all ways of communication. Through board secretary all documents, minutes of board meetings, and minutes of committees meetings are kept in files that are easy for the board members to request and to have access to.

### **Rule 3: Recruit highly qualified candidates for members of a board of directors and the Executive Management**

#### **Brief about the application of the formation requirements of the nominations and remunerations committee.**

The Remuneration and Nominations Committee is made up of three members, including an independent member, and none of the executive members occupy its membership. According to the remuneration and nomination committee approved by the company, among the committee's tasks are:

1. Establishing a clear policy for the remuneration of members of the Board of Directors and the Executive Management.
2. Determine the different categories of rewards that will be granted to employees, such as the fixed bonus segment and the variable bonus segment.
3. Reviewing the bonus policy and assessing its effectiveness in achieving its desired goals.
4. Prepare a detailed annual report on all remunerations granted to members of the Board of Directors and the executive management.
5. Recommending the nomination or re-nomination for membership of the Board of Directors and the Executive Management.

#### **Report on the remunerations to the Members of the Board of Directors and Executive Management**

##### **1. Rewards and incentives system followed by the company:**

###### **a. Board remuneration policy:**

###### **The remuneration policy for directors states the following:**

- The total remuneration must not exceed 10% of the net profit of the company after deducting depreciation, reserves and shareholder profits that are not less than 5% of the company's capital.
- Board members' remuneration must be approved by the General Assembly at its annual meeting, based on the recommendation of the Remuneration and Nominations Committee.
- Based on the approval of the general assembly, an independent member of the board of directors can be exempted from the maximum remuneration limit.
- According to the company's financial statements for the fiscal year ending on December 31, 2019, the Board recommended that remuneration not be distributed to members of the Board of Directors for the fiscal year ending on December 31, 2019.
- Members of the committees emanating from the Board of Directors are granted a committee attendance allowance.

###### **b. Remuneration and incentives policy for the executive management members and company employees:**

Kuwait Pillars grants several bonuses and incentives to its working employees in accordance with the annual evaluation of the employee, which is carried out according to specific technical and professional standards. These bonuses are allocated in amounts that suit the employee's performance and provide the required motivation and encouragement to continue and raise the level of job performance. The company, through the Nominations and Remuneration Committee, in cooperation with the Administrative Affairs, created and developed plans for short and long-term remuneration that seek to create an attractive business environment and focus on encouraging workers at various job levels in the company.

According to the company's financial statements for the year 2019, the total remuneration for all employees of the company, which includes the remuneration of the CEO, the chief financial officer, and heads of departments for the year 2019 amounted to KD/805,186.

**2. Board members' Allowances**

The Remuneration and Nomination Committee recommended that a total amount of KD/ 66,000 be spent as an attendance allowance for committees of members of the committees emanating from the Board of Directors (Investment Committee - Risk Management Committee - Audit Committee - Remuneration and Nominations Committee) noting that during 2019 the members of the Board of Directors did not receive any benefits or other benefits.

**3. Details of the rewards granted to the CEO, Financial Director and Executive Management who received the highest amounts from the company:**

Salaries	Vacations & end of service	Bonuses	Other Advantages	Total
277,384	79,520	135,732	39,822	532,458

A report on all remunerations granted to the Board of Directors members and Executive Management in accordance with Appendix No. (3) "Structure of Remuneration Report" issued by CMA Resolution No. 118 of 2019 will be presented to the company's general assembly for approval.

**4. A statement of any other remunerations granted directly or indirectly by the subsidiary companies**

None.

**5. Fundamental deviations from the remuneration policy approved by the Board of Directors**

There are no fundamental deviations from the remuneration policy.

## **Rule 4: Safeguard the Integrity of Financial Reporting**

### **Written undertakings by both the Board of Directors and the Executive Management of the soundness and integrity of the prepared financial reports**

- The executive management of Kuwait Pillars for Financial Investment undertakes to the Board of Directors of the company that the financial reports are presented in a sound and fair manner, and that they review all the financial aspects of the company in terms of operational data and results, and that they have been prepared in accordance with international accounting standards approved by the Authority.
- The Board of Directors undertakes the integrity of all financial statements as well as reports related to the company's activity and confirms that there are no material issues or events that may affect the continuation of the company's operations during the next financial year.

### **Brief about the application of the formation requirements of the audit committee.**

The Audit Committee is formed of three members and one of its members is independent. Its membership does not include the chairman or executive board members. The members of the audit committee have academic qualifications and practical experience in the accounting and financial fields.

### **Conflicts between the recommendations of the audit committee and the decisions of the board of directors**

No discrepancy has been identified between the audit committee and the decisions of the Board of Directors during the year 2019.

### **Verification of the independence of the external Auditor.**

#### **Deloitte & Touche Al-Wazzan & Co**

- The board of directors submits its recommendations to choose the external auditor to be reviewed with the general assembly to appoint the company's external auditor
- The company's auditor is registered in the auditors' register at the Capital Markets Authority.
- The external auditor is not a partner or a party to any agreement or an agent of one of the founders of the company or a member of the board of directors or any of their relatives up to the fourth degree.
- Selection of the external auditor depends on competence, reputation and experience.

## **Rule 5: Apply Sound Systems of Risk Management and Internal Audit**

### **A brief statement on the application of the formation requirements of a department/ an office/ an independent unit of risk management**

An independent risk management department has been established, and those in charge of it have complete independence through their direct subordination to the Risk Management Committee (instead of the Board of Directors according to CMA Resolution No. 124 of 2018 dated September 19, 2018) in addition to having a large amount of powers in order to carry out their duties to the fullest extent without granting them financial powers, powers or any authorities that lead to a conflict with their supervisory role. The Risk Management Department reviews the deals and transactions proposed to be carried out by the company with related parties, and makes appropriate recommendations regarding them to the Board of Directors.

### **A brief overview of the requirements for forming a risk management committee**

The Board of Directors has formed a Risk Management Committee of 3 members. It is chaired by a non-executive board member, including an independent member. The committee holds 4 periodic meetings during the year as a minimum. Among the tasks of the risk committee are the following:

- Reviewing risk management systems and internal controls at least once a year to ensure that all risks that may face achieving business objectives are mitigated by applying appropriate and effective controls. The audit should include financial statement controls, operations, risk management, and internal control systems.
- The audit procedures followed by the company's management to identify, assess and manage significant risks
- Changes that have occurred since the last review in the nature and extent of major risks and the ability of the company to adapt to changes in operations and the external environment. The scope and nature of risk control activities, internal control systems, external audits, reviewing weaknesses and defects of the control system or unexpected emergencies that have affected or may significantly affect the performance of the company's financial position and the procedures followed by the company to address the core issues of control and review the company's compliance with the approved laws and regulations Related to the company.

## **Summary clarifying the control and internal audit systems**

### **Internal control system**

The company's board of directors is responsible for managing risks and internal control systems and reviewing their effectiveness, through preserving assets, keeping correct financial statements, and detecting errors and irregularities. The Board of Directors is obligated to review the report of the Risk Committee on the results of internal control activities and the periodic reports on control activities.

- Internal control includes defining a clear organizational structure, writing down policies and guidelines, defining the powers, authorities, mandates, and performance control mechanisms that have been put in place to effectively and regularly monitor the company's operations and ensure compliance with governance laws issued by all regulatory authorities.

Our Internal Control System is comprised of a group of procedures applied by the board of directors, the executive management, as well as the company's employees. Such procedures are designed to provide reasonable, not ultimate, guarantee for achieving the following objectives:

- **Risk management:** ensure identifying the risks and controls required for achieving the company's objectives.
- **Operations' effectiveness and efficiency:** To conduct operations in a precise way with pre-approved procedures to ensure expected accuracy and smooth customer's service.
- **Authenticity of Financial Reports:** ensure presenting authentic financial statements and information to the board, shareholders and Top Management.
- **Internal audit reports:** Review the internal reporting procedures and determine the integrity of financial position of the company.
- **Audit of internal control systems:** A report is prepared by an independent auditor annually on internal control systems.
- **Adherence to applicable laws and legislations:** adhere to the laws and regulations governing the company, to avoid harming the company's image or receiving penalties.

#### **A brief statement on the application of the formation requirements the internal audit department/ office/ unit**

The company has an internal audit department and the department uses an independent professional audit office to carry out the internal audit work. The internal audit officer coordinates and supervises the internal audit processes with the external entity, ensures compliance with policies and procedures, and the adequacy of internal control systems, and coordinates with heads of departments and divisions of the company regarding the audit process and issues reports of exceptions to the management, with recommendations and follow-up with the management.

## Rule 6: Promote code of conduct & ethical standards

### A summary of the business charter including standards and determinants of code of conduct and ethical standards.

The Board of Directors, through the code of professional conduct rules and ethics, defines good practices for governance and its work. This includes the means to ensure that these practices are followed, reviewed and regularly updated with a view to improving them.

The Board of Directors takes the lead in defining professional standards and corporate values that enhance the integrity of the company, senior management and employees.

The code of professional conduct and ethics shall be circulated to all employees of the company and to the board of directors' members to obtain their signatures with the instructions stated therein.

### Summary of the policies and mechanisms on reducing the conflicts of interest

Our company has written conflict of interest policies covering all issues related to the subject of conflict of interest and its prospects, including but not limited to:

- Avoid a member of the board of directors from engaging in activities likely to lead to conflicts of interest.
- Board of director's approval of any activity by a member of the board may result in a conflict of interest.

## Rule 7: Ensure Timely and High Quality Disclosure and Transparency

### Summary of the application of mechanisms for presentation and accurate and transparent disclosure that define aspects, areas and characteristics of disclosure:

The company has set a policy for disclosure and transparency and has been approved by the Board of Directors, and has set standards for disclosure of essential information specified by the executive regulations of the Capital Markets Authority Law, and defined the elements of disclosure and information to be disclosed and the departments responsible for communicating the information. Disclosure thereof in addition to other means represented on the company's website.

### Disclosure of Board Members' & Executive Management Transactions:

A register of disclosures for members of the Board of Directors and Executive Management has been prepared at the Compliance Dep. and circulate it to the members of the Board of Directors and the Executive Management to inform the Director of the Department of any transactions for them or their minor children on the shares of the company, the parent company, the subsidiary companies, or the companies that the KPFI is considered as a corporate insiders.

The transactions of the members of the Board of Directors and their first-degree relatives in the shares of the company in 2019 were as follows:

Board Member	Employees	Relation	Total sale (of shares)	Total purchase (of shares)
None	None	None	None	None

Board members and their first degree relatives did not conduct any dealings in the company's shares during 2019. Thus, we continue our efforts in developing the performance of our services and following a more transparent principle in all aspects of dealing with shareholders and investors.

**A brief statement on the application of the formation requirements of a unit of investor's affairs.**

The Investor Affairs Unit has been established to provide the largest amount of information regarding current and potential future investors, and this unit is responsible for establishing and providing the necessary data, information and reports to investors, as the Investor Affairs Unit has the appropriate independence that helps it to provide timely and accurate data and reports.

**Disclosure through IT systems**

Through the development of its electronic portal, our company strives to present and disclose all information and data and utilize the means of information technology to communicate with the general public. The company is also aware that the disclosure system is an effective tool to influence the company's behavior and protect the shareholders and enhance their confidence in the company. The company provides its shareholders and investors with accurate, comprehensive, detailed and timely information through the company's website, which reflects transparently all data, organizational structure and control procedures and policies through dissemination of information of annual reports, quarterly reports through the website ([www.kuwaitpillars.com.kw](http://www.kuwaitpillars.com.kw)) in Arabic and English.

The company also maintains a complete record of disclosure and is internally documented and can be accessed sequentially through the company's website.

## **Rule 8: Respect the rights of shareholders**

### **A summary of the application of the requirements for the identification and protection of the general rights of shareholders, in order to ensure fairness and equality amongst all shareholders.**

The shareholders have the right to review and participate in the decisions that may affect the future of the company or its activities. The company provides all necessary information to the shareholders in a timely and appropriate manner through advertising in newspapers or through the company official website to allow them to exercise all their rights to the fullest.

### **A summary of the creation of a special record at the Clearing Agency as part of the requirements for on-going monitoring of shareholders' data.**

The Company has established a register of shareholders deposited with (Kuwait Clearing Company) through which the data relating to shareholders and their ownership is continuously monitored through continuous follow-up in the change of ownership and what arises from it.

### **Brief on how to encourage shareholders to participate and vote in the company's general assembly meetings.**

The management of the company is keen to publish within enough time about the annual general meeting and invites all its shareholders to attend and vote the meetings through the advertising means and announces at sufficient intervals by means of another announcement to remind shareholders to attend the meetings.

## **Rule 9: Recognizing the roles of stakeholders**

### **Brief about conditions and policies that ensure protection and recognition of the rights of stakeholders.**

The company is committed to protecting the rights of all stakeholders and providing stability and sustainability through its good financial performance. The Stakeholder Protection Policy has been formulated and adopted to set guidelines on how to protect these rights. Appropriate mechanisms have also been put in place to facilitate the stakeholders' reporting to the company's board of directors of any improper practices they are exposed to by the company, while providing appropriate protection to the parties who report.

### **Brief on how to encourage stakeholders to keep track of the company's various activities**

Stakeholders have an important and influential role in the success of the company's business. The Board realizes that the ultimate success of the company is the result of the joint efforts of many parties including shareholders, lenders and employees. The company's procedures, approved policies and practices emphasize the importance of respecting the rights of stakeholders in accordance with the relevant laws and regulations and systems. The company is working to encourage stakeholders to participate to follow up on the various activities of the company and has set up mechanisms and frameworks to ensure maximum benefit from the contributions of stakeholders and urge them to participate in the follow-up of its activities, in a manner consistent with achieving its interests to the fullest with providing stakeholders the right to get the information and data related to their activities.

## **Rule 10: Encourage and Enhance Performance**

**A summary of the application of the requirements for the development of mechanisms that allow Members of the Board of Directors and Executive Management to attend the training programs and courses regularly.**

The company has set induction programs for newly appointed members and employees in order to ensure that they have an appropriate understanding of the company's workflow and operations, provided that these programs include the company's strategy, objectives, financial and operational aspects of all the company's activities, the legal and supervisory obligations of the members of the Board of Directors and the company, responsibilities and tasks assigned to them, as well as The powers and rights available to them, and the role of the committees emanating from the Board of Directors. The company also provides training programs and suitable workshops for both the current members of the board of directors and the executive management, related to the company's work, in order to develop their skills and experience and keep abreast of developments in a way that helps them to perform the tasks assigned to them.

**Brief on how to evaluate the performance of the Board as a whole, and the performance of each Member of the Board of Directors and the Executive Management.**

Each member submits his self-evaluation to the Board of Directors, and the Nomination and Remuneration Committee is responsible for managing the evaluation process, discussing the results of the performance evaluation, and identifying the strengths or weaknesses that have been identified. The members' needs for training and development are determined in order to increase awareness of the main technical, financial and administrative aspects related to the company's activity.

**An overview of the Board of Director's efforts in asserting the importance of corporate value creation with the employees at the company through achieving the company's strategic goals and improving key performance indicators**

The board of directors is making efforts to create institutional values (value creation) for the company's employees by achieving strategic objectives and improving performance rates.

- The executive management shall hold regular meetings with all employees, managers and heads of departments in the company to find new ideas and to encourage all employees to communicate with the executive management and the board of directors.
- The human resources department develops an annual plan to train all employees on an annual basis in order to prepare them for executive and leadership positions in the future.
- In addition to the technical training programs selected by the departments for their employees.

## **Rule 11: Focus on the Importance of Corporate Social Responsibility**

**A summary of the development of a policy to ensure a balance between each of the company goals and society goals.**

The Board of Directors has adopted a policy of social responsibility whereby Kuwait Pillars is keen that the company's social responsibility is integrated into the company's daily operations. It seeks coordination and communication between the company and all its functional units, as the commitment towards social responsibility is translated into specific goals and included in the companies' policies and procedures.

## **Brief about the programs and mechanisms helping to highlight the company's efforts exerted in the field of social work.**

### **Our Human Resources**

The human element is the most important resource of the company, so it is important to keep all the social responsibilities towards it and to develop and apply a strong relationship between the company and its employees. Some of social practices adopted by the company in this frame are:

- Support national workforce.
- Provide an opportunity for fresh graduates to raise their abilities and contribution in society.
- Rewards and incentives for personnel in accordance with the principle of efficiency and trustworthy.
- Raise the morale of employees and spread the spirit of cooperation, motivation and encouragement among them.
- Training and development: the company has launched several courses and training programs aimed to develop the skills of its staff and to expand their knowledge.
- Safety and sound lifestyle.
- Staff members' commitment to work.
- Business diversification.
- Integrity and credibility of business.
- Recruitment and retention.
- The company's commitment to apply the related laws and regulations and executing them fairly with its employees.

### **Social Initiatives**

In pursuit of company's management on social responsibility, Kuwait Pillars Financial Investment Company has participated in humanitarian initiatives for specific groups that need support and care. Whereas, it supported the Kuwaiti Association for Down Syndrome by participating in some educational and rehabilitation activities organized by the association. It is one of the public benefit societies concerned with people with intellectual disabilities, especially the Down syndrome category, and among its goals is to take care of this group of both sexes and from all age groups to qualify them and develop their mental capabilities as well as their individual and collective skills to be effective elements in the society in which they live.

### **Support of National Workforce**

One of the most important pillars of social responsibility for Kuwait Pillars is the concern for human development, especially for national cadres. During the year 2019, some employees were registered to attend lectures at the Capital Markets Authority, and courses organized by Kuwait Investment Authority in cooperation with the Union of Investment Companies, as well as attending training programs and seminars at Abdulaziz Hamad Al-Sager Center in an effort to increase their practical experience to advance to the advanced professional level, which contributes to Promote the national economy.

## The External Auditor's Confirmation of the Adequacy of the ICR Systems

Kuwait Pillars has contracted with an external audit office (independent of the company's external auditor) to ensure the integrity of the accounting records and other records and the company's internal control systems.

Which reported the integrity of the internal control and oversight systems for the fiscal year ending on December 31, 2019. The following is the certificate of the External Audit Office on reviewing the internal control systems:



التاريخ: 2020/3/28

المحترمين

السادة/ هيئة أسواق المال

دولة الكويت

### تقرير تقييم ومراجعة نظم الرقابة الداخلية (ICR)

لشركة كويت بيلارز للاستثمار المالي - ش.م.ك مقلنة

للسنة المنتهية في 31 ديسمبر 2019

لقد قمنا بتقييم ومراجعة نظم الرقابة الداخلية لشركة كويت بيلارز للاستثمار المالي - ش.م.ك مقلنة للسنة المالية المنتهية في 31 ديسمبر 2019 ، وقد غطى تخصص البيئة الرقابية العامة للشركة والمطابقة والالتزام بقواعد حوكمة الشركات الصادر من هيئة أسواق المال ، ونظراً لحواشٍ القصور التي تكمن في أي نظام رقابة داخلية ، قد تقع أخطاء أو مخالفات قد لا يتم اكتشافها أو تعقبها. كذلك فإن صعوبة تقييم هذه الأنظمة لفترات مستقبلية يخضع لمخاطر نظراً لأن معلومات الإدارة وإجراءات الرقابة قد تصبح غير كافية بسبب تغيرات في الظروف أو نتيجة تنامي درجة الإلتزام بتلك الإجراءات.

تتضمن إجراءات التدقيق الاستقصاء من العميل واختبار على أساس العينة للأدلة والمستندات التي تؤكد أنظمة الرقابة الداخلية الموضوعية والمطبقة من قبل الإدارة والمطابقة والالتزام بقواعد حوكمة الشركات.

بناء على فحصنا لأنظمة الرقابة الداخلية لشركة كويت بيلارز للاستثمار المالي - ش.م.ك مقلنة ، نرى أن أنظمة الرقابة الداخلية الأساسية والمطابقة والالتزام بقواعد حوكمة الشركات بالشركة قد تم تطبيقها وفقاً لقواعد هيئة أسواق المال والسياسات والإجراءات الخاصة بالشركة ، باستثناء الأمور التي تم توضيحها في هذا التقرير.

  
د. علي عويد رخيص  
مراقب حسابات - 172

عضو في نكسبا الدولية - (الجلترا)

مكتب الواحة لتدقيق الحسابات



### **Board of director's confirmation on the adequacy of internal audit control systems**

The Board of Directors of Kuwait Pillars confirms that the company's internal control systems are continuously verified and efficient and that they are comprehensive, monitored and reviewed in a timely manner, within the framework of an organizational structure characterized by transparency and clarity and the limits of responsibility and accountability are monitored. The implementation of approved policies and procedures is monitored through the work the internal audit Dep. that reviews internal controls, duties and responsibilities in addition to the correct use of the powers granted with an emphasis on risk-based audit.

### **Audit Committee's annual report on internal audit procedures for accounts and other records and internal control systems**

We have reviewed the internal auditors' reports for the year ending in 2019, which included auditing procedures, checking accounts and internal control systems for Kuwait Pillars for Financial Investment (KSCC) during the year ending December 31, 2019, under which they covered the examination and audit procedures as follows:

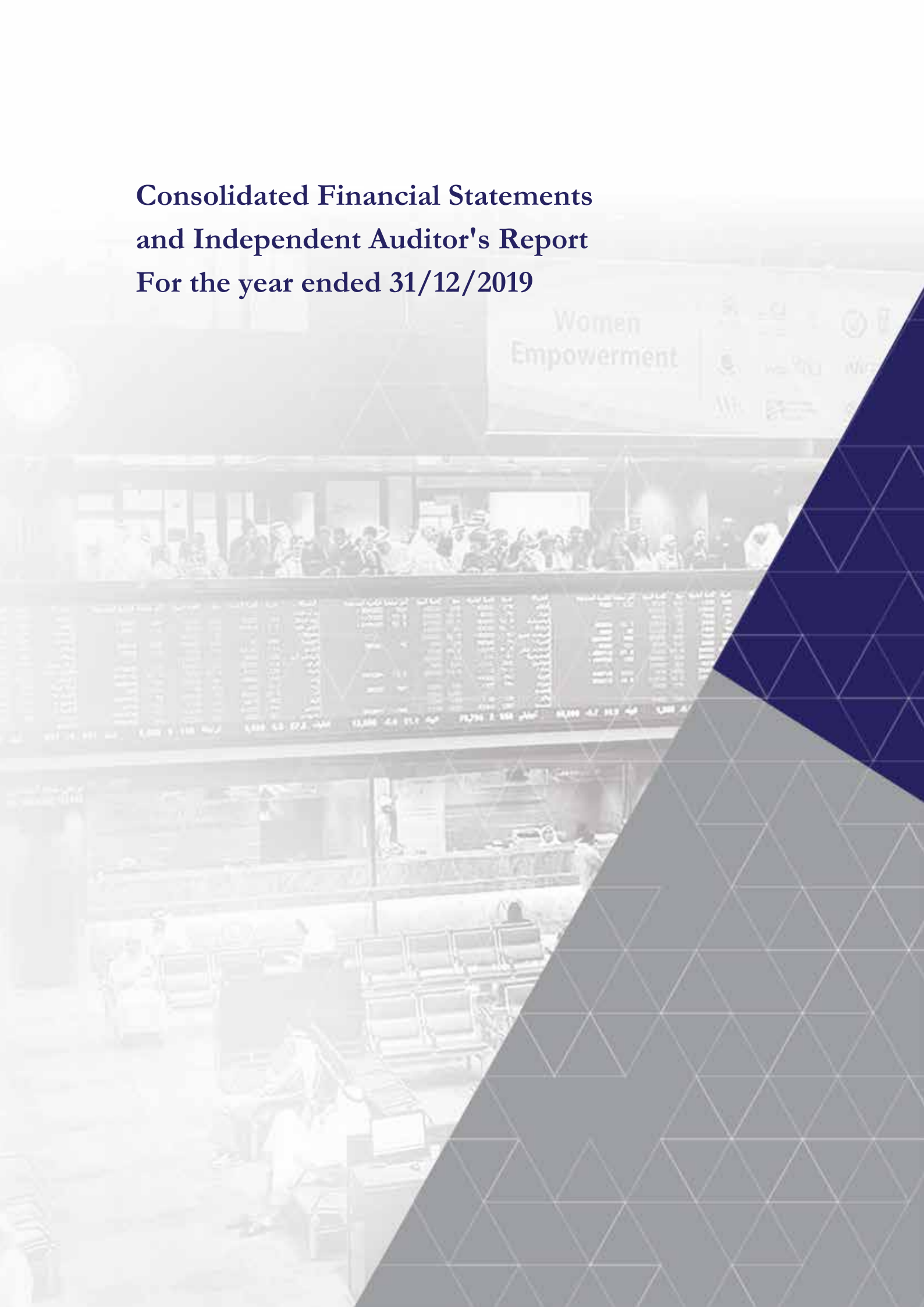
1. Corporate Governance (Board of Directors - Board Committees).
2. Asset Management (Local and Regional Investment - International Investment - Development and Private Equity - Anti Money Laundering).
3. Information Technology Department - Anti Money Laundering.
4. Human Resources and Administration - Anti Money Laundering.
5. Finance and Accounts - Anti Money Laundering.
6. Compliance - Anti Money Laundering.
7. Risk Management.

We have reviewed the reports of the Internal Audit Department on the examination and audit procedures to ensure that Kuwait Pillars complies with the regulatory requirements issued by the Capital Markets Authority and general guidelines issued by Central Bank of Kuwait regarding internal audit and internal control systems.

We would like to refer to our role as members of the audit committee and members of the board of directors, which includes designing, implementing and maintaining audit procedures and internal control systems. Taking into consideration the proportionality of the cost of the elements of these systems with the benefits expected from their application. And that the aim of this clarification is to provide appropriate and reasonable assurances of the adequacy of audit procedures, followed systems, risk management procedures, and compliance procedures to protect the assets and assets of the company that may result from irresponsible actions or uses, that risks are monitored and evaluated and that operations are carried out in accordance with approved and followed procedures of powers and authorizations. And it is recorded correctly.

In our opinion - taking into account - the nature and size of operations during the year ending on December 31, 2019, the accounting records, other records, audit procedures, internal control systems, the level of performance of risk tendency and the supervisory compliance procedures that we have reviewed, reviewed and examined, as well as measures to combat money laundering and terrorist financing, have been completed. Establishing and maintaining them in accordance with the requirements of the Capital Markets Authority regarding audit procedures, internal control systems, risk management, regulatory compliance procedures, in addition to the governance system, which are properly recorded and implemented.

**Consolidated Financial Statements  
and Independent Auditor's Report  
For the year ended 31/12/2019**





## Contents

	Page
Independent Auditor's Report	41
Consolidated Statement of Financial Position	43
Consolidated Statement of Income	44
Consolidated Statement of Comprehensive Income	45
Consolidated Statement of Changes in Equity	46
Consolidated Statement of Cash Flows	47
Notes to the Consolidated Financial Statement	48

## **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

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

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>			
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
<b>Total assets</b>		<b>42,698,375</b>	<b>40,192,569</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Payables and other credit balances	12	981,091	881,962
Due to banks	13	5,522,800	4,748,900
		<b>6,503,891</b>	<b>5,630,862</b>
<b>Equity</b>			
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
<b>Total equity</b>		<b>36,194,484</b>	<b>34,561,707</b>
<b>Total liabilities and equity</b>		<b>42,698,375</b>	<b>40,192,569</b>

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

**Ghazi Ahmed Al Osaimi**  
Chairman

**Mishal Nasser Habib**  
Vice Chairman & CEO

## Consolidated Statement of Income for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar)

	Note	2019	2018
<b>Revenues</b>			
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>
<b>Expenses</b>			
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>
<b>Net profit for the year</b>		<u>1,590,270</u>	<u>70,897</u>

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

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar)

	<b>2019</b>	<b>2018</b>
<b>Net profit for the year</b>	<u>1,590,270</u>	<u>70,897</u>
<b>Other comprehensive income items</b>		
<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>
<b>Total comprehensive income /(loss) for the year</b>	<u>1,633,045</u>	<u>(41,268)</u>

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

## 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
<b>Balance as at 1 January 2018</b>	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)	-
<b>Balance as at 31 December 2018</b>	<b>30,000,000</b>	<b>697,235</b>	<b>565,398</b>	<b>56,538</b>	<b>13,088</b>	<b>64,992</b>	<b>(2,091,802)</b>	<b>-</b>	<b>146,663</b>	<b>5,109,595</b>	<b>34,561,707</b>
<b>Balance as at 1 January 2019</b>	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)	-
<b>Balance as at 31 December 2019</b>	<b>30,000,000</b>	<b>697,235</b>	<b>724,425</b>	<b>72,441</b>	<b>13,453</b>	<b>17,378</b>	<b>(2,195,407)</b>	<b>(268)</b>	<b>146,663</b>	<b>6,718,564</b>	<b>36,194,484</b>

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

**Consolidated Statement of Cash Flows for the year ended 31 December 2019***(All amounts are in Kuwaiti Dinar)*

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Cash flow from operating activities</b>			
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>
<b>Cash flow from investing activities</b>			
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>
<b>Cash flow from financing activities</b>			
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>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		(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>
<b>Cash and cash equivalents at the end of the year</b>	5	<u>543,006</u>	<u>2,454,547</u>

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

**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".

<b>Name</b>	<b>Country of Incorporation</b>	<b>Principal Activities</b>
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 Bermuda	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).

## **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
- 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.

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

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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:

	<b>Effective for annual periods beginning on or after</b>
<b><u>New and revised IFRSs</u></b>	
Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	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 <i>Business Combinations</i>	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 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (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.	

### 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 affect 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 loses 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.

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.

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.

### **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).

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:

<b>Category</b>	<b>Criteria</b>	<b>Specific provisions</b>
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'.

**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;

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

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

- 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).
- 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.

***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, investments properties are carried out at historical cost less accumulated depreciation and any accumulated impairment losses.

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

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

#### **2.3.4 Property and equipment**

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

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

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

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

#### **2.3.5 Impairment of 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.

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.

***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.

**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:

	<b>2019</b>	<b>2018</b>
<b>US\$ Surplus</b>	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.

	<b>Impact on equity</b>	
	<b>2019</b>	<b>2018</b>
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.

## 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:

	2019	2018
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	1,689,244	1,689,244
	<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.

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

## 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				
<b>Equity instruments designated as FVTPL</b>						
Quoted Shares	2,654,002	42,314	1	Last bid price	-	-
<b>Equity instruments designated as FVTOCI</b>						
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.

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.

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

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### 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

	<b>2019</b>	<b>2018</b>
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

	<b>2019</b>	<b>2018</b>
Quoted shares	2,654,002	42,314

#### Financial assets at fair value through other comprehensive income

	<b>2019</b>	<b>2018</b>
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

	<b>2019</b>	<b>2018</b>
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.

### 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 (%)	
			<b>2019</b>	<b>2018</b>

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:

	<b>2019</b>	<b>2018</b>
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

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

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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

	<b>2019</b>	<b>2018</b>
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:

	<b>2019</b>	<b>2018</b>
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:

	<b>2019</b>	<b>2018</b>
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.

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.

	<b>2019</b>	<b>2018</b>
Gross balance of commercial loans	6,246,041	6,287,538
Less: deferred revenue	(109,177)	(134,980)
	6,136,864	6,152,558
Less: Provision for credit losses- general	(66,167)	(65,971)
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.

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

(All amounts are in Kuwaiti Dinar unless otherwise stated)

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:

	<b>2019</b>	<b>2018</b>
Balance at 1 January	65,971	29,495
Charged to consolidated statement of income	196	36,476
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

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

### 13. Bank facilities:

	<b>2019</b>	<b>2018</b>
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.

#### 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

	<b>2019</b>	<b>2018</b>
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.

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

(All amounts are in Kuwaiti Dinar unless otherwise stated)

### 16. Investments income

	2019	2018
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:

	2019	2018
<b>Transactions</b>		
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
<b>Balances</b>		
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).

### 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
	<b>2018</b>		
	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

**Notes to the Consolidated Financial Statements for the year ended 31 December 2019***(All amounts are in Kuwaiti Dinar unless otherwise stated)*

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

	<b>2019</b>			
	<b>Middle East</b>	<b>USA</b>	<b>Europe</b>	<b>Total</b>
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

	<b>2018</b>			
	<b>Middle East</b>	<b>USA</b>	<b>Europe</b>	<b>Total</b>
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