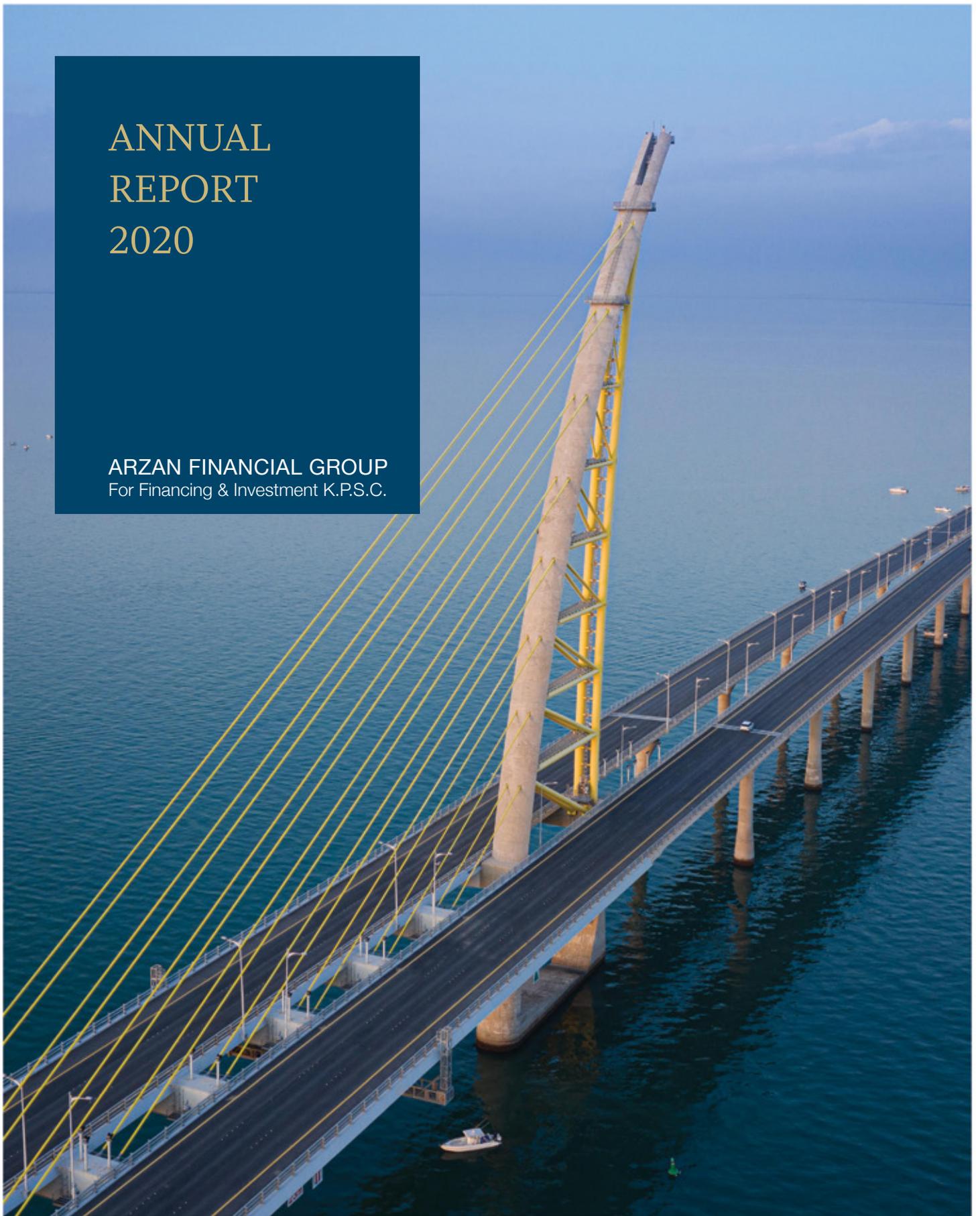


# ANNUAL REPORT 2020

ARZAN FINANCIAL GROUP  
For Financing & Investment K.P.S.C.



Special Thanks for The Photographer

**Ahmed Al Qalaf**

 **@aqalaf**

**Arzan Financial Group for Financing and Investment K.S.P.C.**  
Established on 15th April 1980

Paid up Capital: KD 80,288,257  
(Eighty million two hundred and eight thousand and two hundred and fifty seven thousand Kuwaiti Dinars)

**Head Office**

Sharq - Arzan Tower  
P.O.Box: 26442 - Safat - 13125 Safat, Kuwait  
Tel.: +965 1820 200 / +965 2220 3000  
Fax: +965 2242 8875

[www.arzan.com.kw](http://www.arzan.com.kw)







**H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah**  
AMIR OF KUWAIT



**Sheikh Meshaal Al-Ahmad Al-Jaber Al-Sabah**  
CROWN PRINCE OF KUWAIT



# Content

<b>7</b>	<b>Board Members</b>
<b>9</b>	<b>Board Message</b>
<b>13</b>	<b>Management Report</b>
13	• ARZAN Wealth
15	• ARZAN Asset Management
15	• ARZAN Brokerage
16	• ARZAN Credit
17	• ARZAN Collection
17	• Easy Buy - Installment Sales Service
18	• ARZAN Venture Capital
18	• Marketing
19	• Human Resources
20	• Administration
21	• Information Technology
22	• Internal Audit
22	• Risk Management
27	• Operations Department
29	• Finance Department
<b>30</b>	<b>Financial Report Analysis</b>
<b>33</b>	<b>Corporate Governance Report</b>
<b>52</b>	<b>Opinion letter</b>
<b>54</b>	<b>Board Declaration</b>
<b>55</b>	<b>CEO and CFO Declaration</b>
<b>57</b>	<b>Financial Statements</b>

# BOARD MEMBERS



**Wafa Ahmad Al Qatami**  
Chairman

**Jassem Hasan Zainal**  
Vice Chairman & CEO

**Ibrahim Saleh Al Tharban**  
Board Member

**Emad Abdullah Al Essa**  
Board Member

**Bader Jassem Al Hajri**  
Board Member

**Mohammad Ahmad Al Qahtany**  
Board Member

**Issa Abdullah Al Muzaini**  
Board Member

**AbdulHamid Mohammad Mihrez**  
Board Member

**Rami Khaled Abdullah**  
Board Member

**Ruba Fati Ghanem**  
Board Secretary

# BOARD MESSAGE

### Honorable Shareholders,

The Board Members pleased to present to you the Annual Report of Arzan Financial Group for the year 2020, which is an exceptional year given the negative impacts of the acceleration of Covid-19 pandemic across several geographic regions around the world, which caused the disruption of business and economic activities, in addition to the emergence of unprecedented uncertainties within the global economic environment. The restrictions imposed to curb the spread of the virus and reduce the pressures on healthcare systems, especially fragile ones, had impacted the economic growth tremendously. Covid-19 has caused an unprecedented global crisis; a global health crisis and huge human losses, which led to the severest economic recession the world has witnessed since World War II.

The closures that took place consequent to the pandemic have severely affected all business sectors and jobs all over the globe, especially in terms of micro, small and medium enterprises, which were exposed to severe pressures worldwide, not to mention in developing countries.

Most companies have resorted to using digital technology innovations in order to cope with the crisis and compensate for their sales' decline to record low levels due to the crisis that invaded the entire world. Covid-19 and associated public closures have confirmed that digital communication has become a necessity and that Internet is a gateway to access several basic services, such as e-health platforms, digital cash transfers and digital payment systems.

The Group's Business Continuity and Disaster Response Committee has issued a guide on activating the business continuity plan of Arzan Financial Group during the pandemic, along with reducing any health risks to which the employees may be exposed.

The Department has also developed a plan to ensure the availability of financial resources during the pandemic period. Therefore, the Group has assigned appropriate provisions to ensure its ability to maintain its operations and fulfill its obligations in the event of unexpected suspension of the Company's activities, considering the nature, size and diversity of the Company's business, as well as the multiplicity of the stated in which the Group's activities are located.

The Group's management has reviewed and monitored the Group's financial position, including cash flows, the Company's financial obligations towards financial institutions, leverage and liquidity ratios compared to the limits set by the regulatory authorities, in addition to monitoring standards of capital adequacy to cover Company risks.

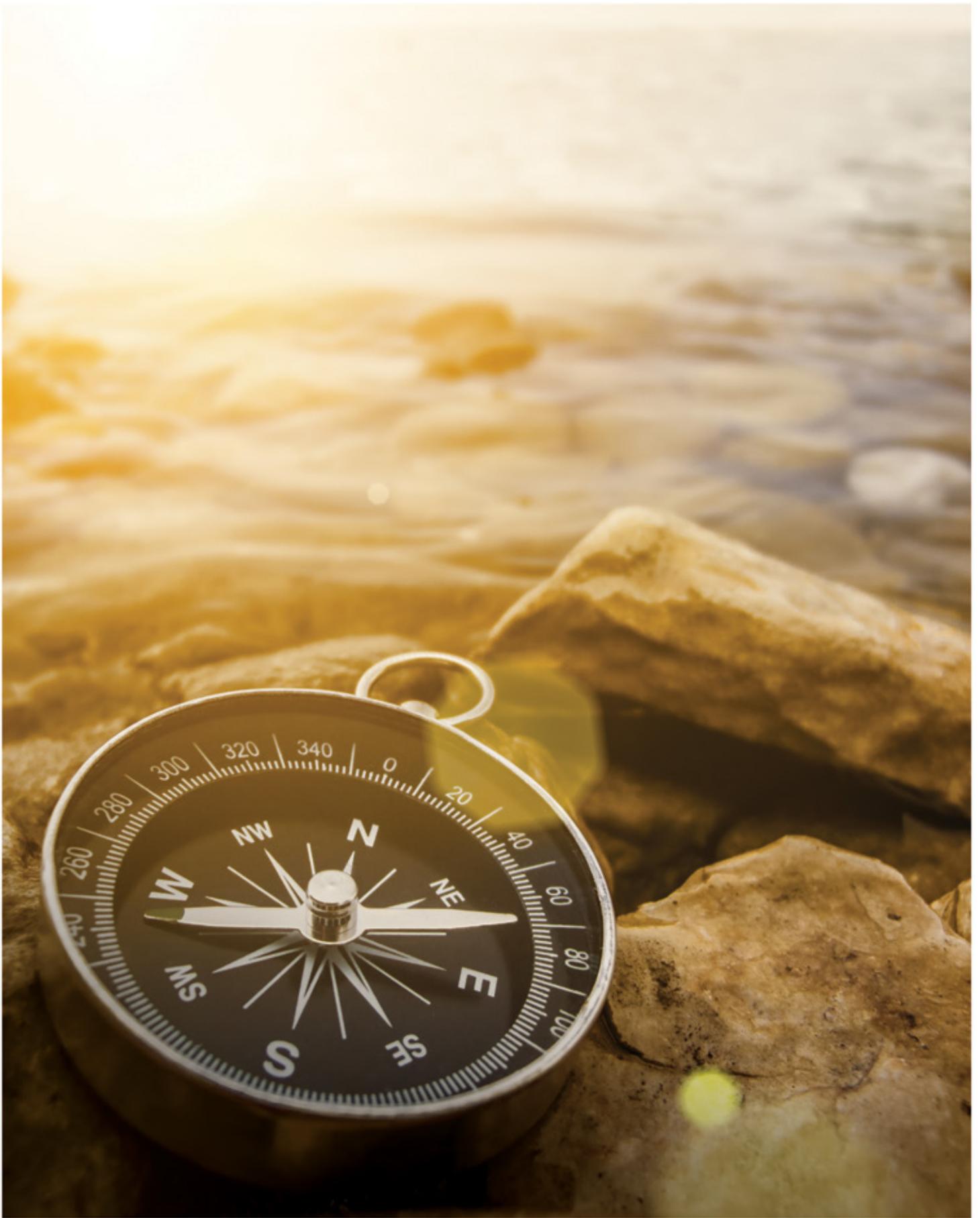
The Group has considered the effects of fluctuation in macroeconomic factors and the scenarios used to determine the losses resulting from decreasing the Group's asset number, as well as the expected credit losses in light of the continuing uncertainties and the impact of Covid-19. In view of the deterioration of the current economic situation, Arzan Financial Group has reviewed the macroeconomic factors assumptions, in addition to applying conservative estimates calculating the special provisions for all business sectors of the Group, which had a negative impact on the Group's results at the end of the fiscal year.

During the year 2020, the Group achieved losses of KD 9.156 million, compared to a profit of KD 1,540 million during the previous year 2019, as the year 2020 is considered an exceptional year due to corona virus pandemic, which affected the global economy and the economies of the countries in which the group operates, which directly affected the group's results, whose main reasons are the following: -

**First :** Impairment losses of an associate company, amounting to KD 4.568 million.

**Second :** Provisions for both installment credit debtors, doubtful debts, credit losses for restricted cash and cash equivalents and properties held for trading with a total amount of KD 3.717 million.

**Third :** Realized and unrealized losses from financial assets at fair value through profits and losses amounting to KD 2.184 million, most of which are shares listed on the Kuwait Stock Exchange.



It is worth noting that the International Finance Company S.A.L., subsidiary to the group, in state of Lebanon is currently witnessing significant economic and political turmoil. These events include significant controls on the Lebanese banking system including placing limits on cash withdrawals of foreign currency bank balances, limits on international bank transfers and reduction of contracted interest rates on foreign currency term deposits. These measures have significantly curtailed the ability of the Group to access the cash and other assets of IFC. Moreover, the Government of Lebanon defaulted on its sovereign debt obligation. The rating agencies have downgraded the sovereign rating of Lebanon as well as some of a Lebanese bank including the bank where the subsidiary's cash is primarily deposited. Furthermore, the economy of Lebanon is now considered a hyperinflationary economy.

Management has assessed the potential effects of these events on its ability to continue to exercise control over IFC Lebanon and concluded that it still has the power and ability to use that power to affect returns and that it is still exposed to variable returns of the subsidiary. Accordingly, it continues to consolidate the subsidiary.

Management has also assessed the impact of these events on the carrying value of its investment in IFC. As a result, the Group recognized a provision of credit losses for restricted cash and cash equivalents and provision for instalment credit debtors in the consolidated statement of profit or loss for the year ended 31 December 2020.

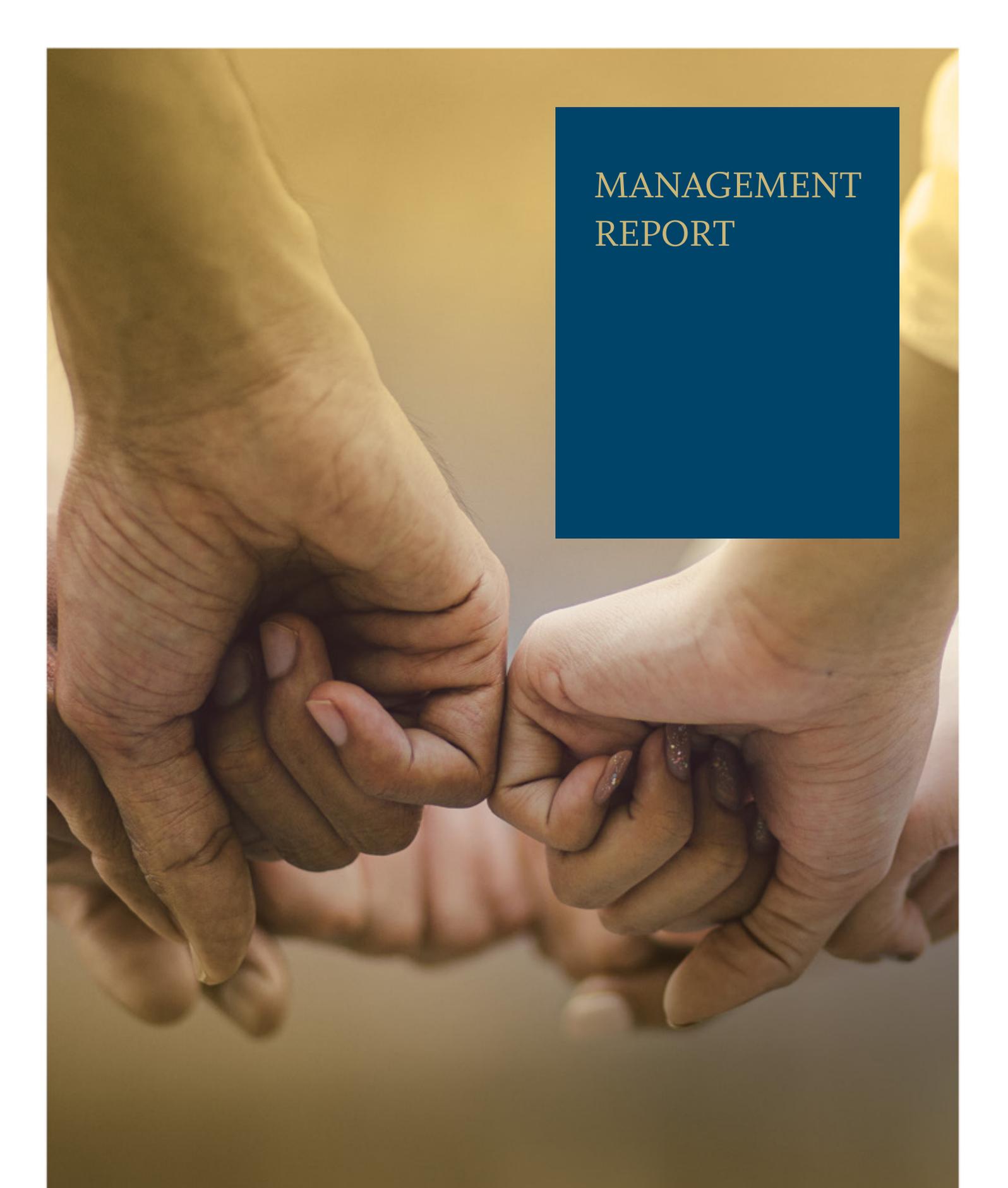
Furthermore, the Group's management believes that the carrying value of the Group's investment in Lebanon is recoverable and there are currently no indications that any further material additional impairment loss is required to be recognized.

Based on the financial results for this year, the Group's Board of Directors recommended not to distribute any profits to shareholders, subject to the approval of the Group's General Assembly and the supervisory authorities.

In conclusion, We express our deepest thanks, gratitude and appreciation to His Highness the Amir of Kuwait, Sheikh Nawaf Al-Ahmad Al-Jaber Al Sabah, His Highness the Crown Prince, Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, His Highness Sheikh Sabah Al-Khaled Al-Hamad Al Sabah, the Prime Minister, the Minister of Commerce and Industry Dr. Abdullah Eissa Al Salman , His Excellency the Governor of the Central Bank of Kuwait, Dr. Mohammed Yousef Al-Hashel and to the Chief Commissioner at the Capital Markets Authority, Dr. Ahmed Abdulrahman Al-Melhem, for their continuous support and contribution to our achievements. We also pleased to seize this opportunity to express our thanks and appreciation to our esteemed shareholders for their valuable trust and unlimited support. We also wish to express our sincere thanks and appreciation to all the customers of the Company for the confidence and support they have extended to us. We would also like to thank all the employees of the Company for their loyalty and dedication. We pray to Allah Almighty to grant us and you His blessing and good fortune for the benefit of our company and for further success and progress.

## **BOARD MEMBERS**

### **ARZAN FINANCIAL GROUP**



MANAGEMENT  
REPORT

## ARZAN WEALTH

Arzan Wealth (DIFC) Limited is a Dubai-based advisory firm regulated by the Dubai Financial Services Authority. Arzan Wealth is a 100%-owned subsidiary of Arzan Capital (Holding) Limited, a holding company incorporated in the Dubai International Financial Center (DIFC). The parent entity successfully raised fresh capital that will allow it to support the business of Arzan Wealth by co-investing in our transactions, alongside our loyal client base.

Without a doubt, the highlight of 2020 was the global healthcare crisis caused by the COVID-19 pandemic, and the resulting severe disruptions to social and economic life across the world. Unprecedented economic challenges in every region of the world were met by significant injections of liquidity by governments, in an attempt to stabilize economic activity while the long road to solving the healthcare crisis was being navigated. The real estate industry faced its share of challenges, with the primary headwinds focused on the retail and traditional office sectors, which suffered from the lack of mobility and the reliance on work-from-home technologies.

At Arzan Wealth, we focused on addressing any issues within the existing portfolio, but also cautiously pursued unique deals with attractive risk-reward dynamics. Within the context of our primary strategy of preserving and protecting the wealth of our clients, we successfully advised on the acquisition of two new deals under the Yielding Asset Platform in The Netherlands and USA, in addition to two new REILS transactions in the US under the Debt Strategy Platform. Furthermore, we were able to advise on one successful exit in the US for our clients, at an attractive return.

Under the Yielding Asset Platform, we focused on defensive sectors and were able to successfully advise on the acquisition of a medical technology campus in Orange County, California, USA. The campus houses the headquarter offices and primary R&D facilities of a major ophthalmic medical technology and pharmaceutical company.

We continued in 2020 with our cautious and highly selective approach to the UK and European markets. In the Netherlands, we advised on an exceptional opportunity to acquire a single tenant office building that is fully leased on a long-term basis in the heart of Media Park, in the Metropolitan Amsterdam Region.

In the UK, amid widespread disruption to economic activity due to the coronavirus pandemic and the government's efforts implement the departure from the EU (Brexit), 2020 was a slow year and did not offer attractive opportunities that fall within our quality and risk guidelines. We will continue to seek new opportunities as we believe that in the long-term the UK will remain an important investment market for global investors.



For the Real Estate Debt Platform, we successfully advised on two REILS transactions. This type of investment utilizes the innovative Real Estate Index Linked Securities (“REILS”) instrument, which is an amortizing mezzanine loan, offering a Sharia-compliant and tax efficient manner for our clients to gain exposure to equity-like returns from US real estate investment.

The first REILS deal of 2020 financed the acquisition of a portfolio of two properties located in Ohio and California in USA. The first property will function as a residential wellness/rehabilitation center, and the second property is an office building located in downtown Sacramento and will be leased by The California State government for 10 years. The second REILS transaction financed a stable and well-performing portfolio of single-family properties located in Baltimore, Maryland with 65% of income supported by government-sponsored affordable housing programs.

Finally, we were able to advise on the exit of the New Orleans REILS deal and delivered very positive results to our loyal investors in the midst of the global economic catastrophe that was unfolding as a result of the COVID-19 public health crisis.

For Arzan Food & Beverage New Brands Vehicle, which invests in specialized food and consumer product companies in the United States and was launched in Q4 2019, we continued with our strategy focusing on innovative, organic, non-GMO and fast-growth brands in the F&B and Consumer Goods sectors. Within the last 2 years, we have invested in 11 portfolio companies with fast-growing brands that focus on well-being. We are pursuing new deals with the confidence that many of our brands will experience favorable multiples and returns within the timeframe of the fund life.

Looking forward towards 2021, it is expected that dislocation across geographies and industries and the debt markets could present interesting opportunities, including the potential for distressed pricing on certain assets. Arzan Wealth remains cautious and diligent in its approach to new transactions as we analyze the potential impact of various macroeconomic interventions around the world that aim to kick-start economic activity after the eventual resolution of the coronavirus pandemic. We will also continue to focus on protecting value in our existing portfolio and to pursue attractive exits where possible.

Arzan Wealth remains committed to its mission of providing high quality advisory services to its clients to diversify their international portfolios in a wise and cautious manner. The primary objective of Arzan Wealth is to preserve the wealth of its clients, to offer safety and regular income, and to achieve greater diversification in mature global markets.

**Muhannad Abulhasan**  
**Chief Executive Officer - Arzan Wealth**

## ARZAN ASSET MANAGEMENT

At Arzan asset management division we strive in delivering customized client centric investment solutions to our clients designed based on their return expectation and risk tolerance profile. Currently the division focuses on managing investments in regional markets by providing portfolio management and investment advisory services to retail and institutional investors. Also, the division is tasked by managing Arzan Financial group proprietary equities portfolios.

Our investment approach integrates bottom-up stock selection method with top-down country allocation method while implementing a prudent risk management scheme. Our investment process is research-driven where asset allocation and portfolio construction decisions are made based on thorough fundamental and behavioral analysis. We believe uncovering investments with certain characteristics is poised to generate attractive returns and offer capital preservation.

In 2020, we faced unprecedented times. From the beginning of the COVID-19 pandemic we have been carefully monitoring how the crisis developing globally, and we have gradually implemented procedures intended to assure the safety of our staff, clients, and the continuity of our business. Our aim for 2021 is to monitor global and regional Macro environment closely and implement prudent strategies to achieve our client's objectives. Also, we will focus on introducing new products and investment solutions to the markets.

**Talal Al Bahar**

**Executive Director of Asset Management & Brokerage**

## ARZAN BROKERAGE

The Division is closely monitoring the Brokerage Subsidiaries which are EFG Hermes IFA (Kuwait), Arzan Securities Brokerage (Egypt), and International Financial Advisors (Jordan). Annual and quarterly reports are produced as well as annual visitations to optimize operational efficiencies for our brokerage subsidiaries and the division.

During 2020, markets in the region witnessed higher volatility as uncertainty around the COVID-19 Pandemic prevailed globally. Activity in the markets start to recover during the second half of the year compared to the first half of the year due to fiscal and monetary support by governments and central banks and improved investors sentiments. We will continue monitoring the macro environment during 2021 while providing our subsidiaries with support and guidance.

**Talal Al Bahar**

**Executive Director of Asset Management & Brokerage**



## ARZAN CREDIT

The credit department has been concentrating on corporate clients of good credit rating with a current portfolio of considerable number of local small to medium size enterprises that are spread over all economy sectors and operating locally and internationally. The strategy of the credit department is to develop the portfolio on annual basis at a progressive rate based on the quality of the clients' financial statements and senior management expertise in their fields, while constantly pursuing potential new clients to increase the portfolio, reduce concentration risk and minimize impact of any delinquent account. The credit department constantly evaluate the clients' performance to check any opportunities or challenges that could emerge in the market, including COVID-19, whereby the credit department was committed to provide assistance to the existing clients by suspending and deferring installments to match with their cash inflows, sales volume and collections. As to new applicants, focus is given to the business sectors that suffered low damages and decline in sales due to the government procedures.

The quality of the loans and customers is very high due to the strict screening measures and approval standards imposed by the credit policy and the Management Credit Committee. Such measures include the trend analysis of the audited financial statements, screening of bank statements, evaluating management expertise, and the nature of business.

In effort to mitigate risks, The credit department strives to maintain observation of the clients' performance and to establish a close relationship with its clients to monitor the clients' proper utilization of their financial and human resources as well as to assist in developing their business as actual partners by providing applicable advices and recommendations that are important to their stability and growth.

The credit department is responsible for submitting monthly performance reports related to target, clients' commitment, generated income, collaterals evaluation, and proper implementation of the approval conditions for all existing clients.

**Talal Al Bahar**

**Executive Director - Credit Division**

## ARZAN COLLECTION

In 2020, All sectors have been impacted because of COVID-19 pandemic and loan payments have been frozen for 6 months. Arzan collection secure its clients benefits and continued the work activities remotely during the curfew period taking in consideration all the safety requirements for the employees and workplace environment to prevent the spread of the virus.

Arzan Collection Co. was obtained new contracts with a several new sectors to provide them with all collection services. Arzan Collections Co extended its overseas network to be in 11 countries covering most of MENA region and some other big countries in Asia like India, Pakistan, and Philippine.

Arzan Collections Company is one of the group companies which provides all types of collections and follow-up services in both ways friendly and legal for Arzan Finance Group portfolio and other companies and banks in the Kuwaiti market.

**Talal Al Bahar**  
**Executive Director - Credit Division**

## EASYBUY - INSTALLMENT SALES SERVICE

EasyBuy is a company that provides installment sales services facilitating customer's shopping experience to own consumer durable goods with flexible payments focusing on clients who require business-friendly services and quick turnaround times. EasyBuy service was launched with one branch in 2017, and it expanded to 29 branches throughout 2018 and 2019, reaching 44 branches in 2020. Despite the pandemic during 2020, the company managed to add new vendors to diversify its portfolio to include new products such as curtains and wall coverings, online teaching apps, Motorcycles, Bicycles, and drones. Furthermore, during the pandemic the team emphasized the continuity of the daily operations without any interruptions to provide our customers with the best quality and service.

EasyBuy highlights a new segment in the market that would diversify the group services portfolio and offer a competitive edge compared to existing local installment sales providers currently in the market. Our goal is to improve the installment sales industry in the Kuwaiti market. EasyBuy focuses on customer satisfaction by offering competitive pricing, simplified installment plans, and fewer requirements.

**Talal Al Bahar**  
**General Manager - EasyBuy**



## ARZAN VC

ArzanVC launched its second fund (AVC II) and currently it's in advanced assessments with a handful of potential LP's. Moreover, we have invested in more new exciting companies in 2020. Arzan VC has now invested in a total of more than 30 companies. Our pre-seed program has witnessed an increasing number of applications (~250 applicants). From this program we invested in 3 early-staged companies and plan to invest additionally between 2018 & 2020.

While Arzan VC's first fund was closed for any new investments in 2017, we continued to support and add value to portfolio companies. Majority of these portfolio companies have raised subsequent rounds; and some companies was acquired.

In 2020 and despite the COVID-19 pandemic , we witnessed a higher activity in VC investments and noted an improvement in the quality of startups and their innovations of technological solutions compared to previous years.

**Hasan Jassem Zainal**  
**Partner**

## MARKETING

In 2020, Arzan Financial Group continued the success and leadership in the market through implementing the strategies and plans aimed primarily at protecting the wealth of its clients and investors, enhancing their confidence and satisfying all their needs by providing all types of financial services and financial solutions.

Marketing and Public Relations Department succeeded in promoting the brand of the Group and enhancing AFG image internally and externally through AFG websites, social media channels, press conferences, press releases, and the participations in community service and social responsibilities all over the year.

During 2020 the world faced many tough challenges due to the impact of covid-19 pandemic, many planned projects were stopped and many related activities to marketing & public relations were postponed in response to the instructions of health authorities in Kuwait and in order to preserve public safety.

Despite these circumstances, the Marketing and Public Relations Department successfully passed these challenges and continued by exploiting available technological solutions and through social media channels, press interviews, media attendance and awareness in combating the spread of covid-19 internally & externally.

In addition, Arzan Financial Group provided a great appearance in press , social media channels & CSR participations by supporting national projects , social responsibility projects and allocating 1% of AFG profits to support the CSR activities in 2020 , That would contribute to the development of society through its contribution effective in many activities organized by civil society institutions and CSR campaigns of all kinds, which would serve all sectors of society, whether cultural, health, developmental, environmental, educational and others, with the aim of achieving the positive impact on society.

**Fawaz AlMunaya**  
**Marketing & PR Supervisor**

## HUMAN RESOURCES

In 2020, the Human Resources Department at Arzan Financial Group geared up and faced many challenges due to Covid-19 which brought a sudden change and shift in work cultures. In times of uncertainty and stressful environments, the HR department ensured to keep workflow in perspective and aligned. The main focus was safety of employees, crisis response, and providing the right communication channels and tools for remote work.

During the year 2020, the HR department was faced with making urgent decisions for employee wellness, adhering to government regulations, and adapting to a newer, remote way of working. The department followed the best practices to rise over these uncertain times and prepare Arzan and its employees for long-term growth and transformation. Arzan continued to emphasize on employee's development to expand capabilities and build competencies to meet client expectations and to meet the Company's core operating values in a safe environment.

The Human Resources team worked closely with department heads and senior management to enable employees to deliver business objectives. Annual training plans were developed, and online training was offered in accordance with departmental and organizational requirements. Our performance management system helps in recognizing and rewarding outstanding performance and also provides feedback so that our employees can sharpen their existing skills and develop specialized skills which in turn help them to take up challenging roles.

Reward and recognition form an integral part of our Company's Human Resource Policy and we offer a competitive compensation and benefits package to ensure employee satisfaction. Our employees are supported to take up Professional certifications and identify ways in which the company can be improved, or the working conditions can be enhanced. We at Arzan believe that employee safety and satisfaction is the key to a successful and smooth running organization.

**Abeer Botrous**  
**Human Resources Manager**



## ADMINISTRATION

In 2020, Administration Department focused on providing all services and achieving all demands of Arzan Group and its subsidiaries and associate companies. Admin department is divided into three main categories : general services, government relations, and general registration.

After the tragic events of COVID 19, admin department has equipped Arzan Financial Group Tower with all health precautions approved by the Ministry of Health, in order to preserve the safety of its employees and customers. admin department prepared a well-organized plan to face the virus as it is our duty under general services to keep Arzan tower safe and clean. We applied the procedures of social distancing to all employees, in addition to separating desks, activating self-services, providing masks and gloves and daily health checkup for all employees and customers, which contributes to reducing the risks of spreading the disease and preserving the health of our employees and customers.

Furthermore, in government relations, Admin Department was ready for all the new rules that the government issued due to the pandemic and had successfully updated all data related to Arzan Financial Group and its subsidiaries. Also, all budgets and subscriptions were submitted successfully to Kuwait Chamber of Commerce and Industry, which facilitated the procedure to renew AFG and subsidiaries licenses on time. Administration Department focused on improving the technological skills of the employees in order to be able to finish all tasks online without delays.

In the field of general registration and documents archiving, Administration Department have worked on multiple projects to ensure the achievement of the Group's objectives, and the projects are:

1. Developing a continuous electronic archiving system to keep the documents with the highest security standards, to ensure the protection of the Company's documents and customer information and maintain their complete confidentiality.
2. Keeping the original documents in an equipped warehouse, in a safe place, according to the requirements of the regulatory authorities.
3. Permanent monitoring by surveillance cameras, in line with the requirements of the Ministry of Interior, to protect the property of the Company and the safety of its employees.

**Ahmad AL Homaid**  
**IT & Admin Manager**

## IT DEPARTMENT

In 2020, Information Technology (IT) department kept their focus on aligning and improving the core business needs with Arzan Financial Group's strategy. IT department, developed well-defined practice for conducting enterprise analysis, design, planning, and implementation, using a comprehensive approach for the successful development and execution of strategy in the areas of Software, hardware, Network and information security to meet the organization needs.

During Pandemic breakout, IT department swiftly adopted to perform all operational activities from home successfully, because of its achievement implementing 2017 approved strategy. IT department developed the standard operating procedure (SOP) to adopt work from home concept and circulate and provided appropriate knowledge transfer to employees in all departments. This document is reviewed periodically to be latest with the changes effectively.

In the SOP, we have defined elaborately the systems which can be access with internet, paperless portal to perform our day-to-day operational request from system request, Payment request, Fund Transfer request. For all the communication we adopted Microsoft Teams for our virtual meeting and conference, which lead to perform operational tasks seamlessly.

All AFG business application will be accessed through Secured VPN (Virtual Private Network) masks your Internet protocol (IP) address, creating a private connection from a public wi-fi connection. A VPN is an essential tool for privacy and anonymity while using the public Internet because it establishes secure and encrypted connections. The Corporate VPN are intended to protect the users and devices. Robust business networks deliver secure web connections to company devices, regardless of from where employees connect to the Internet. Through VPN the employees connected remotely to their desktop to perform their daily tasks and meet the department objectives.

All the Employees Laptops installed and configured with Cloud Security endpoint to identify the potential vulnerabilities in the devices. One of the features are Endpoint Detection & Response (EDR) to detect and response and isolate the system upon threat. AFG also adopted Managed Threat Response (MTR) to all our endpoints and servers, upon an incident is confirmed, a dedicated threat response lead is provided to directly collaborate with your on-premises resources (internal team or external partner) until the active threat is neutralized. IT department closely monitored all the activities and swiftly responded to any such incident and meanwhile continue to support the business objectives.

Further to above achievements we also carry out several other projects and enhancement in the infrastructure and security to combat several cyber security threats. We place ourselves current with the market demands especially in technology perspective.

**Ahmad AL Homaid**  
**IT & Admin Manager**



## INTERNAL AUDIT

Arzan has an Internal Audit function that is commensurate with the size, nature and extent of business conducted by the Company. The Senior Manager - Internal Audit functionally reports to the Board Audit Committee and administratively to the Chief Executive Officer. A risk based audit approach is followed and the Board Audit Committee approves annual audit plans.

The scope of work of the Internal Audit department is to determine whether Arzan's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning.

The Internal Audit function verifies the adequacy and effectiveness of internal controls from operation, financial and statutory compliance point of view through a blend of process and transactional audits. A summary of significant observations along with any action plan identified by the management is placed quarterly before the Board Audit Committee for review and guidance.

During the year 2020, despite the COVID 19 pandemic, the internal audit function was able to electronically carry out the audits as per the audit plan.

**By Karthikeyan Palanisamy**  
**Senior Manager - Internal Audit**

## RISK MANAGEMENT

### 1. Arzan Risk Management Principles

The Risk Management is part of Arzan Strategic Management. We actively take risks in connecting with our business and follow stringent risk principles in order to preserve and enhance value for our shareholders.

Our Risk Strategy is based on the following principles.

- a. Risk is taken within Board of Directors defined risk appetite guidelines.
- b. Risk appetite should be defined and approved by the Board of Directors.
- c. Risk should be continuously monitored and managed.
- d. Spreading a strong risk culture between the employees and the executives within the organization.

## 2. Risk Management Governance

The Risk Management function is independent within the organizational governance structure and Risk Management works as Risk Advisory and doesn't participate in group lending or investment activities decision. The independence of the risk function is consistently monitored by Board Risk Management Committee to ensure that risk role is not compromised and/or influenced and an adequate balance between risk and return is achieved in order to accomplish our sustainable growth objectives.

During the year 2020, Arzan has taken a number of initiatives in order to enhance risk management by imparting different training courses to AFG staff. And also implemented a strong Risk culture and committed to maintain this culture in the coming years by communicating different Risk training and awareness sessions to the employees.

## 3. Overall Risk Assessment

Key risk categories include financial risks such as credit risk, market risk, liquidity risk, business risk, and non-financial risks (NFRs) including reputational risk and operational risk (with important sub-categories such as compliance risk, legal risk, information security risks, fraud risks, and money laundering risks, ...etc ).

Risk Management manages the identification, assessment, and mitigation of high and emerging risks through an internal governance process and the use of Risk Management tools. Risk Management approach to Risk Assessment aims to ensure the mitigation of these risks and doesn't impact our financial results, long-term strategic goals, and reputation.

The overall focus on Risk Management throughout 2020 was on maintaining our risk profile in line with the current circumstances. This approach is reflected in different risk metrics summarized below.

### - Credit Risk Management

Credit Risk Management is very essential to Arzan due to our SME lending business. We have developed conservative credit risk policies to ensure that stringent due diligence processes are adopted and only customers with a strong credit history are selected.

The situation in 2020 necessitated the reduction of loan operations in the second and third quarter due to unstable conditions and economic contraction during the year in addition to the stumble of many small and medium-sized companies, especially in the lack of anticipation of the end of the pandemic during that period. However, AFG resumed the expansion credit granting facilities in the fourth quarter with a conservative risk study while ensure choosing credit worthy customers in line with the AFG strategy to develop corporate loan portfolio.



Risk Management is keen on applying and developing standards for measuring customer risk rating and follow up to maintain the accepted risk levels as per the company's risk appetite in addition to ensure that it meets the required standards as the risk management submits a quarterly report to the risk committee that includes a comprehensive analysis of the status of the portfolio and the extent to which it embedded acceptable limits.

#### **- Expected Credit Loss (ECL)**

Risk Management implements IFRS 9 in coordination with KPMG for calculating the Expected Credit loss (ECL) using the general approach. Since day one of granting the credit facility, Risk Management classifies the facility to one of the three phases to calculate the required provision according to the standards. ECL is calculated, i.e., 12-month expected loss for all facilities in stage1 and lifetime expected credit loss for all facilities in stage 2 and stage 3 as per client commitment. The ECL is to be forward-looking in nature and inclusive of macroeconomic factors that affect ECL. Additionally, the ECL is to be probability weighted to scenarios.

With the deterioration of the global economy during the Covid-19 Corona pandemic, the provision for the loan portfolio of AFG has increased significantly as a result of the stumble of some credit clients as a result of the Covid-19 Corona pandemic and its impact on the local economy in addition to that, one of the subsidiaries in the Republic of Lebanon, the International Finance Company (IFC) specialized in the granting of credit facilities, has been subjected to large provisions on its credit portfolio due to deterioration of the political and economical conditions since 2019 in addition to Covid-19 Corona pandemic which prompted IFC to fully suspend lending activities and focus on collection activities. As a result, Risk Management in AFG recommended that precautionary provisions have to be calculated to cover any future losses.

#### **- Market Risk Management**

Arzan Group is exposed to market Risk due to adverse movement in the equity prices, FX rates and interest rates. The Market Risk is primarily managed and retained within the Board defined limit structure.

#### **- Price Risk**

Risk Management has worked out the Value at Risk (VaR) model by passing through different phases of testing and validation to ensure that the model delivers accurate and reliable results.

Risk Management calculates the VaR for equity Investment Exposure under different scenarios and assumptions. The information derived from the VaR calculation will help the company's management to take appropriate decisions and avoid excessive Risks. We have enhanced the model used, increasing its coverage to ensure that VaR findings become an integrated part of key decision making.

#### **- Foreign Currency**

Arzan Group operates in the GCC, Middle Eastern countries, North Africa, Europe and USA and is exposed to foreign currency Risk arising, recognized assets and liabilities and net investments in foreign operations.

To mitigate the Group's exposure to foreign currency Risk, non-Kuwaiti Dinar cash flows were monitored during 2020 by Risk Department in accordance with Arzan Group's Risk Management policies.

#### **- Capital Adequacy**

Risk Management applied capital adequacy regulations issued by Capital Market Authority (CMA). Risk management prepares a quarterly capital adequacy report and presents it to the Board of Directors, and despite the pandemic, Arzan Group has managed to maintain a sufficient capital ratio more than 80% as per the regulations of Capital Market Authority.

#### **- Liquidly Risk**

Liquidity Risk is the Risk that the group will be unable to meet its liabilities when they fall due, and to limit this Risk, Risk Department monitors liquidity on a Quarterly basis in 2020.

#### **- Operational Risk Management**

Arzan has devised and implemented a comprehensive framework for the Operational Risk Management. The following are the key elements of this comprehensive operational risk framework;

- a. Risk and Control Self-Assessment (RCSA);
- b. Residual Risk Registers.
- c. Key Risk Indicators (KRIs);
- d. Loss Data Collection and Incident Management.



The Risk team conducted regular workshops and brainstorming sessions for completing the Risk and Control Self-Assessments (RCSAs) for different departments. Inherent Risks, corresponding controls and residual Risks have been identified and assessed. The team also arrived at the Residual Risks register stating the summary of Risks required management attention. The Residual Risk Register is being used for monitoring the risk strategies (acceptance, avoidance, transfer or reduction) and Risk migration on a periodic basis.

Risk Management has also started the process of collecting and analysing Key Risk Indicators (KRIs) and logging each operational Risk incident.

In addition, Risk Management is consistently trying to update the policies and procedures, Authority Matrix and Organization Structure to guarantee the quality of Risk Management department.

#### **- Business Continuity Risk and Disaster Recovery**

On March 11, 2020, the World Health Organization (WHO) announced that the outbreak of Covid-19 caused by the new CORONA virus, had reached the level of pandemic, or global epidemic, and called on governments to take urgent and more stringent steps to stop the spread of the virus. AFG management has directed all its employees to strictly adhere to the instructions issued by Kuwait government in this regard.

Due to the evolving situation of the COVID-19 virus, and health precaution procedures applied by Kuwait government to reduce the spread of this virus and ensure the continuity of AFG business activities, The BCP & DR committee has held several meetings and issued several procedures in this regard.

Risk Management informed AFG Board of Directors on procedures taken and applied by the committee regarding the activation of Business Continuity Plan (BCP) since 15th March -2020 which includes the results of the practical application of the procedures used to operate the business and rehabilitation of work if the interruption of operations occurs, which has a role in reducing the Risks, Financial and Operational impacts resulting from interruptions. The Board of Directors praised what has been achieved by the relevant departments in this regard and requested the executive management to review the plan periodically and ensure the implementation of the its content to ensure the continuity of the company's work, and to ensure the availability of financial and human resources to make the plan a success and to re-energize the company in accordance with the instructions and guidance sought by the concerned authorities in the state of Kuwait to ensure the safety of the employees in the group.

Compliance Risk

During the year 2020, Arzan has complied with CMA guidelines on Corporate Governance, submitting the report to CMA within the deadline prescribed by the authority with No violations to be reported during the year. The company has been subjected to periodic field inspection by the Capital Market Authority in late 2020 and no violations has been highlighted.

#### Anti-Money Laundering (AML) Risk

Arzan gives utmost importance to AML policies, regulatory requirements and controls required to combat Anti-Money Laundering (AML) particularly keeping in view the various regional and international developments. During the year 2020, we have imparted AML training to all AFG employees which were 49 in addition to the Board of Directors and have been working regularly to improve AML policies, including the customer screening process, enhanced due diligence and periodic reporting to different regulatory authorities. Risk Management assesses the Risk of Money Laundering and terrorist financing for Arzan Group clients and the company's products and services and has applied precautionary policy in 2020 to assess the Risks of Money Laundering and terrorist financing.

**Nawal Baddar**

**Risk Management Manager**

## OPERATIONS DEPARTMENT

Operations Department is considered one of the most vital departments of the company due to the nature of its work. The operations department serves the various departments of the company, such as asset management, investment, Credit and collection in addition to investment portfolios and credit clients, as it works along with departments of finance, risk, IT, Internal audit, legal and compliance dept., in order to achieve the objectives of the group strategy.

Operations Department work is divided according to the following Main tasks:

1- Asset Management:

- Company and its subsidiary's Portfolios
- Company's Clients portfolios

2- Remittances:

- Swift transfers
- Bank transfers

3- Credit:

- Corporate loans
- Retail loans
- EasyBuy Installment Sale Service

4- Cashier and check issuance

5- Shareholders Register and Annual General Meeting (AGM's).



In the year 2020, the Operations Department provided all the services to the group with all its departments, subsidiaries and associate companies in addition to the customers and Clients, despite the challenges of the Corona pandemic. We deal with several factors, the most important of which are time, efficiency and professionalism, which are the important features of the operations department work, All That effort led to close the year without any observations.

It is worth mentioning the initiative of the Operations department, in cooperation with other departments, to hold the Company's AGM electronically due to current circumstances.

We were the first company in the State of Kuwait to hold Electronically AGM.

We worked in line with new health precautions approved by the Ministry of Health, by applying social distancing between all employees and customers, wearing masks, and holding meetings through electronic applications, as well as employee communication through phones instead of in person, Also, implementing rotation between employees, so that some employees work in their offices, while others work from their homes remotely, using electronic tools in coordination with the concerned departments.

which contributes to reducing risks of spreading virus and the preserving the health of all.

**Yasser AlNahhas**

**Director of Operations Department**

## FINANCE DEPARTMENT

By all standards, year 2020 was an exceptional year in light of the emerging Coronavirus pandemic and its impact on global economy, in general, and, in particular, on the economies of the various states in which the Group operates. The Group's achievements have been directly impacted for that year, with losses amounted 9,156 Million Kuwaiti Dinars, compared to profits of 1,540 Million Kuwaiti Dinars for the previous year, 2019. Such losses are mainly due to the following reasons:

1. Realized and unrealized losses from investments classified as Financial Assets at fair value through the statement of profit or loss (FVTPL), amounting to KD 2.184 Million.
2. Calculating losses of decrease in the value of an associate company, amounting to KD 4.568 Million.
3. Calculating provisions for both credit receivables, doubtful debts, cash credit losses, cash equivalents withheld and real estate provision held for the purpose of trading, with a total amount of KD 3.717 Million.
4. Credit instalments facilities' income decrease to KD 662 Thousand following the decrease in the credit portfolios' size.
5. Interest income decrease to KD 481 Thousand following the decrease in interest rates and decrease in the deposit balances to be used in the repayment of the credit facilities granted at Group level.

The Group's management has also controlled its annual costs as follows:

1. Reducing staff costs, which amounted to KD 2.838 Million.
2. Reducing general and administrative expenses, which amounted to KD 1.594 Million.
3. Reducing financing costs, which amounted to KD 1.667 Million

Worth noting that the above losses have not affected the Group's total assets adversely, as they amounted to KD 155.4 Million, compared to KD 155.7 Million in 2019, which reflects the diversity of the Group's assets. This is despite the fact that debts were paid to banks in the amount of KD 12.4 Million, as well as the payment of accounts payable balances in the amount of KD 6.4 Million, which is a positive indication of the extent of liquidity available to the Group.

Capital adequacy ratio amounted to 135%, compared to the required limits of 80%, in accordance with the criteria set by the Capital Markets Authority in the State of Kuwait.

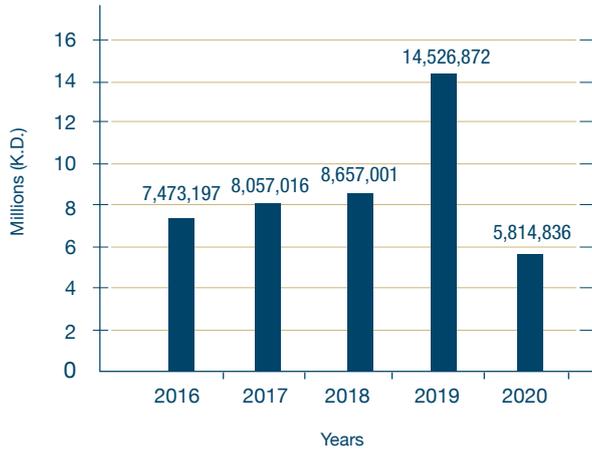
Below are all financial indicators that reflect Arzan Financial Group's financial position and the results achieved thereby over the past five years.

**Mohammed Farid**  
**Executive Director of the Financial Department**

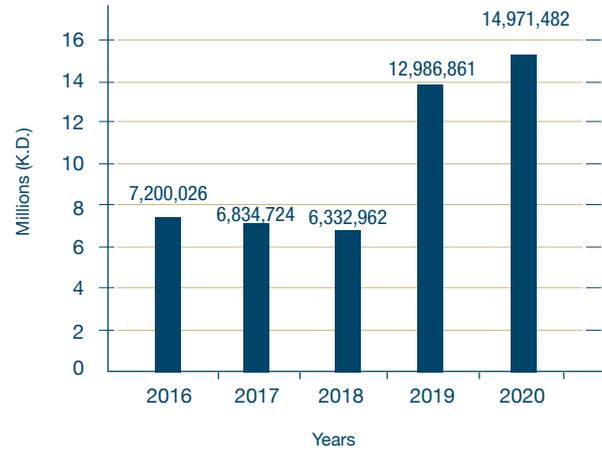


## FINANCIAL REPORT ANALYSIS

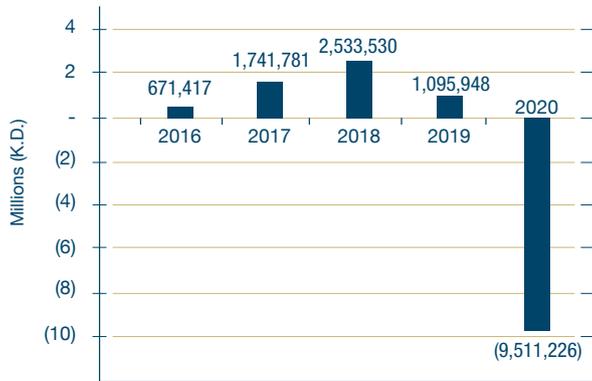
### Total Income



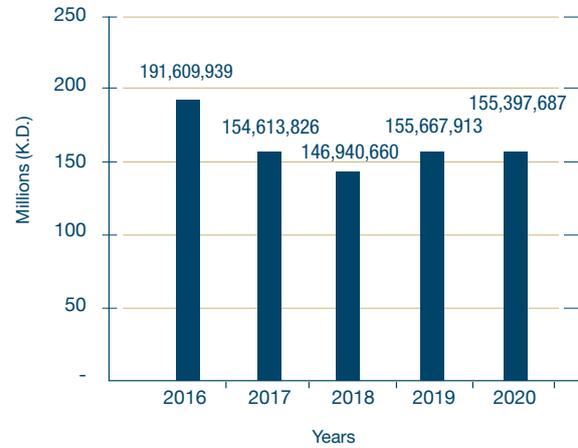
### Total Expenses



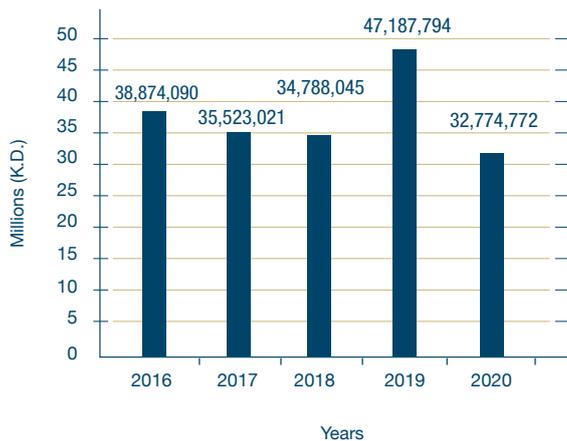
### Net Income/(Loss) attributable to the parent company



### Assets

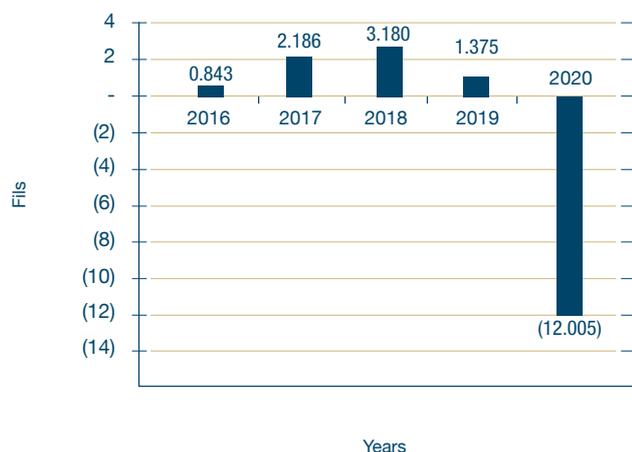


### Total Liabilities

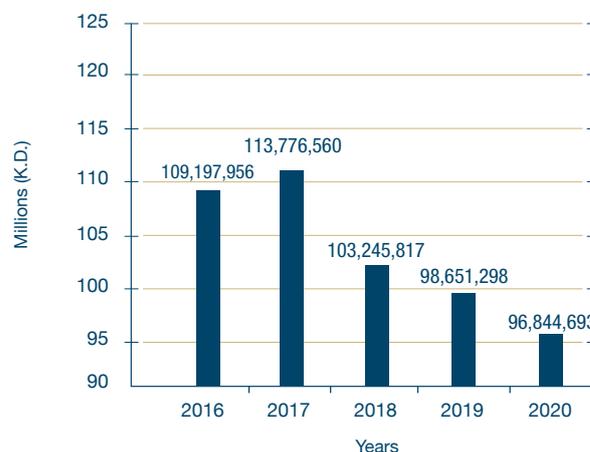


## FINANCIAL REPORT ANALYSIS

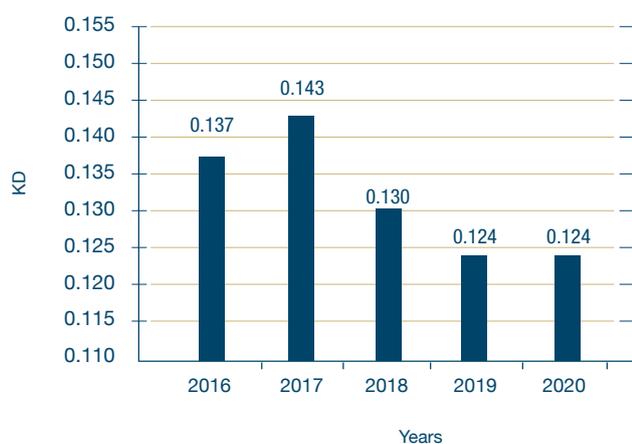
### Earnings/(Loss) per Share



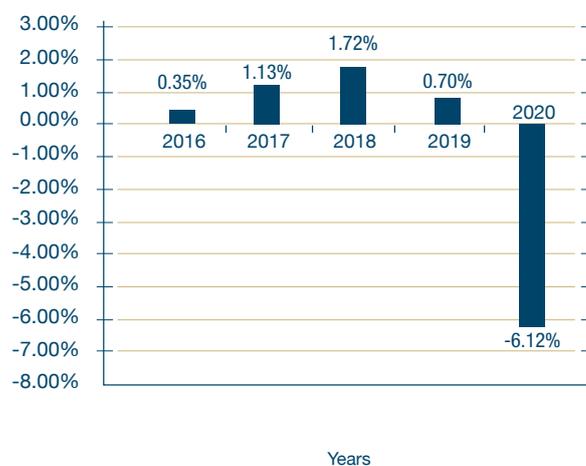
### Shareholders' equity attributable to parent company



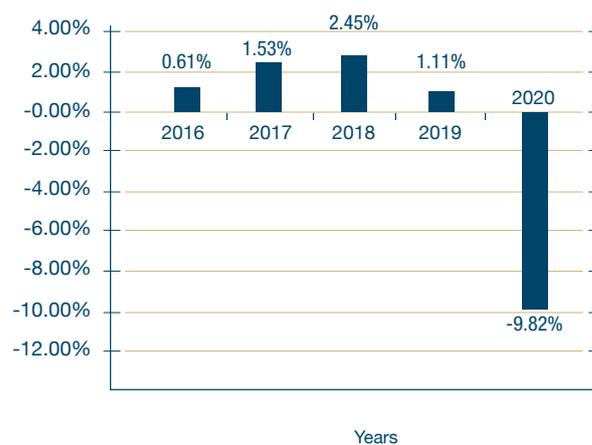
### Book Value

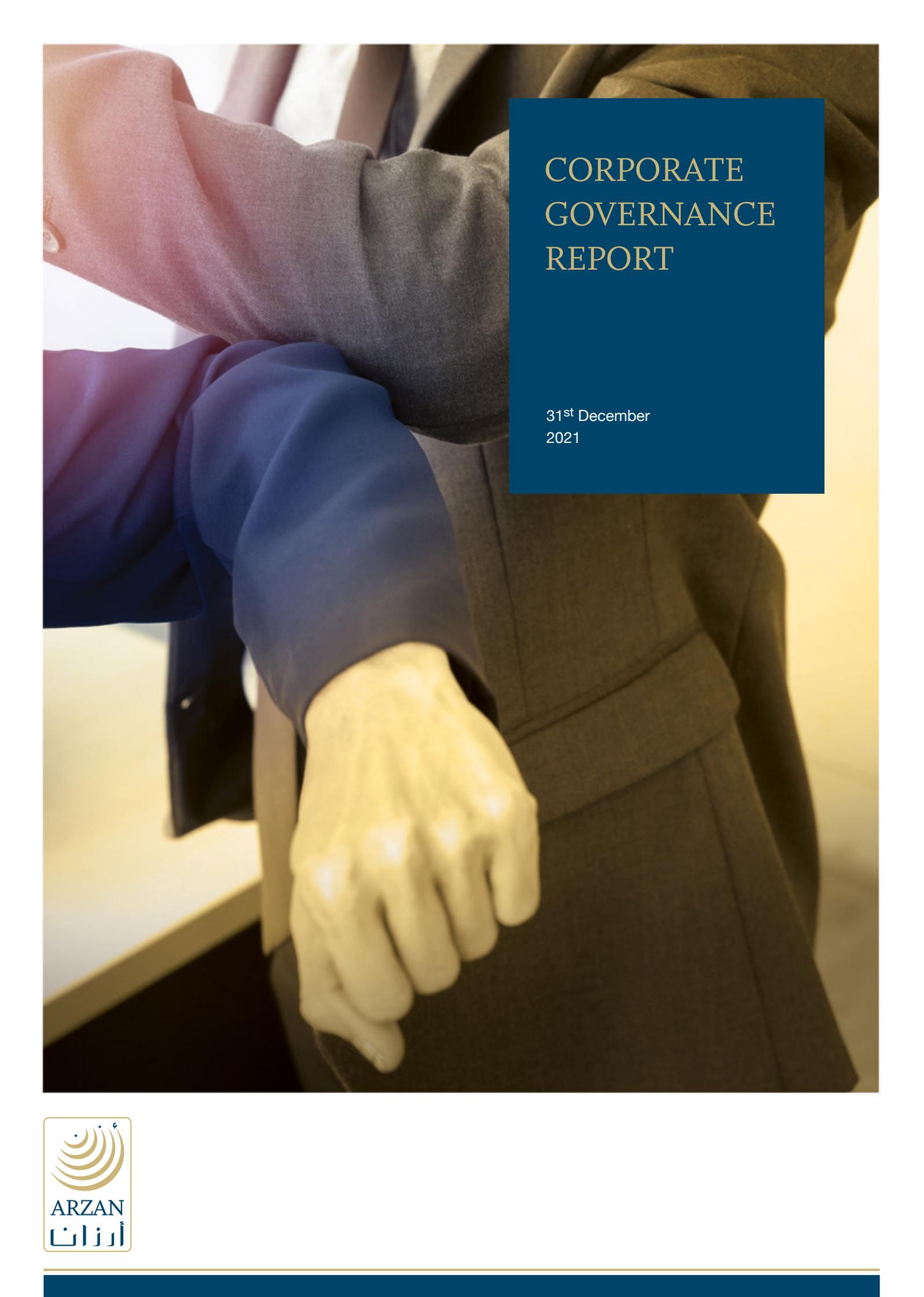


### Return on Assets



### Return on Equity





# CORPORATE GOVERNANCE REPORT

31<sup>st</sup> December  
2021

## 1. RULE ONE:

### **BUILDING A BALANCED STRUCTURE FOR THE BOARD OF DIRECTORS:**

The role of the Board of Directors (the “Board”) represents the point of balance that works to achieve the shareholders’ goals and follow up the tasks of the Executive Management of the Company. Arzan Financial Group’s Board of Directors believes that the skills, experiences and characteristics of its members commensurate with their responsibilities and the Company’s activities.

Board members provide a range of expertise to the Board, including, for example:

- International, regional and local experience.
- Technical expertise related to the business, regulatory and economic environment in which Arzan Group operates.
- Experience and knowledge of the financial sector.

#### 1.1 Formation of the Board of Directors

The decisions passed by the Board of Directors have a great impact on the Company’s performance and the integrity of its financial position. Therefore, the Company has been keen to ensure that its Board of Directors consists of a sufficient number of members that allows the formation of a number of committees emanating therefrom, within the requirements of wise governance.

The Board of Directors consists of seven (7) members, including independent members, for the 2020-2022 term.

Nomination and Remuneration Committee has examined the documents of the candidates nominated for the Board membership for the new 2020-2022 term and the applicants’ fulfilling the requirements of Kuwait Capital Markets Authority in terms of the rules of competence and integrity has been verified.

The Board shall be composed of one independent member. The Nomination and Remuneration Committee has ensured that the status of independence is fulfilled in accordance with the regulations of Kuwait Capital Markets Authority.

Name	Member Classification	Qualifications and Practical Expertise	Election Date
<b>Wafa Ahmad Al-Qatami</b>	Board Chairman, representing Al Nuzha International Real Estate (Non-Executive Member)	<ul style="list-style-type: none"> <li>Political Science and General Management, AUC of Beirut 1973, Lebanon</li> <li>Experience of 43 years in banking, investment, real estate and financial institutions.</li> </ul>	8 June 2020
<b>Jassem Hasan Zainal</b>	Board Deputy Chairman and Chief Executive Officer Representative of International Financial Consulting Holding (Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Science - Civil Engineering, Miami University (1980), USA.</li> <li>BA in General Studies - Mathematics, Miami University (1981), Miami, USA.</li> <li>MA of Science - Civil Engineering, Kuwait University (1991), State of Kuwait.</li> <li>37 years of experience in banking, investment and financial institutions</li> </ul>	8 June 2020
<b>Ibrahim Saleh Al-Tharban</b>	Board Member. Representative of Manara Horizon Real Estate Company (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Commerce - Accounting, Kuwait University (1975), State of Kuwait.</li> <li>42 years of experience in banking, investment, real estate and financial institutions.</li> </ul>	8 June 2020
<b>Emad Abdullah Al-Essa</b>	Board Member. Representative of Kivan International (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Science - Business Administration, Polytechnic University (1986), Pomona, California, USA.</li> <li>MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA.</li> <li>33 years of experience in investment, real estate and financial institutions.</li> </ul>	8 June 2020
<b>Bader Jassim Al-Hajri</b>	Board Member. Representative of Asgad Kuwait General Trading and Contracting (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Administrative Sciences, Marketing, Kuwait University, (1999), State of Kuwait.</li> <li>19 years of experience in banking, investment, real estate, financial and internet services.</li> </ul>	8 June 2020
<b>Mohammad Ahmad Al-Qahtany</b>	Board Member. Representative of Al-Faiha Real Estate Company (Non-Executive Member)	<ul style="list-style-type: none"> <li>Bachelor of Commerce, Accounting, Kuwait University, (1992), State of Kuwait.</li> <li>Master of Professional Accounting, University of Miami, (1995), Miami, United States of America.</li> <li>Certified Public Accountant Certificate - CPA, (1999), USA.</li> <li>22 years of experience in banking, investment and financial institutions.</li> </ul>	8 June 2020
<b>Issa Abdullah Al-Muzaini</b>	Independent Member	<ul style="list-style-type: none"> <li>Bachelor of Science, Civil Engineering, St. Martins College, (1983), USA.</li> <li>16 years of experience in banking, investment, educational and information technology institutions.</li> </ul>	8 June 2020
<b>Abdul Hamid Mohammad Mihrez</b>	Independent Member	<ul style="list-style-type: none"> <li>Bachelor of Science - Biology, Beirut American University (1999), Beirut, Lebanon.</li> <li>MA in Business Administration - Finance, Lebanese American University (2002), Beirut, Lebanon.</li> <li>Certified Financial Analyst - CFA, (2005), USA.</li> <li>18 years of experience in investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Rami Khaled Abdullah</b>	Board Member Representative of Asjad Kuwait	<ul style="list-style-type: none"> <li>Bachelor of Arts - Business Administration, Beirut American University (2000), Beirut, Lebanon.</li> <li>MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA.</li> <li>Certified Financial Analyst - CFA, (2008), USA.</li> <li>Certified Public Accountant (CPA), (2005) USA.</li> <li>Certified Financial Manager - CFM (2002), USA.</li> <li>Certified Administrative Accountant - CMA, (2001), USA.</li> <li>22 years of experience in auditing, consulting, investment, real estate and financial institutions.</li> </ul>	19 July 2017
<b>Ruba Ghanem</b>	Secretary	<ul style="list-style-type: none"> <li>Bachelor of Business Administration - Banking, Granttown University 2014, USA.</li> <li>20 years of experience in banking, investment and financial institutions.</li> </ul>	10 January 2013

## 1.2 Meetings of the Board of Directors.

Eight (8) Board meetings have been held during 2020, as follows:

Member Name	Meeting No. (1) on 19/01/20	Meeting No. (2) on 20/04/20	Meeting No. (3) on 11/05/20	Meeting No. (4) on 15/06/20	Meeting No. (5) on 09/07/20	Meeting No. (6) on 13/08/20	Meeting No. (7) on 11/11/20	Meeting No. (8) on 30/11/20	Total
<b>Wafa Ahmad Al-Qatami **</b>	√	√	√	√	√	√	×	√	<b>7</b>
<b>Jassem Hasan Zainal</b>	√	√	√	√	√	√	√	√	<b>8</b>
<b>Ibrahim Saleh Al-Tharban</b>	√	√	√	√	√	√	√	√	<b>8</b>
<b>Emad Abdullah Al-Essa</b>	√	√	√	√	√	√	√	√	<b>8</b>
<b>Bader Jassim Al-Hajri</b>	√	√	√	√	√	√	√	√	<b>8</b>
<b>Mohammad Ahmad Al-Qahtany *</b>	-	-	-	√	√	√	√	√	<b>5</b>
<b>Issa Abdullah Al-Muzaini *</b>	-	-	-	√	√	√	√	×	<b>4</b>
<b>Abdul Hamid Mohammad Mihrez *</b>	√	√	√	-	-	-	-	-	<b>3</b>
<b>Rami Khaled Abdullah *</b>	×	×	×	-	-	-	-	-	<b>-</b>

\* At the Ordinary General Assembly of Arzan Financial Group, held on 8 June 2020, a Board of Directors was elected for a new term (three years, 2020-2022), where both Mr. Mohammad Ahmad Al-Qahtany and Mr. Issa Abdullah Al-Muzaini were elected to the Board membership, while the seats of Mr. Abdul Hamid Mohammad Mihrez and Mr. Rami Khaled Abdullah were vacated.

\*\* Mrs. Wafa Ahmad Al-Qatami has resigned from the Board of Directors membership on 30 November 2020.

## 1.3 Application of the requirements for registration, coordination and keeping minutes of the Board meetings.

The Board of Directors shall devote sufficient time to carry out the tasks and responsibilities entrusted thereto, including preparing for the meeting of the Board and the committees emanating therefrom and keenness to attend these meetings, in addition to organizing the Board meetings in consecutive numbers for the year in which they are held, indicating the venue, date and starting and ending hours of the meeting, as well as preparing the minutes of discussions and deliberations, including the voting process, to be signed by all Board members and the Secretary. All Board minutes of meetings, records, books and reports of the Company, submitted from/to the Board, shall be kept, ensuring a full and rapid access of the members thereto. The Board has appointed a Secretary to the Board from among the Company's employees, specifying her functions in accordance with the Company's corporate governance rules and in line with the responsibilities assigned thereto.



The Board shall hold the least of six (6) meetings annually, with the minimum of one meeting per schedule. Where Sufficient documents shall be provided to the Board members to enable them assessing the topics for which decisions are required. Among the key documents submitted to the Board:

- Quarterly financial statements
- Minutes of the previous Board meeting
- Minutes of the Board committees
- Aspects / developments within each department of the Company
- Reports of regulatory violations.

## **2. RULE TWO: PROPER SPECIFICATION OF TASKS AND RESPONSIBILITIES**

### **2.1 Company's policy for the tasks, responsibilities and duties of each of the Board members and the Executive Management, as well as the powers and authorities delegated to the Executive Management**

The Company's Board of Directors is a balance point that works to achieve the shareholders' objectives and follow up the Executive Management performance, since the Board seeks to achieve the Company's strategic objectives by ensuring that the Executive Management carries out its tasks to the fullest and that it works to enhance the competitiveness of the Company, in addition to achieving high growth rates, working to maximize profits and that the Executive Management decisions and procedures always work to the interests of the shareholders.

The Board has approved the Company's Governance Policy, which clearly includes the tasks and responsibilities assigned to both the Board of Directors and the Executive Management, as well as a matrix of powers that promotes the separation of the terms of reference between the Board and the Executive Management, in a manner that guarantees full independence, so that the Board of Directors may effectively carry out its responsibilities. This includes the powers and authorities delegated to the Executive Management.

### **2.2 Board achievements during the year.**

Worth noting is that the Board operates in accordance with an approved code that includes the main responsibilities, as well as other responsibilities as provided for in the relevant regulations and laws. Among the most prominent actions undertaken by the Board during 2020, for example:

- Approving Arzan's financing and borrowing requirements.
- Approving the annual and interim budget and ensuring that performance is measured in accordance with the budget and action plans.
- Examining the annual financial statements, temporary lists, dividend announcements and notifications to shareholders, in accordance with the recommendations of the Board's Audit Committee and its approvals.
- Ensuring the risk management, internal control, financial and operational systems.
- Reviewing and approving the amendment of the Company's internal policies and procedures.
- Discussing the report on the business continuity and disaster response plan test results.

- Ensuring the Company's compliance with the policies and procedures that ensure the Company's respect for the rights of shareholders, the applicable internal activities and regulations and the Company's commitment to implementing the governance system.
- Reviewing, amending and approving the organizational structure of the Company.
- Forming the Board and the committees emanating therefrom according to the new 2020-2022 term.
- Following up on the performance of each member of the Board of Directors and the Executive Management according to the key performance indicators.
- Assessing the performance of the Board, board members, board committees, committee members and the CEO.
- Approving the annual/semi-annual reports sent to government/supervisory entities.
- Approving the reports submitted to the General Assembly.

### 2.3 Implementation of the requirements for the Board's formation of specialized independent committees and relevant information on each committee.

Arzan's internal control and management system is based on the directives and regulations issued by the Capital Markets Authority, the Central Bank of Kuwait, Kuwait Stock Exchange, the Company's Memorandum of Association, Articles of Association and internal practices. The Board shall bear full responsibility for the operations of the Company's operations and may delegate some of its powers to the Board Committees. The Board has formed three committees to assist it in monitoring the decision-making process and functions of Arzan. Each Board Committee shall perform its functions in accordance with its own code, as specified in the Code of the Board of Directors and in accordance with the regulations approved by the Board.

#### **The Audit Committee:**

The Audit Committee is responsible for assisting the Board in effectively performing its responsibilities in terms of financial reporting, internal controls and internal and external audit, in addition to developing the Company's culture of compliance by ensuring the external auditors' independence and the integrity and fairness of the Company's financial statements, in addition to ensuring the adequacy and efficiency of the Company's internal controls. The Committee operates on the basis of a code approved by the Board. Among the prominent works practices in the year 2020, for example:

- Reviewing and discussing the interim and final financial statements before submitting them to the Board and expressing pinion thereon as at 31/12/2019, 31/03/2020, 30/06/2020 and 30/09/2020, in addition to studying auditors' observations on the financial statements and follow them up.
- Reviewing the internal control systems' evaluation report for the year ending in 31/12/2019.
- Recommending to the Board to appoint/reappoint the external auditors.
- Approving the audit committee report for the financial year ending in 31/12/2019 and submitting recommendation to the Board.
- Approving the internal audit plan for the year 2020.
- Reviewing the results of internal audit reports and ensure corrective actions are taken.
- Reviewing and approving the annual audit management work plans.
- Reviewing the results of the Internal Audit Department review and evaluation report.



#### The Audit Committee shall consist of:

Four (4) members appointed by a resolution of the Board of Directors, issued in its Minutes No. 04/2020, dated 15/06/2020, for (2020-2022) term:

- Ibrahim Saleh Al-Tharban - Chairman of the Committee (Non-Executive Member).
- Emad Abdullah Al-Essa - Deputy Chairman of the Committee (Non-Executive Member).
- Bader Jassim Al-Hajri – Committee Member (Non-Executive Member).
- Issa Abdullah Al-Muzaini - Committee Member - Independent (Non-Executive Member).

During the year 2020, the Audit Committee has convened four (4) meetings as follows:

Member Name	Meeting No. (1) on 19/01/20	Meeting No. (2) on 20/04/20	Meeting No. (3) on 13/08/20	Meeting No. (4) on 11/11/20	No. of Meetings
<b>Ibrahim Saleh Al-Tharban (Chairman of the Committee)</b>	√	√	√	√	<b>4</b>
<b>Emad Abdullah Al-Essa (Deputy Chairman of the Committee)</b>	√	√	√	√	<b>4</b>
<b>Bader Jassim Al-Hajri (Committee Member)</b>	√	√	√	√	<b>4</b>
<b>Issa Abdullah Al-Muzaini ** (Committee Member)</b>	-	-	√	√	<b>2</b>
<b>Abdul Hamid Mohammad Mihrez ** (Committee Member)</b>	√	√	-	-	<b>2</b>
<b>External Auditor</b>	-	√	√	√	<b>3*</b>
<b>Internal Auditor</b>	√	√	√	√	<b>4</b>

\* The Group's financial statements for the first quarter ended 31/03/2020 and the second quarter ended 30/06/2020 were discussed in the Committee's meeting No. 03/2020 held on 13/08/2020.

Changes in the Committee membership during the year:

\*\* In its meeting held on 15/06/2020, the Board approved the restructuring of the committees emanating therefrom, Mr. Abdul Hamid Mohammad Mihrez left the membership of the Board's Audit Committee for Auditing and Mr. Issa Abdullah Al-Muzaini joined the Committee.

#### Risk Committee:

The Risk Committee shall be responsible for assisting the Board in performing the special control and monitoring responsibility for the Company's risk management function, including identifying, assessing, controlling and mitigating the risks the Company is exposed to. The Committee assists the Board in developing the Company's risk management approach and strategy, as well as the overall risk management framework and monitoring the implementation of the executive management of this strategy. The Committee operates on the basis of a code approved by the Board of Directors. The following are examples to the key works undertaken by the Committee during 2020:

- Reviewing periodic reports about the nature of the risks the Company is exposed to and submitting them to the Board of Directors.
- Reviewing the organizational structure of the Company and raising the relevant recommendations to the Board for approval.
- Reviewing the external penetration test report.

- Reviewing the report on the business continuity and disaster response plan test results and submitting it to the Board.
- Reviewing and amending the Company's internal policies and procedures and submitting them to the Board for approval.

#### Risk Committee shall consist of:

Four (4) members appointed by a resolution of the Board of Directors, issued in its Minutes No. 04/2020, dated 15/06/2020, for (2020-2022) term:

- Ibrahim Saleh Al-Tharban - Chairman of the Committee (Non-Executive Member).
- Jassem Hasan Zainal - Deputy Chairman of the Committee (Executive Member).
- Emad Abdullah Al-Essa - Committee Member (Non-Executive member).
- Mohammad Ahmad Al-Qahtany – Committee Member (Non-Executive Member).

During the year 2020, the Risk Committee has convened four (4) meetings as follows:

Member Name	Meeting No. (1) on 19/01/20	Meeting No. (2) on 20/04/20	Meeting No. (3) on 13/08/20	Meeting No. (4) on 11/11/20	No. of Meetings
<b>Ibrahim Saleh Al-Tharban (Chairman of the Committee)</b>	√	√	√	√	4
<b>Jassem Hasan Zainal (Deputy Chairman)</b>	√	√	√	√	4
<b>Emad Abdullah Al-Essa (Committee Member)</b>	√	√	√	√	4
<b>Bader Jassim Al-Hajri * (Committee Member)</b>	√	√	-	-	2
<b>Mohammad Ahmad Al-Qahtany * (Committee Member)</b>	-	-	√	√	2

#### Changes in the Committee's membership during the year:

\* In its meeting held on 15/06/2020, the Board approved the restructuring of the committees emanating from the Board, as Mr. Bader Jassim Al-Hajri quitted the membership of the Board and Mr. Mohammad Ahmad Al-Qahtany joined the Committee.

#### Nomination and Remuneration Committee:

This Committee shall assume the responsibilities related to the fees of the Arzan Board of Directors and its Executive Management, in line with their performance, qualifications and levels of expertise. The Committee shall also assume additional responsibilities related to the nominations in accordance with CMA regulations and the other laws. The Committee operates on the basis of a code approved by the Board of Directors. Among the key works undertaken by the Committee during 2020, for example:

- Reviewing the qualifications of the applicants for the Board membership.
- Ensuring that the independency of the Board independent members is achieved.
- Discussing the results of self-assessment of the Board members.
- Approving the annual report on remunerations, salaries and benefits for members of the Board and the Executive Management, submitting the recommendation regarding the proposed remuneration to the Board for approval.
- Reviewing amendments to the Stock Option Program Policy for the Company's employees, submitting them to the Board for approval.



- The Nomination and Remuneration Committee shall consists of four (4) members, appointed by a resolution of the Board, issued in its minutes No. 04/2020, dated 15/06/2020, as follows:
- Wafa Ahmad Al-Qatami - Chairman of the Committee (Non-Executive Member)
- Jassem Hasan Zainal – Deputy Chairman of the Committee (Executive Member)
- Bader Jassim Al-Hajri – Committee Member (Non-Executive Member)
- Issa Abdullah Al-Muzaini - Member of the Committee (Independent Member)

During the year 2020, the Nomination and Remuneration Committee has convened two (2) meetings, as follows:

Member Name	Meeting No. (1) on 16/02/20	Meeting No. (2) on 11/05/20	No. of Meetings
<b>Wafa Ahmad Al-Qatami ** (Chairman of the Committee)</b>	√	√	<b>2</b>
<b>Jassem Hasan Zainal (Vice Chairman)</b>	√	√	<b>2</b>
<b>Bader Jassim Al-Hajri * (Committee Member)</b>	-	-	-
<b>Issa Abdullah Al-Muzaini * (Committee Member)</b>	-	-	-
<b>Rami Khaled Abdullah * (Committee Member)</b>	√	×	<b>1</b>
<b>Abdul Hamid Mohammad Mihrez * (Committee Member)</b>	√	√	<b>2</b>

Changes in the Committee membership during the year:

\* In its meeting held on 15/06/2020, the Board approved the restructuring of the committees emanating therefrom, as Mr. Abdul Hamid Mohammad Mihrez and Mr. Rami Khaled Ali quitted the membership of the Nominations and Remunerations Committee and Mr. Bader Jassim Al-Hajri joined And Mr. Issa Abdullah Al-Muzaini joined its membership.

\*\*Mrs. Wafa Ahmad Al-Qatami resigned (by resignation) quitted the Committee's membership on 30 November 2020.

#### 2.4 Implementation of the requirements for allowing Board members to obtain accurate and timely information and data

The Executive Management works to provide complete, accurate and timely information and data to all Board members in general and to the non-executive and independent Board members in particular, through the Secretary of the Board, who provides the members of the Board with all the documents that will be discussed during the Board meeting sufficiently during the Board meeting, so as to obtain all basic information and data to enable the members of the Council to undertake and carry out their duties and tasks efficiently and effectively.

### 3. RULE THREE: SELECTING QUALIFIED PERSONS FOR THE MEMBERSHIP OF THE BOARD AND THE EXECUTIVE MANAGEMENT

#### 3.1 Nomination and Remuneration Committee formation requirements

Following its selection by the General Assembly, the Board has formed the Nomination and Remuneration Committee, consisting of four (4) members, where one of them is an independent member and its Chairman is a Non-Executive Board member. The Board has defined the term of the Committee's membership and its method of work, as well as the powers and responsibilities of the Committee within its code of work, as adopted by the Board.

#### 3.2 Report on the remunerations granted to the members of the Board of Directors, the Executive Management and Managers.

##### 3.2.1. Summary of the Nomination and Remuneration Policy at the company, specially for the Board of directors, Executive Management and the Managers

The Company's Articles of Association stipulate a clear policy for the remunerations of the Board Chairman and the Bard members. Further, the company's remuneration policy is based on the following principles:

- Observing the provisions of Companies Law and related laws.
- Recruitment and retention of the best staff.
- Ensuring equality within the Company and competitiveness outside it.
- Transparency in awarding remunerations.

#### **Board Members' Remuneration:**

The Company adheres to the remuneration system of the Board of Directors as stipulated in Article 198 of Companies Law No. (01/ 2016) and the approval of the General Assembly shall be taken regarding the remuneration of the Board members.

#### **Executive Management and Managers Remuneration and Incentives:**

**Fixed Remuneration:** Includes salaries and benefits (including end of service benefits), which are awarded under the scale of salaries approved by the Board of Directors, the applicable laws and regulations and the Human Resources Management Policies and Procedures Manual.

**Variable Remuneration:** Variable remunerations are linked to the achievement of previously determined objectives. This kind of remuneration is designed to motivate and reward Executive Management members. Variable remuneration is allocated according to the performance of the Executive Management member and the overall performance of the Company. Variable rewards are paid in cash.

### Remunerations and incentives of Company's employees

1. One of the most important objectives of awarding bonuses and remunerations is to establish the principle of belonging to the Company and motivate the employees towards working to achieve the objectives of the Company and raise its level. The Company seeks to ensure that the remunerations system reflects and is commensurate with the functions and responsibilities and is fair and equitable.
2. Remunerations to the employees of the Company shall be adopted based on an evaluation of the level of performance, where remunerations are awarded in accordance with an approved policy, in order to achieve the operational and financial objectives, and based on the employees' individual performance and contribution to achieve the strategic objectives.

#### 3.2.2 Remunerations Schedule:

First: The Annual remuneration and sitting fees allowance for the Committees paid to all members of the Board during the period from January 2020 to December 2020

The rewards and benefits through the mother company					The rewards and benefits through the subsidiary companies			
Number	The fixed rewards and Benefits	The variable rewards and Benefits			The fixed rewards and Benefits		The variable rewards and Benefits	
	Medical insurance	Annual remunerations	Sitting fees	Committee rewards	Medical insurance	The total monthly salaries through the year	Annual remunerations	Committee rewards
7	415	36,000	22,350	0	0	0	0	0

Second: The Fixed and variable rewards and benefits for the company's executive management and its subsidiaries for the year ended December 31, 2020

The rewards and benefits through the mother company													The rewards and benefits through the subsidiary companies	
Number	The fixed rewards and Benefits								The variable rewards and Benefits				The fixed rewards and Benefits	The variable rewards
	Annual salaries	Social insurance	Life insurance	Medical insurance	Air Tickets	Accrued leave	Business trips	End of Service allowance	Annual remunerations	ESS	ESOP	Business calls	and Benefits	Annual remunerations
5	323,421	10,058	4,925	5,655	10,238	39,462	995	53,435	276,805	23,400	16,345	2,642	89,534	183,307

3.2.3 there is no substantial deviations from remuneration policy approved by Board of Directors.

#### **4. RULE FOUR: ENSURING INTEGRITY OF FINANCIAL REPORTS**

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

The Board of Directors is responsible for monitoring and reviewing the credibility of the financial statements, accounting policies and information contained in the annual report. In undertaking that responsibility, Board members receive continuous support through certain processes to identify and assess the risks faced by the Company. The independent monitoring process is carried out to ensure the effectiveness of the Executive Management in conducting Company's business and achieving its objectives by the Internal Audit Department, the Risk Management Department and other Board subcommittees.

The credibility and integrity of the financial statements of the Company are among the most important indicators that to the Company's integrity and credibility in presenting its financial position, which increases the confidence of shareholders and investors in the data and information provided by the Company and disclosed to the shareholders. The Executive Management acknowledges to the Board, in writing, that the submitted financial reports are correct and fair and that they include all financial aspects of the Company in terms of data and operating results. These reports are also prepared in accordance with the international accounting standards adopted by the Authority. The annual report submitted to the shareholders from the Board of Directors acknowledges the credibility and integrity of all financial statements and reports related to the Company's activity. These undertakings and acknowledgements contribute to enhancing accountability; whether of the Executive Management to the Board or of the Board to the shareholders.

##### **4.2 Audit Committee formation requirements**

The Board has formed the Audit Committee and determined the term of its membership and the method of work. The Committee's powers and responsibilities were stated in its code of work as approved by the Board. The Committee consists of four (4) members, including an independent member, and the Committee's membership does not include the Chairman of the Board of Directors or any of the Executive Members. Among the members of the Committee are members with academic qualifications and/or practical experience in the accounting and financial fields. The Committee meets regularly at least four times annually and on a quarterly basis, where minutes of the meetings shall be recorded. The Committee holds meetings with the external auditor and at least four times with the internal auditor.

##### **4.3 There was no conflict of interest, in 2020, between the Audit Committee recommendations and the decisions of the Board**

##### **4.4 Emphasizing the independence and impartiality of the external auditor**

The Company's Ordinary General Assembly appoints/reappoints the external auditor on the recommendation of the Board. The nomination of the auditor shall be based on the recommendation of the Audit Committee, which shall ensure that auditor is registered in the special register at the Authority, so that he would fulfill all the conditions stipulated in the Authority's requirements regarding the system of recording the auditors. The Committee shall



also ensure that the external auditor is independent of the Company and its Board and that he is not performing any other works to the Company that are not within the scope of auditing, which may affect neutrality or independence. The Audit Committee shall discuss with the external auditor before submitting the annual financial statements to the Board for decision.

Mr. Abdul Latif Muhammad Al-Aiban, from Al-Qatami, Al-Aiban and Partners Office (Grant Thornton), were appointed in the capacity of the Group's auditor for the current year ending in 31/12/2020, by a decision issued by the Company's ordinary general assembly, held on 08/06/2020.

The external auditor shall attend the Annual General Assembly meeting and shall recite his report to the shareholders of the Company.

## 5. RULE FIVE:

### ESTABLISHING SOUND SYSTEMS FOR RISK MANAGEMENT AND INTERNAL CONTROL

#### 5.1 Implementing the requirements for forming an independent risk management department/office/unit.

The organizational structure of the Company includes risk management that enjoys complete independence and the Risk Management Committee, in turn, reports to the Board of Directors.

Arzan has a comprehensive risk management framework that is applied to ensure proper governance of the Company and its related entities. The Board directs the policy and procedures framework and is responsible for risk management and all existing risk control systems in Arzan.

Arzan's Board of Directors ensures integrating the risk management concept into the Company's culture, policies and processes. Risk Management Department enjoy broad powers to perform their duties without granting them any powers and executive and financial powers.

Risk Management Department identifies, evaluates, assesses and reports on all the significant risks to which Arzan is exposed, through key risk indicators identified according to the relevant risk categories, in addition to implementing periodic risk control and monitoring activities, with the preparation and implementation of new audit and control policies. The Department aims to enhance its risk control capabilities through the use of the best IT programs in the field of risk management and assessment. The Risk Management Department reports quarterly to the Board and semi-annually to the Capital Markets Authority.

#### 5.2 Risk Management Committee formation requirements

The Board has formed a Risk Management Committee, consisting of four (4) members, where the Chairman of the Committee is a non-executive member and the Chairman of the Board of Directors is not a member of the Committee. The Board has determined the term of the Committee's membership, its method of work, responsibilities in the Committee's code of work as approved by the Board .

### 5.3 Internal Control and Monitoring Systems

The integrity and credibility of the internal control systems shall be achieved through policies and procedures, automating the processes in line with the policies and procedures adopted by the Company, wise selection of employees and raising their awareness, as well as an organizational structure that separates responsibilities. Internal control procedures are established to protect the Company's assets and to ensure the approval of the decisions and procedures. Periodic risk assessments are carried out by the Risk Management Department and compliance is being reviewed periodically by the Compliance Department.

### 5.4 Implementing the requirements for forming an independent internal audit department/ office/unit

The organizational structure of the Company includes an internal Audit Department that enjoys complete technical independence, which reports to the Audit Committee and, thus, the Board of Directors. The Internal Audit Department submits its reports independently to the Audit Committee, emanating from the Board of Directors. Audits are performed by an internal audit team within the Company, in accordance with the internal audit plan approved by the Audit Committee. Comprehensive reports are to be submitted by the internal auditors directly to the Audit Committee, in addition to adopting appropriate corrective policies and procedures where necessary. The internal audit plan shall be implemented through assessing the effectiveness of the risk control instruments, the risk management and the control and governance systems.

## 6. RULE SIX: ENHANCING G PROFESSIONAL BEHAVIOR AND ETHICAL VALUES

### 6.1 Code of Ethics that includes the standards and determinants of professional conduct and ethical values

Arzan adopts a Code of Professional Conduct, to which the Board, the Executive Management and all employees of the Company are committed. The Code defines the following topics:

- 1. Compliance with laws, rules and regulations:** The Board of Directors and the Executive Management shall comply with the laws, rules and regulations in force at Arzan and its subsidiaries.
- 2. Trading on the basis of internal information:** All Board members and officials shall not use any special data and information that are not intended for publication or use them for the purpose of trading in shares and achieving commercial gains through such data and information.
- 3. Interests of the Company:** The members of the Board and the officials shall not use the Company's property, information or positions in order to achieve personal interests and gains and shall not compete with the Company, either directly or indirectly.
- 4. Competitiveness and fair dealing:** The Board and the Company's management are committed to fair treatment and respect for the rights of the Company's customers, suppliers, competitors and employees. Members of the Board or the officials shall not make unfair gains from any party by manipulating or concealing information, misusing any confidential information, misrepresenting fundamental facts or committing any other illegal business practices.



5. **Recordkeeping, financial controls and disclosures:** The Company's books, records, accounts and financial statements shall be kept in detail and shall reflect the Company's transactions properly. They may be disclosed in accordance with any applicable laws and regulations, with full compliance with the applicable legal requirements and with the Company's internal regulations.
6. **Confidentiality of information:** The members of the Board, the Executive Management and the employees of the Company shall maintain the confidentiality of information and any information owned by the Company and entrusted to them by the Company, its customers or suppliers, unless the disclosure of such information is licensed/required by laws or regulations or if disclosed in accordance with the "need to know" rule.
7. **Protection and proper use of the Company's assets:** The Board and Executive Management members are committed to protect the Company's assets, including the Company's proprietary information, including intellectual property rights; such as trade secrets, patents, trademarks and copyrights, as well as service, marketing and trade plans, databases, records, payroll information and any financial statements and unannounced reports. Unauthorized disclosure and distribution is an infringement of the Company's policy and it may also be considered unlawful and would result in civil and criminal penalties.
8. **Financial reporting:** The Board of Directors and the Executive Management are responsible for the preparation of financial reports professionally and in accordance international standards, in addition to responding to any inquiries regarding general disclosure requirements to shareholders, stakeholders and any other parties.

## 6.2 Policies and mechanisms for limiting conflict of interest cases

The Board has developed policies and mechanisms to reduce cases of conflict of interest, as well as the methods of dealing with them within the framework of corporate governance, taking into account the provisions of the Companies Law. The Company, in its policies, has observed the existence of a clear separation between the interests of the Company and those associated with the Board members, through the Board's establishing mechanisms to put the interests of the Company before the interests of its members. All Board members shall disclose to the Board any interests shared with him the Company, whether directly or indirectly. It is also prohibited for Board members to participate in any discussion, express opinion or vote on any subjects presented to the Board, where the member has a joint interest, directly or indirectly, with the Company. Employees of the Company may also report, internally, their doubts about any improper practices or suspicious matters in the financial reports, internal control systems or any other matters. The Company shall allow an independent and fair investigation of any matter brought to its attention, ensuring the good-faith reporter shall be protected against any adverse reaction or damage that may result from his reporting of such practices.

## 7. RULE SEVEN:

### ACCURATE AND TIMELY DISCLOSURE AND TRANSPARENCY

#### 7.1 Accurate and transparent presentation and disclosure mechanisms that define the aspects, fields and characteristics of disclosure

The Company is committed to the highest levels of transparency, where the Board has adopted disclosure policies and procedures to ensure accurate and timely information

provision to shareholders and stakeholders. The Compliance Department shall coordinate with all departments of the Company to disclose information accurately and in a timely manner to the Capital Markets Authority and Kuwait Stock Exchange.

## 7.2 Board of Directors, Executive Management members' and Managers Disclosure Register requirements

The Company has a special register that regulates the disclosures by the Board, Executive Management members and Managers. IT infrastructure has been developed to suit the Company's position, this register includes all data related to bonuses, salaries, incentives, and other financial benefits that were granted directly or indirectly by the company or subsidiary companies. This record is updated periodically to reflect the reality of the conditions of the parties involved.

All shareholders of the company can view this record during the normal working hours of the company without any fee or charge.

## 7.3 Implementation of Investor Affairs Unit formation requirements

The Investors Affairs Regulatory Unit has been established to provide communication and transparency with the shareholders and to respond to their complaints in accordance with approved policies and procedures. In addition, the Unit:

- Supervises the performance of the registrar and the stock transfer agent in the Company.
- Recommends the general development measures in the quality of the services provided to investors.

## 7.4 Information technology infrastructure development and reliance thereon in disclosures

The Company has dedicated part of the Company's website to corporate governance, where all latest information and data are presented to help the shareholders and current and prospective investors exercising their rights. This page includes information about the Company, the Board of Directors and the Executive Management, as well as a section on governance and a link to the Insider Disclosure Form. Disclosures of material information and financial statements are also presented through the Company's website.

## 8. RULE EIGHT: RESPECT FOR SHAREHOLDERS' RIGHTS:

### 8.1 Requirements to define and protect the general rights of shareholders, in order to ensure fairness and equality among all shareholders

The Company is committed to protecting shareholders' rights through a policy approved by the Board that guarantees protecting their rights and providing them with the exercise of those rights granted by the Commercial Companies Law in the State of Kuwait and the instructions of the Capital Market Authority in the state.

The Company treats all shareholders equally and without any discrimination. In no case the Company shall withhold any information from the shareholders or any of their rights. The general rights of the shareholders guaranteed by the Company include the following:



1. Registering the shareholders' propriety value in the Company's records.
2. Shareholders' right to dispose of the shares; ownership registration, assigning and/or transfer.
3. Shareholders' right to receive their share of dividends.
4. Shareholders' right to receive a share of the Company's assets in case of liquidation.
5. Shareholders' right to obtain data and information about the Company's activity and its operational and investment strategy in a regular and easy manner.
6. Shareholders' right to participate in the meetings of the General Assembly of shareholders and vote on their decisions.
7. Shareholders' right to elect the members of the Board of Directors

## 8.2 Clearing Agency's register to ensure continuous follow-up of shareholders data

For the purpose of continuous follow-up of all matters related to shareholders' data, the Company maintains a special register at Kuwait Clearing Company, listing the names, nationality and domicile of shareholders, and the number of shares owned by each of them. Any changes in the registered data shall be noted in the Shareholders Register, as per the data received by the Company or the Kuwait Clearing Company. Any interested party may request the Company or the clearing agency any data from the said register.

Data contained in the Company's Shareholders' Register is be treated with the utmost protection and confidentiality, in a manner consistent with the law, the executive regulations and the instructions and controls issued by the Authority.

### Clearing Agency Details:

Kuwait Clearing Company  
POB: 22077  
13081 Safat  
Kuwait  
info@maqasa.com

## 8.3 Encouraging shareholders' participation and voting in the Company's assemblies meetings

The Company establishes a mechanism for participating in the meetings of the shareholders' General Assembly, where the following shall be considered upon conducting those meetings:

1. Inviting the shareholders to attend the General Assembly meeting, where the invitation shall include the agenda, time and venue of the meeting, through announcing according to the mechanism specified in the executive regulations of the Companies Law.
2. The Company shall make it clear to the shareholders that the shareholders are entitled to appoint another person in the presence of the General Assembly, under a special power of attorney or an authorization prepared by the Clearing Agency for this purpose.
3. The Company shall allow the shareholders an opportunity, sufficiently prior to the General Assembly, to obtain all information and data related to the agenda items, with a view to enable the shareholders to make their decisions properly.

4. The Company shall allow the shareholders to participate actively and effectively in the meetings of the General Assembly, discuss the issues on the agenda and the related queries on the different aspects of the activities, addressing the questions thereon to the members of the Board of Directors and the External Auditor. The Board of Directors or the External Auditor shall answer such questions to the possible extent that does not expose the Company's interests.
5. The Company shall allow all shareholders to exercise the right to vote without putting any obstacles that may hinder that voting, since voting is an inherent right of the shareholder and cannot be canceled in any way. The Company guarantees the exercise of all shareholders' rights through the following:
  - Shareholders' enjoying the voting rights granted to them, with the same treatment by the Company.
  - Shareholders' ability to vote in person or by proxy, with the same shareholders' rights and duties, whether in person or by proxy.
  - Inform the shareholders of all rules governing the voting procedures.
  - Providing all voting rights information to both existing shareholders and potential investors.
  - All shareholders are entitled to vote on any changes in shareholders' rights by calling for a General Assembly meeting of shareholders.
  - Voting to select the members for the Board of Directors during the General Assembly shall be carried out through the mechanisms stipulated in the Company's Memorandum and Articles of Association, in accordance with the provisions of the Companies Law and its Executive Regulations. In addition, the Company shall give a brief on the nominees for the Board membership before voting, giving the stakeholders a clear idea of the professional and technical skills, experience and other qualifications of their candidates.
  - All categories of shareholders shall have the opportunity to hold the Board accountable for the tasks entrusted to them.

No fees shall be imposed for the attendance of any class of shareholders in the General Assembly meetings, nor they shall be given any preferential advantage to any other shareholders category.

## **9. RULE NINE: RECOGNIZING STAKEHOLDERS ROLE**

### **9.1 Systems and policies that guarantee protection and recognition of stakeholders' rights**

Arzan recognizes the rights of stakeholders and guarantees the protection and acknowledgement of their rights in the various fields. The Company's Board of Directors has approved a Stakeholder Rights Policy and a link has also been placed on the Company's website allowing stakeholders to report any act that may constitute a violation of their rights.



## 9.2 Encouraging stakeholders' participation in following up the Company's various activities

In order to avoid any conflict between stakeholders' transactions, whether they are contracts or deals with the Company and the interests of the shareholders, it shall be observed that none of the stakeholders may be granted any advantage in dealing with the contracts and transactions that fall within the Company's usual activities. The Company sets internal policies and regulations, including a clear mechanism for awarding the contracts and transactions of various types, through tenders or various purchase orders.

The Company has also established mechanisms to ensure maximum benefit from the contributions of stakeholders, encouraging them to participate in following-up the Company's activities, consistently with the full achievement of their interests. The Company provides its stakeholders with access to all information and data relevant to their activities, to be relied upon in a timely and on a regular basis. The Company has also facilitated stakeholders' reporting of any improper practices they may be exposed to by the Company, along with providing appropriate protection for the reporting parties.

## 10. RULE TEN: PERFORMANCE ENHANCEMENT AND IMPROVEMENT

### 10.1 Implementation of the requirements for establishing mechanisms to grant the Board and the Executive Management members continuous training programs and courses

Arzan has developed training plans for the members of the Board and the Executive Management, as well as for all the employees of the Company. Training programs are carried out on a regular basis in accordance with the Company's approved training plan.

### 10.2 Board of Directors performance evaluation and the performance of each Board of Directors and the Executive Management member

#### Evaluation of the performance of the Board of Directors and its Committees:

The Company has adopted policies and procedures approved by the Board of Directors, through which a formal process of reviewing the annual performance of the Board and its Committees is carried out, along with reviewing the effectiveness of their performance and their contribution to the affairs of Arzan Finance Group. The purpose of the performance appraisal process is to have a formal, structured and consistent way of evaluating the performance of the Board and its Committees, with a view to take steps to improve the performance of the Board. This process will also be used in submitting the Board's recommendations to the shareholders in the members' re-election phase.

#### Executive Management Performance Evaluation:

Performance evaluation is a powerful tool for translating business plans into actions, developing the Company's culture to achieve its strategic objectives. The Company evaluate the Executive Management through the human resources system (MENAME) according to the key performance indicators approved for each department at the beginning of each year.

The performance data obtained during the year shall be consolidated and summarized for a comprehensive annual assessment of all that has been achieved and how such results have been attained.

This process consists of questionnaires covering broad requirements/expectations under the Corporate Governance Guidelines methodology, for the Board's performance self-evaluation, with a special evaluation of its committees, and an evaluation of the overall performance of the Board; in order to take steps to improve the performance of the Board. In addition, this evaluation includes the requirements set forth in the Code of the Board of Directors and its Committees, the Company's Code and the Conflict of Interest policies and procedures, which shall be accomplished through filling out the below questionnaires by the Board members:

- A. Self-Assessment Questionnaire
- B. Committee Evaluation Questionnaire
- C. Board of Directors' Evaluation Questionnaire

The Nominations and Remuneration Committee shall review these evaluations and submit a brief report to the Board of Directors with its recommendations.

### 10.3 Efforts of the Board to establish corporate values within the Company's employees, through achieving strategic goals and improving performance rates

The Board of Directors promotes corporate values and transmits them to the employees of the Company through achieving strategic goals and improving performance rates, in addition to the annual training programs that Arzan Group provides its employees with, in order to improve their performance and develop their skills.

## 11. RULE ELEVEN: FOCUSING ON SOCIAL RESPONSIBILITY

### 11.1 Setting a policy to ensure balance the Company's and society's objectives

The Company is committed to achieving sustainable development for society and the economy, in general, and for its employees in particular. The Company adopts a social responsibility policy approved by the Board of Directors to ensure its contribution to sustainable social and economic development.

### 11.2 Used programs and mechanisms that help highlighting the Company's efforts in the field of social work

Arzan Group uses social media and its own website so as to demonstrate its efforts on a large scale, in addition to utilizing local newspapers and magazines to achieve this goal.

- Project of collecting plastic materials and working on recycling them, in cooperation with Umniah Company, on 28/01/2020.
- Awareness and outreach: Orienting Arzan Financial Group employees to the impacts of Coronavirus and maintaining their safety, on 30/04/2020.
- Awareness: Preventive measures to conduct work and complete tasks during the Coronavirus crisis, on 19/07/2020.



Tel : +(965) 2242 6999  
Fax : +(965) 2240 1666  
www.bdo.com.kw

Al Shaheed Tower, 6th Floor  
Khaled Ben Waleed Street, Sharq  
P.O. Box 25578, Safat 13116  
Kuwait

## OPINION LETTER

The Board of Directors  
Arzan Financial Group for Financing and Investment - K.P.S.C.  
P.O.Box 13152  
State of Kuwait

30 March, 2021

**Dear Sirs,**

### **Internal Control Review**

In accordance with our letter of engagement dated 28 December 2020, we have examined and reviewed the internal controls systems of Arzan Financial Group K.P.S.C for the year ended 31 December 2020.

The review covered the following areas:

- Governance
- Investments
- Finance and Accounting
- Corporate Credit
- Human Resources
- Administration
- Risk and Compliance
- Information Technology
- Internal Audit

Our examination has been carried out as per the requirements of the Executive regulations of Kuwait Capital Market Authority (Book No. 15 “Corporate Governance” article 6-9).

As members of the company, you are responsible for establishing and maintaining adequate internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CMA instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.



## OPINION LETTER (CONTINUED)

Because of inherent limitations in any internal controls system; errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Company's operations, during the year ended 31 December 2020, and the materiality and risk rating of our findings, in our opinion:

- a) The internal controls systems of the Company were established and maintained in accordance with the requirements of the Capital Market Authority and the sound governance rules.
- b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Company for the year ended 31 December 2020, and
- c) the actions taken by the company to address the findings referred in the report are satisfactory.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Qais M. Al Nisf', written over a light blue horizontal line.

**Qais M. Al Nisf**  
License No. 38 "A"  
BDO Al Nisf & Partners



## BOARD DECLARATION

on the Integrity and Fairness of  
the financial statements

March 30, 2021

We, the Board of Directors hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC (“the Parent Company”) and its subsidiaries (collectively, the “Group”), which comprise:

- the consolidated financial position as at 31 December 2020,
- the related consolidated statement of income,
- consolidated statement of other comprehensive income,
- consolidated statement of changes in equity and
- consolidated statement of cash flows,

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Members Name	Position	Signature
<b>Jassem Hasan Zainal</b>	Vice Chairman	
<b>Ibrahim Saleh Al-Tharban</b>	Member – B.O.D.	
<b>Emad Abdullah Al-Essa</b>	Member – B.O.D.	
<b>Bader Jassim Al Hajri</b>	Member – B.O.D.	
<b>Issa Abdullah Al-Muzaini</b>	Member – B.O.D.	

## CEO AND EXECUTIVE DIRECTOR - FINANCE DECLARATION

on the Integrity and Fairness of  
the financial statements

March 30, 2021

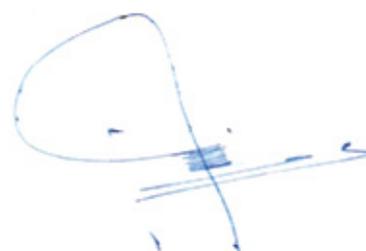
We, the CEO and Executive Director - Finance hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC (“the Parent Company”) and its subsidiaries (collectively, the “Group”), which comprise:

- a) consolidated statement of financial position as at 31 December 2020,
- b) consolidated statement of profit or loss,
- c) consolidated statement of profit or loss and other comprehensive income,
- d) consolidated statement of changes in equity,
- e) consolidated statement of cash flows,

for the year then ended, and notes to consolidated financial statements, including a summary of significant accounting policies present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.



**Jassem Hassan Zainal**  
Chief Executive Officer



**Mohammed Farid**  
Executive Director - Finance

# FINANCIAL STATEMENTS

## Content

56	Independent auditor's report
62	Consolidated statement of profit or loss
63	Consolidated statement of profit or loss and other comprehensive income
64	Consolidated statement of financial position
65	Consolidated statement of changes in equity
67	Consolidated statement of cash flows
69	Notes to the consolidated financial statements



**Auditors & Consultants**

Souq Al Kabeer Building - Block A, 9<sup>th</sup> Floor  
Tel : +(965) 224 3900-9  
Fax : +(965) 2243 8451  
E-mail: gt@kw.gt.com  
www.grantthornton.com.kw

## **INDEPENDENT AUDITOR'S REPORT**

To the shareholders of  
Arzan Financial Group for Financing and Investment - KPSC  
Kuwait

### **Report on the Audit of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Arzan Financial Group for Financing and Investment - KPSC ("the Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the State of Kuwait.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our 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.

#### **Emphasis of Matter**

We draw attention to Note 6.1.1 to the consolidated financial statements, which describes the possible material effects of uncertainty with respect to the Group's exposure in Lebanon. Our opinion is not modified in respect of this matter.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## **INDEPENDENT AUDITOR'S REPORT** to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

### **Key Audit Matters (continued)**

#### *Valuation of financial assets at FVTPL and FVTOCI*

The Group's financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) include significant unquoted investments. Due to their unique structure and terms, the valuation of these instruments is based either on external independent valuations or on entity-developed internal models. Therefore, there is significant measurement uncertainty involved in valuations. As a result, the valuations of these instruments was significant to our audit. We have, therefore, spent significant audit efforts in assessing the appropriateness of the valuations and underlying assumptions. The Group's disclosures about its financial assets at FVTPL and FVTOCI are included in Notes 14, 17 and 35.2 to the consolidated financial statements.

Our audit procedures included agreeing carrying value of the unquoted investments to the Group's internal or external valuations prepared using valuation techniques, assessing and challenging the appropriateness of estimates, assumptions and valuation methodology and obtained supporting documentation and explanations to corroborate the valuations.

#### *Equity Method investments*

The Group has interests in number of associates which are significant to the Group's consolidated financial statements which are accounted for under the equity method of accounting. Under the equity method, the Group's interests in the associates are initially stated at cost, and are adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the associates, less any impairment. The complexity of the Group's control environment and our ability as Group's auditor to obtain an appropriate level of understanding of these entities including any related party transactions. Due to these factors and the significance of the investment in associates to the Group's consolidated financial statements we consider this as a key audit matter.

Our audit procedures included, among others, determining the nature and extent of audit procedures to be carried out for associates and selecting significant associates based on the size and/or risk profile of these entities. During our audit we communicated with the component auditors. We also provided instructions to the component auditors covering the significant areas and risks to be addressed including the identification of related parties and transactions. Furthermore, we evaluated the Group's methodology and testing of the key assumptions used by the Group in determining the associates' recoverable amount based on value-in-use. We also assessed the adequacy of the Group's disclosures in Notes 4.14 and 18 to the consolidated financial statements.



## **INDEPENDENT AUDITOR'S REPORT** to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

### **Other information included in the Group's Annual Report**

Management is responsible for the other information. Other information consists of the information included in the Group's Annual Report, other than the consolidated financial statements and our Auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our Auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our Auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this Auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as adopted for use in 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.

## **INDEPENDENT AUDITOR'S REPORT** to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.



## **INDEPENDENT AUDITOR'S REPORT** to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

**INDEPENDENT AUDITOR'S REPORT** to the Shareholders of Arzan Financial Group for Financing and Investment - KPSC (continued)

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 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, the Executive Regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2020 that might have had a material effect on the business or financial position of the Parent Company.

We further report, to the best of our knowledge and belief, no violations of provisions of the Law No. 7 of 2010 regarding Capital Markets Authority ("CMA") and its relevant regulations have occurred during the year ended 31 December 2020 that might have had a material effect on the business or financial position of the Parent Company.

We further report, to the best of our knowledge and belief, no violations of provisions of the Law No. 32 of 1968 concerning currency, the Central Bank of Kuwait and the organisation of the banking business and its relevant regulations have occurred during the year ended 31 December 2020 that might have had a material effect on the business or financial position of the Parent Company.



**Abdullatif M. Al-Aiban (CPA)**  
(Licence No. 94-A)  
of Grant Thornton –  
Al-Qatami, Al-Aiban & Partners

Kuwait  
30 March 2021



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 KD	2019 KD
<b>Income</b>			
Income from instalment credit debtors	7	662,048	1,595,269
Revenue from contracts with customers	8	1,781,427	2,963,334
Realised profit from instalment sales		579,886	245,158
Rental income		142,615	149,737
Interest income		480,592	955,584
(Loss)/gain on sale of financial assets at FVTPL		(1,258,078)	845,937
Change in fair value of financial assets at FVTPL		(926,161)	3,256,259
Share of results of associates	18.4	1,767,796	1,973,274
Dividend income	11	2,421,558	2,259,890
Gain on foreign currency exchange		42,346	60,096
Other income		120,807	222,334
		<b>5,814,836</b>	<b>14,526,872</b>
<b>Expenses and other charges</b>			
Staff costs		(2,838,336)	(3,062,993)
General and administrative expenses		(1,594,491)	(1,705,311)
Finance costs	9	(1,667,255)	(2,111,098)
Depreciation	20 & 21	(452,969)	(438,693)
Provision for instalment credit debtors, net	13	(471,335)	(2,491,994)
Impairment of investment in real estate under development	19	(134,160)	-
Provision for properties held for trading	16	(199,100)	(117,140)
Impairment of financial assets at FVTOCI		-	(1,848,304)
Impairment loss of associate	18	(4,567,654)	-
Provision for doubtful debts	15	(638,002)	(211,328)
Provision of credit losses for restricted cash and cash equivalents	12.2	(2,408,180)	(1,000,000)
		<b>(14,971,482)</b>	<b>(12,986,861)</b>
<b>(Loss)/profit for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), Zakat and National Labour Support Tax (NLST)</b>			
		<b>(9,156,646)</b>	<b>1,540,011</b>
<b>(Loss)/profit for the year</b>			
		<b>(9,156,646)</b>	<b>1,540,011</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		<b>(9,511,226)</b>	<b>1,095,948</b>
Non-controlling interests		<b>354,580</b>	<b>444,063</b>
<b>(Loss)/profit for the year</b>			
		<b>(9,156,646)</b>	<b>1,540,011</b>
<b>Basic (loss)/earnings per share attributable to the shareholders of the Parent Company (Fils)</b>			
	10	<b>(12.005)</b>	<b>1.375</b>
<b>Diluted (loss)/earnings per share attributable to the shareholders of the Parent Company (Fils)</b>			
	10	<b>(11.975)</b>	<b>1.375</b>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 KD	2019 KD
(Loss)/profit for the year	<b>(9,156,646)</b>	1,540,011
<b>Other comprehensive income:</b>		
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the year	<b>20,586,899</b>	(5,783,928)
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the year	<b>8,754</b>	216,086
Exchange differences arising on translation of foreign operations	<b>110,950</b>	43,435
Share of other comprehensive loss of associates	<b>(21,694)</b>	(121,278)
<b>Total other comprehensive income/(loss) for the year</b>	<b>20,684,909</b>	(5,645,685)
<b>Total comprehensive income/(loss) for the year</b>	<b>11,528,263</b>	(4,105,674)
<b>Attributable to:</b>		
Shareholders of the Parent Company	<b>(1,052,304)</b>	(4,435,575)
Non-controlling interests	<b>12,580,567</b>	329,901
<b>Total comprehensive income/(loss) for the year</b>	<b>11,528,263</b>	(4,105,674)



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 KD	2019 KD
<b>Assets</b>			
Cash and cash equivalents	12.1	11,338,787	7,898,924
Restricted cash and cash equivalents	12.2	1,297,562	2,577,267
Instalment credit debtors	13	622,849	4,128,653
Financial assets at fair value through profit or loss	14	11,503,238	14,504,859
Accounts receivable and other assets	15	4,049,853	4,968,961
Properties held for trading	16	707,040	906,140
Financial assets at fair value through other comprehensive income	17	87,866,823	66,501,483
Investment in associates	18	28,761,646	44,631,874
Investment in real estate under development	19	5,390,667	5,313,674
Investment properties	20	1,537,724	1,596,464
Property and equipment	21	2,321,498	2,639,614
<b>Total assets</b>		<b>155,397,687</b>	<b>155,667,913</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to banks		-	1,930,923
Accounts payable and other liabilities	22	7,320,238	13,671,885
Term loans	23	11,368,250	17,974,500
Murabaha payables	24	12,601,322	12,128,670
Provision for employees' end of service benefits		1,484,962	1,481,816
<b>Total liabilities</b>		<b>32,774,772</b>	<b>47,187,794</b>
<b>Equity</b>			
Share capital	25	80,288,256	80,288,256
Share premium	25	23,803,273	23,803,273
Treasury shares	26	(1,202,430)	(559,232)
Legal reserve	27	503,767	503,767
Voluntary reserve	27	503,767	503,767
Staff bonus shares reserve	28	18,205	-
Foreign currency translation reserve		(198,268)	(297,691)
Fair value reserve		4,045,655	(4,299,739)
Accumulated losses		(10,917,532)	(1,291,103)
<b>Total equity attributable to the shareholders of the Parent</b>			
<b>Company</b>		<b>96,844,693</b>	<b>98,651,298</b>
Non-controlling interests		25,778,222	9,828,821
<b>Total equity</b>		<b>122,622,915</b>	<b>108,480,119</b>
<b>Total liabilities and equity</b>		<b>155,397,687</b>	<b>155,667,913</b>

**Jassem Hasan Zainal**  
Vice chairman and CEO

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

Equity attributable to the shareholders of the Parent Company

	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Share based payment reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Accumulated losses KD	Sub-Total KD	Non-controlling interests KD	Total KD
<b>Balance at 31 December 2019</b>	<b>80,288,256</b>	<b>23,803,273</b>	<b>(559,232)</b>	<b>503,767</b>	<b>503,767</b>	<b>-</b>	<b>(297,691)</b>	<b>(4,299,739)</b>	<b>(1,291,103)</b>	<b>98,651,298</b>	<b>9,828,821</b>	<b>108,480,119</b>
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(236,928)	(236,928)
Disposal of partial interest in a subsidiary (note 6.1.2)	-	-	-	-	-	-	-	-	(129,308)	(129,308)	129,308	-
Non-controlling interest arising on establishment of a subsidiary (note 6.1.3)	-	-	-	-	-	-	-	-	-	-	3,476,454	3,476,454
Cost of share-based payments (note 28)	-	-	-	-	-	18,205	-	-	-	18,205	-	18,205
Purchase of treasury shares	-	-	(643,198)	-	-	-	-	-	-	(643,198)	-	(643,198)
Total transactions with shareholders (Loss)/profit for the year	-	-	(643,198)	-	-	18,205	-	-	(129,308)	(754,301)	3,368,834	2,614,533
Other comprehensive income for the year	-	-	-	-	-	-	-	99,423	(9,511,226)	(9,511,226)	354,580	(9,156,646)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	99,423	(9,511,226)	(9,511,226)	12,225,987	20,684,909
Gain on disposal of financial assets at FVTOCI	-	-	-	-	-	-	-	99,423	(9,511,226)	(1,052,304)	12,580,567	11,528,263
<b>Balance at 31 December 2020</b>	<b>80,288,256</b>	<b>23,803,273</b>	<b>(1,202,430)</b>	<b>503,767</b>	<b>503,767</b>	<b>18,205</b>	<b>(198,268)</b>	<b>4,045,655</b>	<b>(10,917,532)</b>	<b>96,844,693</b>	<b>25,778,222</b>	<b>122,622,915</b>

The notes set out on pages 69 to 136 form an integral part of these consolidated financial statements.



### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2020

Equity attributable to the shareholders of the parent company

	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Fair value reserve KD	Retained earnings/ losses KD	Sub-Total KD	Non-controlling interests KD	Total KD
Balance at 31 December 2018	80,288,256	23,803,273	(559,232)	503,767	503,767	(318,402)	(2,436,904)	1,461,292	103,245,817	8,906,798	112,152,615
Adjustment Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(264,067)	(264,067)
Disposal of partial interest in a subsidiary (note 6.1.2)	-	-	-	-	-	-	-	(158,944)	(158,944)	158,944	-
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	-	-	697,245	697,245
Total transactions with shareholders	-	-	-	-	-	-	(158,944)	(158,944)	(158,944)	592,122	433,178
Profit for the year	-	-	-	-	-	-	-	1,095,948	1,095,948	444,063	1,540,011
Other comprehensive income/(loss) for the year	-	-	-	-	-	20,711	(5,552,234)	-	(5,531,523)	(114,162)	(5,645,685)
Total comprehensive income/(loss) for the year	-	-	-	-	-	20,711	(5,552,234)	1,095,948	(4,435,575)	329,901	(4,105,674)
Loss on disposal of financial assets at FVTOCI	-	-	-	-	-	-	3,689,399	(3,689,399)	-	-	-
<b>Balance at 31 December 2019</b>	<b>80,288,256</b>	<b>23,803,273</b>	<b>(559,232)</b>	<b>503,767</b>	<b>503,767</b>	<b>(297,691)</b>	<b>(4,299,739)</b>	<b>(1,291,109)</b>	<b>98,651,298</b>	<b>9,828,821</b>	<b>108,480,119</b>

The notes set out on pages 67 to 130 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 KD	2019 KD
<b>OPERATING ACTIVITIES</b>			
<b>(Loss)/profit for the year</b>		<b>(9,156,646)</b>	1,540,011
<b>Adjustments:</b>			
Interest income		<b>(480,592)</b>	(955,584)
Dividend income	11	<b>(2,421,558)</b>	(2,259,890)
Impairment of investment in real estate under development	19	<b>134,160</b>	-
Provision for properties held for trading	16	<b>199,100</b>	117,140
Share of results of associates	18.4	<b>(1,767,796)</b>	(1,973,274)
Impairment loss of associate		<b>4,567,654</b>	-
Provision for instalment credit debtors, net	13	<b>471,335</b>	2,491,994
Impairment of financial assets at FVTOCI		-	1,848,304
Provision for doubtful debts	15	<b>638,002</b>	211,328
Finance costs	9	<b>1,667,255</b>	2,111,098
Depreciation	20 & 21	<b>452,969</b>	438,693
Cost of share based payment		<b>18,205</b>	-
Provision for employees' end of service benefits		<b>104,294</b>	178,976
Provision of credit losses for restricted cash and cash equivalents	12.2	<b>2,408,180</b>	1,000,000
		<b>(3,165,438)</b>	4,748,796
<b>Changes in operating assets and liabilities:</b>			
Instalment credit debtors		<b>3,034,469</b>	1,283,707
Financial assets at fair value through profit or loss		<b>3,001,621</b>	(4,657,085)
Accounts receivable and other assets		<b>390,252</b>	(544,103)
Accounts payable and other liabilities		<b>(6,267,761)</b>	6,635,918
Employees' end of service benefits paid		<b>(101,148)</b>	(66,737)
<b>Net cash (used in)/from operating activities</b>		<b>(3,108,005)</b>	7,400,496
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	21	<b>(74,006)</b>	(193,781)
Purchase of financial assets at FVTOCI		<b>(10,486,356)</b>	(17,936,865)
Proceeds from sale of financial assets at FVTOCI		<b>13,097,251</b>	4,569,474
Additions on investments in real estate under development	19	<b>(157,188)</b>	(133,828)
Restricted cash and cash equivalents	12.2	<b>(1,128,475)</b>	(3,577,267)
Dividend income received		<b>2,421,558</b>	2,259,890
Proceeds from disposal of non-current assets held for sale	18.1.1	<b>12,015,000</b>	-
Dividend from associates	18	<b>1,033,677</b>	743,629
Interest income received		<b>480,592</b>	511,234
<b>Net cash from/(used in) investing activities</b>		<b>17,202,053</b>	(13,757,514)



## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2020

	Notes	2020 KD	2019 KD
<b>FINANCING ACTIVITIES</b>			
Term loans obtained		6,430,200	4,951,500
Repayment of term loans		(13,029,500)	(4,856,000)
Murabaha payables obtained		5,100,000	9,412,624
Repayment of Murabaha payables		(4,671,631)	(1,749,850)
Finance costs paid		(1,751,141)	(2,124,505)
Dividend paid to non-controlling interests		(236,928)	(264,067)
Purchase of treasury shares		(643,198)	-
Change in ownership percentage of subsidiary		-	697,245
<b>Net cash (used in)/from financing activities</b>		<b>(8,802,198)</b>	<b>6,066,947</b>
Net increase/(decrease) in cash and cash equivalents		5,291,850	(290,071)
Foreign currency adjustments		78,936	(96,011)
Cash and cash equivalents at beginning of the year	12.1	5,968,001	6,354,083
<b>Cash and cash equivalents at end of the year</b>	12.1	<b>11,338,787</b>	<b>5,968,001</b>
<b>Non-cash transactions:</b>			
Accounts receivable and other assets		-	(673,062)
Accounts payables and other liabilities		-	(72,099)
Purchase of financial assets at FVTOCI		(3,476,454)	-
Non-controlling interests arising on establishment of a subsidiary		3,476,454	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

### 1 Incorporation and activities

Arzan Financial Group for Financing and Investment – KPSC (the “Parent Company”) was incorporated in Kuwait on 15 April 1980 in accordance with the Companies Law under the name of International Transport Equipment Company – KSC (Closed). On 14 December 1996 an extraordinary general assembly resolved to change the name of the Parent Company to International Murabaha Company – KSC (Closed). Later, on 24 April 2002 an extraordinary general assembly resolved to change the name of the Parent Company to International Finance Company – KPSC and to expand its permitted activities.

The extraordinary general assembly held on 24 July 2013 approved to change the name of the Parent Company from International Finance Company – KSCC to Arzan Financial Group for Financing and Investment – KPSC which has been registered in the commercial register under No. 29629 on 11 November 2013.

The Parent Company is listed on the Bursa Kuwait and is governed under the directives of the Central Bank of Kuwait and the Capital Markets Authority.

The Group comprises the Parent Company and its subsidiaries (together referred to as “the Group”). The details of the subsidiaries are described in note 6.

The Parent Company’s objectives are as follows:

- Invest in various economic sectors through the incorporation or participation in the incorporation of various companies or institutions practicing similar or complementary activities to the company’s objectives for its account and for the account of third parties inside or outside the State of Kuwait.
- Manage local or foreign various companies and institutions and market the investment services and products owned by them or by third parties inside or outside the State of Kuwait.
- Own and acquire the right of disposal of whatever it deems necessary thereto of movable and immovable property or any parts thereof or any franchising rights the company deems they are necessary or appropriate to the nature of its activity or to the development of its funds, excluding trading in goods for its account.
- Conduct all business related to securities trading for its account and for the account of third parties inside or outside the State of Kuwait, including sale, purchase and marketing of securities of shares and sukuks and other securities issued by local and foreign government and private companies, institutions and bodies and practice the related financial mediation and brokerage activities.
- Manage the funds of individuals and local or foreign public and private companies, institutions and bodies and invest these funds in various economic sectors through investment and real estate portfolios inside or outside the State of Kuwait.
- Provide economic advice related to investment and hold courses, issue brochures of various investment activities for individuals, local and foreign companies and institutions.
- Prepare and provide technical, economic and assessment studies and consultations and prepare feasibility studies for various investment activities and other studies, examining the technical, financial and administrative aspects related to these activities for its account or for the account of third parties inside or outside the State of Kuwait.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 1. Incorporation and activities (continued)

- Establish and manage the collective investment systems and local and foreign investment funds of all kinds and contribute to their establishment for the account of the company and for the account of third parties in accordance with the regulating laws, rules and conditions specified by the competent regulatory authorities; put its stakes or units to subscription so that the company's contributions to the share capital of the collective investment system or the investment fund shall not be less than the minimum limit specified by the regulatory authorities; sell or purchase stakes or units in the local or foreign collective investment systems or investment funds for its account and for the account of third parties or market same, provided the necessary approvals are obtained from the competent regulatory authorities; act as investment custodian, investment monitor and investment advisor in general for the investment funds inside or outside the State of Kuwait in accordance with the regulating laws.
- Invest funds for its account and for the account of third parties in the various aspects of investment inside or outside the State of Kuwait and acquire movable and immovable assets.
- Act as the issuance manager for the securities issued by the local and foreign government and private companies, institutions and bodies and act as the subscription agent, listing advisor, investment custodian and monitor, including publications management and commitments of subscription operations management, receiving applications and covering subscription thereto.
- Perform all advisory services that help develop and strengthen the ability of financial and monetary market in the State of Kuwait and meet its requirements within the limits of the law and the decisions or instructions issued by the competent regulatory authorities (after obtaining the necessary approvals from those authorities), provided this does not result in granting funding by the company in any way.
- Mediate in financing operations, structure and manage the financing arrangements of the local and international companies, institutions, bodies and projects in the various economic sectors in accordance with the rules and conditions specified by the competent regulatory authorities.
- Carry out all the works related to the activities for the arrangement and management of consolidation, acquisition and separation operations for the local and foreign government and private companies, institutions and bodies.
- Trade in transportation means and related heavy equipment.
- Finance the purchases of capital goods, durable and non-durable goods.
- Lease capital and durable goods.
- Grant short and medium term loans to natural and judicial persons.
- Perform real estate investment operations aiming at the management and development of residential lands and building of residential and commercial units and complexes for the purpose of selling them in cash or on installments or leasing same.
- Manage all kinds of financial portfolios, invest and develop funds by employing them locally and internationally for the account of the company or for the account of its clients, in addition to lending and borrowing operations.
- Mediate in the operations of lending, borrowing, brokerage and warrantees against commission or pay.
- Finance and mediate in international and local trade operations.
- Manage and create mutual investment funds according to the law and after approval by the competent authorities.
- Mediate in investment in the international instruments and securities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 1. Incorporation and activities (continued)

- Invest in real estate, industrial and agricultural sectors and other economic sectors, whether directly or through contribution to the incorporation of specialized companies or purchase of the shares of these companies.
- Sell and purchase foreign currencies and trade in precious metals only for the account of the company.
- Conduct researches and studies for private and public real estate projects and for the employment of funds for its account or for the account of third parties.
- Trade in securities such as shares and investment certificates and the like.

The Parent Company may have an interest or participate in any aspect with the companies, institutions and bodies performing similar works or which might assist it in the achievement of its objectives in Kuwait or abroad. The Parent Company may also open branches inside and outside the State of Kuwait in such a way that does not contradict with the company's law and the instructions of the competent regulatory authorities.

The address of the Parent Company's registered office is PO Box 26442, Safat 13125, State of Kuwait.

The Parent Company's board of directors approved these consolidated financial statements for issue on 30 March 2021. The general assembly of the Parent Company's shareholders has the power to amend these consolidated financial statements after issuance.

### 2 Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, as modified for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("CBK"). The modification requires adoption of all IFRSs for such institutions, except for the IFRS 9 requirements for measurement of estimated credit losses ("ECL") for credit facilities. The CBK requires to measure the provision for credit losses at the higher of provision calculated under IFRS 9 in accordance with the CBK guidelines, and the provision required by the prudential regulations of the CBK.

### 3 Changes in accounting policies

#### 3.1 New and amended standards adopted by the Group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2020 which have been adopted by the Group. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IFRS 3 – Amendments – Definition of Business	1 January 2020
IAS 1 and IAS 8 – Amendments – Definition of Material	1 January 2020
IFRS 16 – Amendments – Covid 19 Rent Related Concessions	1 June 2020



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 3 Changes in accounting policies (continued)

#### 3.1 New and amended standards adopted by the Group (continued)

##### ***IFRS 3 – Amendments- Definition of Business***

The Amendments to IFRS 3 Business Combinations are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only with respect to Definition of Business. The amendments:

- clarify that to be considered a business, an acquired 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 outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

##### ***IAS 1 and IAS 8 – Amendments***

The amendments to IAS 1 and IAS 8 clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

##### ***IFRS 16 – Amendments- COVID19 Rent Related Concessions***

IFRS 16 contains specific requirements when accounting for changes to lease payments and rent concessions are in the scope of these requirements. Lessees are required to assess whether rent concessions are lease modifications, and if they are, there is specific accounting to be applied. However, applying these requirements to potentially a significant number of leases could be difficult, particularly from a practical perspective due to pressures resulting from the pandemic.

The practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession received is a lease modification. The lessee is permitted to account for the rent concession as if the change is not a lease modification.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no changes for lessors.

All of the following conditions need to be met:

- The rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 3 Changes in accounting policies (continued)

#### 3.1 New and amended standards adopted by the Group (continued)

##### ***IFRS 16 – Amendments- COVID19 Rent Related Concessions (continued)***

- The rent concession is for relief for payments that were originally due on or before 30 June 2021. So, payments included are those required to be reduced on or before 30 June 2021, but subsequent rental increases of amounts deferred can go beyond 30 June 2021.
- There are no other substantive changes to the other terms and conditions of the lease

The application of the amendments did not have a significant impact on the Group's consolidated financial statements.

#### 3.2 IASB Standards issued but not yet effective

At the date of authorisation of this consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

Standard or Interpretation	Effective for annual periods beginning
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	No stated date
IAS 16 – Amendments – Proceeds before intended use	1 January 2022
Annual Improvements 2018-2020 Cycle	1 January 2022
IAS 1 – Amendments – Classification of current or non-current	1 January 2023
IAS 37 – Amendments – Onerous contracts - Cost of fulfilling a contract	1 January 2022

##### ***IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture - Amendments***

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 3 Changes in accounting policies (continued)

#### 3.2 IASB Standards issued but not yet effective (continued)

##### ***IFRS 10 and IAS 28 Sale or Contribution of Assets between and an Investor and its Associate or Joint Venture – Amendments (continued)***

IASB has postponed the effective date indefinitely until other projects are completed. However, early implementation is allowed. Management does not anticipate that the application of these amendments may have a significant impact on the Group's consolidated financial statements in future should such transactions arise.

##### ***IAS 16 Amendments - Proceeds before intended use***

The amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

Management does not anticipate that the adoption of the amendment in the future will have a significant impact on the Group's consolidated financial statements.

##### ***Annual Improvements 2018-2020 Cycle***

Amendment to IAS 1 simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. Subsidiary that is a first-time adopter later than its parent might have been required to keep two parallel sets of accounting records for cumulative translation differences based on different dates of transition to IFRSs. However, the amendment extends the exemption to cumulative translation differences to reduce costs for first-time adopters.

Amendment to IFRS 9 relates to the '10 per cent' Test for Derecognition of Financial Liabilities – In determining whether to derecognise a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Lease Incentives – amendment to illustrative examples – The IASB was informed about the potential for confusion in applying IFRS 16 Leases because of how Illustrative Example 13 accompanying IFRS 16 had illustrated the requirements for lease incentives. Before the amendment, Illustrative Example 13 had included as part of the fact pattern a reimbursement relating to leasehold improvements; the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in IFRS 16. The IASB decided to remove the potential for confusion by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements.

Taxation in fair value measurements – Before this amendment, when an entity used a discounted cash flow technique to determine the fair value applying IAS 41, IAS 41.22 required the entity to exclude taxation cash flows from the calculation. The amendment to IAS 41 removed from this requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS Standards.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 3 Changes in accounting policies (continued)

#### 3.2 IASB Standards issued but not yet effective (continued)

##### ***IAS 1 Amendments - Classification of current or non-current***

The amendments to IAS 1 clarify the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. Stating management expectations around whether they will defer settlement or not does not impact the classification of the liability. It has added guidance about lending conditions and how these can impact classification and has included requirements for liabilities that can be settled using an entity's own instruments.

Management does not anticipate that the adoption of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

##### ***IAS 37 Amendments – Onerous contracts- Cost of fulfilling a contract***

The amendments specify which costs an entity includes when assessing whether a contract will be loss-making.

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The amendments are only to be applied to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual period in which it first applies the amendments.

Management does not anticipate that the adoption of the amendment in the future will have a significant impact on the Group's consolidated financial statements.

### 4 Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

#### 4.1 Basis of preparation

These consolidated financial statements are presented in Kuwaiti Dinars ("KD") which is the functional currency of the Parent Company and are prepared under the historical cost convention, except for certain financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are measured at fair value.

The Group has elected to present the "consolidated statement of profit or loss and other comprehensive income" in two statements: the "consolidated statement of profit or loss" and "consolidated statement of profit or loss and other comprehensive income".



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4 Significant accounting policies (continued)

#### 4.2 Basis of consolidation

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company's financial statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed of, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of profit or loss.

#### 4.3 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4 Significant accounting policies (continued)

#### 4.3 Business combinations (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in the consolidated statement of profit or loss immediately.

#### 4.4 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

#### 4.5 Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

The Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts, if any, as other liabilities in the consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable, if any, in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4 Significant accounting policies (continued)

#### 4.5 Revenue from contracts with customers (continued)

##### 4.5.1 Asset management services

Asset management fees is variable consideration based on the net assets value of portfolios at pre-agreed rates in accordance with the respective contracts with customers for the supervision and managing portfolios' assets, safe custody of the assets and conducting buy/sell transactions for the customers.

##### 4.5.2 Fees from advisory services

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

#### 4.6 Interest on instalment credit loans

Interest on instalment credit facilities is calculated at the time of a contract with the customer. The customer repays the total amount due (including interest) by equal instalments over the period of the contract. The interest is allocated over the life of the agreement using the "effective interest" method. Interest relating to outstanding instalments is considered as deferred income and is included in the consolidated statement of financial position as a deduction from instalment credit debtors.

#### 4.7 Realised profit from instalment sales

Profit margin from instalment sales is calculated at the time of a contract with the customer. The customer repays the total amount due (including profit margin) by equal instalments over the period of the contract. The profit margin is allocated over the life of the agreement using the "fixed instalment" method. Profit margin relating to outstanding instalments is considered as deferred income and is included in the statement of financial position as a deduction from instalment receivables.

#### 4.8 Interest income

Interest income is recognised using the effective interest method.

#### 4.9 Dividend income

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

#### 4.10 Operating expenses

Operating expenses are recognised in consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

#### 4.11 Finance costs

Finance costs are recognised on a time proportion basis taking into account the outstanding balance of borrowing payable and applicable interest rate.

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Capitalisation of finance costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4 Significant accounting policies (continued)

#### 4.13 Segment reporting (continued)

#### 4.12 Taxation

##### 4.12.1 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the Group attributable to the shareholders of the Parent Company. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have to be deducted from the profit for the year.

##### 4.12.2 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Group attributable to the shareholders of the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

##### 4.12.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the Group attributable to the shareholders of the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Under the NLST and Zakat regulations, no carry forward of losses to the future years or any carry back to prior years is permitted.

##### 4.12.4 Income tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date.

Deferred income tax is calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is, however, neither provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised.

#### 4.13 Segment reporting

The Group has four operating segments: instalment credit, investments, financial brokerage and real estate. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.13 Segment reporting (continued)

For management purposes, the Group uses the same measurement policies as those used in its consolidated financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

#### 4.14 Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investment in associates is accounted for under the equity method of accounting, i.e. on the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment and the consolidated statement of profit or loss reflects the Group's share of the results of operations of associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Parent Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of profit or loss.

Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity. Changes in the Group's share in associate's equity are recognised immediately in the consolidated statement of changes in equity.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transactions provide evidence of impairment in the asset transferred.

An assessment for impairment of investment in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared either to the Parent Company's reporting date or to a date not earlier than three months of the Parent Company's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the Parent Company's reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.14 Investment in associates (continued)

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of profit or loss.

#### 4.15 Financial instruments

##### 4.15.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by directly attributable transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

A financial asset (or, where applicable a part of financial asset or part of Group of similar financial assets) is derecognised when:

- rights to receive cash flows from the assets have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either
  - (a) the Group has transferred substantially all the risks and rewards of the asset or
  - (b) the Group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of profit or loss.

##### 4.15.2 Classification of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.15 Financial instruments (continued)

##### 4.15.2 Classification of financial assets (continued)

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

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

- the Group may irrevocably elect to present subsequent changes 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.

##### 4.15.3 Subsequent measurement of financial assets

###### • *Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

The Group's financial assets at amortised cost comprise of the following:

###### - *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, balances with banks and other financial institutions and short term deposits due within three months which are subject to an insignificant risk of changes in value. Any cash and cash equivalents which are restricted are shown separately.

###### - *Instalment credit debtors*

Instalment credit debtors are stated in the consolidated financial position at amortised cost, net of specific and general provisions. Specific provisions are made to reduce impaired receivables to their estimated recoverable amount and general provisions are made at a rate of 1% on instalment credit debtors for which no specific provisions were made, to provide for losses known from experience to exist, but not yet specifically identifiable, in accordance with the Central Bank of Kuwait instructions in that respect. The recoverable amounts are based on estimated future cash flows discounted at the original effective interest rate on a portfolio basis for Groups of similar debtors.

###### - *Accounts receivable and other assets*

Accounts receivable and other assets are stated at original amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred

###### - *Due from related parties*

Due from related parties are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.15 Financial instruments (continued)

##### 4.15.3 Subsequent measurement of financial assets (continued) • *Financial assets at FVTOCI*

The Group's financial assets at FVTOCI comprise equity investments and debt instruments. The equity investments represent investments in shares of various companies and include both quoted and unquoted.

The Group accounts for financial assets at FVTOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is “hold to collect” the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled to the consolidated statement of profit or loss upon derecognition of the asset (except for equity investments at FVTOCI as detailed below).

##### *Equity investments at FVTOCI*

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; 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 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 fair value reserve. The cumulative gain or loss is transferred to retained earnings within the consolidated statement of changes in equity.

Dividends on these investments in equity instruments are recognised in the consolidated statement of profit or loss.

##### • *Financial assets at FVTPL*

Financial assets that do not meet the criteria for measurement at amortised cost or FVOCI are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. The category also contains investments in equity shares.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.15 Financial instruments (continued)

##### 4.15.3 Subsequent measurement of financial assets (continued) • *Financial assets at FVTOCI (continued)*

##### • *Financial assets at FVTPL (continued)*

Assets in this category are measured at fair value with gains or losses recognised in consolidated statement of profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

The Group's financial assets at FVTPL comprise investment in equity shares.

##### 4.15.4 Impairment of financial assets

All financial assets except for those at FVTPL and Equity investments at FVTOCI are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets at amortised cost or at FVTOCI.

For financial assets (except instalment credit debtors), the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

Instalment credit debtors are subject to the minimum provisioning requirements of the Central Bank of Kuwait. Management believes that the impairment allowance for the instalment credit debtors under the CBK requirements exceed the requirements of IFRS 9.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

The Group always recognises lifetime ECL for accounts receivable and other assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.15 Financial instruments (continued)

##### 4.15.4 Impairment of financial assets (continued)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognises an impairment gain or loss in the consolidated statement of profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

##### 4.15.5 Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include due to banks, accounts payable and other liabilities, due to related parties, term loans and murabaha payable.

The subsequent measurement of financial liabilities depends on their classification as follows:

##### • **Financial liabilities at amortised cost**

These are stated using effective interest rate method. Due to banks, accounts payable and other liabilities, due to related parties, murabaha payable are classified as financial liabilities other than at FVTPL.

##### *Term loans and due to banks*

All term loans and due to banks are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

##### *Accounts payable and other liabilities*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed or not.

##### *Due to related parties*

Due to related parties are financial liabilities arising in the normal courses of the business and are not quoted in an active market.

##### *Murabaha payables*

Murabaha payables represents amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables is stated at the gross amount of the payable, net of deferred finance cost. Deferred finance cost is expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.16 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

#### 4.17 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

#### 4.18 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 4.19 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

#### 4.20 Impairment testing of goodwill and non-financial assets

For impairment assessment purposes, assets are Grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually.

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.20 Impairment testing of goodwill and non-financial assets (continued)

determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

#### 4.21 Properties held for trading

Properties held for trading are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each property to its present condition including identifiable finance cost. Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

#### 4.22 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the cost model. Investment properties are initially measured at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Gains and losses arising from the sale of investment properties are included in the consolidated statement of profit or loss.

The estimated useful life for the calculation of depreciation, excluding land, is 25 years using straight line method. The carrying amounts are reviewed at each reporting date on an individual basis to assess whether they are recorded in excess of their recoverable amount. Provision for impairment losses, if any, are made where carrying values exceed the recoverable amount.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### 4.23 Property and equipment

Land is stated at cost less any impairment losses based upon the reports of independent professional valuers.

Capital expenditure on assets in the course of construction are classified as assets under construction. Such costs are subsequently charged to the consolidated statement of profit or loss if the project is abandoned, or, if the project is, completed, are capitalised and transferred to the appropriate property and equipment category, from which time depreciation is charged using the rate applicable to the category concerned. Interest incurred on funds specifically obtained to finance construction activities are capitalised using the actual interest rate incurred during construction.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.23 Property and equipment (continued)

Other property and equipment assets are stated at cost less accumulated depreciation. The Group depreciates these assets using the straight-line method at rates estimated to fully depreciate the cost of the property and equipment over their expected useful lives.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property. In the case of leasehold property, expected useful lives are determined by reference to comparable owned assets or over the term of the lease, if shorter.

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

#### 4.24 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there is a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

#### 4.25 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the Companies' Law and the Parent Company's memorandum of incorporation and articles of association, as amended.

Other components of equity include the following:

- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.25 Equity, reserves and dividend payments (continued)

- Fair value reserve – comprises valuation gains and losses relating to financial assets at fair value through other comprehensive income. (Accumulated losses)/retained earnings include all current and prior period retained profits and losses.

All transactions with owners are recorded separately within equity.

Dividend distributions payable to shareholders are included in other liabilities when the dividends have been approved in a general meeting.

#### 4.26 Leased assets

Accounting policy applicable from 1 January 2019

##### *The Group as a lessee*

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

##### Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet measured as follows:

##### *Right-of-use asset*

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

Subsequent to initial measurement, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.26 Leased assets

##### *Lease liability*

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

##### *The Group as a lessor*

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group classifies its leases as either operating or finance leases. When the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head-lease and sub-lease as two separate contracts. The sub-lease is classified as finance lease or operating lease by reference to the right-of-use of asset arising from the head-lease.

Rental income from operating leases is recognized on a straight-line basis over lease term. Initial direct cost incurred in arranging and negotiating a lease are added to the carrying amount of the lease assets and recognized on a straight-line basis over the lease term.

Amounts due under finance leases are recognised as receivables. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding for the finance lease.

#### **Accounting policy applicable before 1 January 2019**

##### *The Group as a lessee*

Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

#### **4.27 Treasury shares**

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. Treasury shares are accounted for under cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. Treasury shares are not entitled to cash dividends that the Group may distribute. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.27 Treasury shares (continued)

When the treasury shares are reissued, gains are recorded directly in “treasury shares reserve” in the shareholders’ equity. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and legal reserve. Subsequent to this, should profits arise from sale of treasury shares an amount is transferred to reserves and retained earnings equal to the loss previously charged to this account.

#### 4.28 Related parties transactions

Related parties are associates, major shareholders, board of directors, executive staff, their family members and the companies owned by them. All related party transactions are carried out with the approval of the Group’s management.

#### 4.29 End of service benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees’ final salary and length of service, subject to the completion of a minimum service period in accordance with relevant labour law and the employees’ contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

With respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees’ salaries. The Group’s obligations are limited to these contributions, which are expensed when due.

#### 4.30 Foreign currency translation

##### 4.30.1 Functional and presentation currency

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the Parent Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### 4.30.2 Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in consolidated statement of profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

##### 4.30.3 Foreign operations

In the Group’s financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 4. Significant accounting policies (continued)

#### 4.30 Foreign currency translation (continued)

##### 4.30.3 Foreign operations (continued)

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to the consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

#### 4.31 Share-based payments

Certain senior management employees are granted share options of Parent Company as part of their remunerations package.

##### *Equity-settled transactions*

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the grant date fair value of the shares.

That cost is recognised, together with a corresponding increase in Share Based Payment Reserve in equity, over the period in which vesting conditions are fulfilled (note 28). The cumulative expenses recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of profit or loss or credit for a period represents the movement in cumulative expenses recognised as at the beginning and end of that period and is recognised in employee benefits expenses.

When the terms of an equity-settled award are modified, the minimum expenses recognised is the expenses had the terms had not been modified, if the original terms of the awards are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transactions, or is otherwise beneficial to the employees as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computations of diluted earnings per share.

#### 4.32 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

### 5 Significant management judgements and estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 5 Significant management judgements and estimation uncertainty (continued)

#### 5.1 Significant management judgments

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

##### 5.1.1 Business model assessment

The Group classifies financial assets after performing the business model test (please see accounting policy for financial instruments sections in note 4.14). This test includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured and the risks that affect the performance of the assets. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

##### 5.1.2 Significant increase in credit risk

Estimated credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define "significant" increase. Therefore, assessment whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

##### 5.1.3 Judgements in determining the timing of satisfaction of performance obligations

The determination of the whether or not performance obligation criterion set out in IFRS 15 relating to transfer of control of goods to customers has been satisfied requires significant judgement.

##### 5.1.4 Fair values of assets and liabilities acquired

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

##### 5.1.5 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

#### 5.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

##### 5.2.1 Impairment of assets with definite lives

At the financial position date, the Group's management assesses, whether there is any indication that assets with definite lives may be impaired. The recoverable amount of an asset is determined based on the "value in use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 5 Significant management judgements and estimation uncertainty (continued)

#### 5.2 Estimates uncertainty (continued)

##### 5.2.2 Impairment of associates

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

##### 5.2.3 Impairment of financial assets

Measurement of estimated credit losses involves estimates of loss given default and probability of default. Loss given default is an estimate of the loss arising in case of default by customer. Probability of default is an estimate of the likelihood of default in the future. The Group based these estimates using reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

##### 5.2.4 Classification of real estate property

Management decides on acquisition of a real estate property whether it should be classified as trading, property held for development or investment property.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as property under development if it is acquired with the intention of development.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

##### 5.2.5 Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

##### 5.2.6 Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 5 Significant management judgements and estimation uncertainty (continued)

#### 5.2 Estimates uncertainty (continued)

##### 5.2.7 Fair value of financial instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

##### 5.2.8 Significant influence

Significant influence exists when the size of an entity's own voting rights relative to the size and dispersion of other vote holders, give the entity the practical ability unilaterally to direct the relevant activities of the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 6. Subsidiaries

#### 6.1 Composition of the group

Set out below are details of subsidiaries held directly by the Group:

Company name	Voting capital held		Place of incorporation	Principal activities	Reporting date
	as at 31 December 2020	2019			
<b>Direct subsidiaries:</b>					
Al-Addan Real Estate Co. – SPC	100%	100%	Kuwait	Trading in all real estate activities	31 December 2020
Arzan CC for Collection Co. – SPC	100%	100%	Kuwait	Trading in real estate activities and collecting money on behalf of others	31 December 2020
Kuwait Invest Real Estate Co.– WLL	51%	51%	Kuwait	Real estate services	31 December 2020
International Finance Co. – SAL (6.1.1)	100%	100%	Lebanon	Finance services including financing, management and brokerage	30 September 2020
Arzan Securities Brokerage Co. SAE [Formerly: IFA Securities Brokerage Co.- SAE]	84.55%	84.55%	Egypt	Brokerage services	30 September 2020
International Financial Advisers Company – WLL	65.20%	65.20%	Jordan	Brokerage services	30 September 2020
Saudi Invest Real Estate Co. – WLL	100%	100%	Saudi Arabia	Real estate services	31 December 2020
Arzan VC I Ltd.	100%	100%	United Arab Emirates	Projects management	31 December 2020
HI Equity Company Ltd.	99.29%	99.29%	Cayman Islands	Real estate	30 September 2020
HI Debt Company Ltd.	99.29%	99.29%	Cayman Islands	Real estate	30 September 2020
Arzan Capital (Holding) Limited (6.1.2)	78.02%	78.6%	United Arab Emirates	Holding Company	30 September 2020
Arzan AM Limited	100%	100%	United Arab Emirates	General Trading	31 December 2020
Arzan Real Estate Co. – SAE	80%	80%	Egypt	Real estate	30 September 2020
Blender Company for Rent and Lease Lands and Properties – SPC	100%	100%	Kuwait	Real estate	31 December 2020
Seven Seas Resorts Co. – KSCC	100%	100%	Kuwait	Hospitality	31 December 2020
Easy Buy Company – SPC	100%	100%	Kuwait	Credit facilities services	31 December 2020
Joint venture (6.1.3)	51%	-	Kuwait	Investment	31 December 2020
<b>Indirect subsidiaries:</b>					
Through Arzan Capital (Holding) Limited:					
Arzan Wealth (DIFC) Co. Limited	100%	100%	United Arab Emirates	Financial advisory services	30 September 2020
Arzan VC for Projects Management –WLL	99%	99%	Kuwait	Projects management	31 December 2020

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 6. Subsidiaries (continued)

#### 6.1 Composition of the group (continued)

6.1.1 The Group's subsidiary International Finance Company SAL ("IFC") is located in Lebanon which is currently witnessing significant economic and political turmoil. These events include significant controls on the Lebanese banking system including placing limits on cash withdrawals of foreign currency bank balances, limits on international bank transfers and reduction of contracted interest rates on foreign currency term deposits. These measures have significantly curtailed the ability of the Group to access the cash and other assets of IFC. Moreover, the Government of Lebanon defaulted on its sovereign debt obligation. The rating agencies have downgraded the sovereign rating of Lebanon as well as some of a Lebanese banks including the bank where the subsidiary's cash is primarily deposited. Furthermore, the economy of Lebanon is now considered a hyperinflationary economy.

Further, due to the current economic conditions the subsidiary has ceased its new lending operations and is monitoring the business activities closely.

Management has assessed the potential effects of these events on its ability to continue to exercise control over IFC Lebanon and concluded that it still has the power and ability to use that power to affect returns and that it is still exposed to variable returns of the subsidiary. Accordingly, it continues to consolidate the subsidiary.

Management has also assessed the impact of these events on the carrying value of its investment in IFC. As a result, the Group recognised a provision of credit losses for restricted cash and cash equivalents and provision for instalment credit debtors amounting to KD2,408,180 and KD556,712, respectively in the consolidated statement of profit or loss for the year ended 31 December 2020 (31 December 2019: KD1,000,000 and KD2,250,000, respectively) (notes 12.2 and 13).

Furthermore, the Group's management believes that the carrying value of the Group's investment in Lebanon is recoverable and there are currently no indications that any further material additional impairment loss is required to be recognised.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 6. Subsidiaries (continued)

#### 6.1 Composition of the group (continued)

Summarised financial information of IFC Lebanon as at and for the year ended 31 December 2020, before inter Group elimination, is set out below:

	<b>31 Dec. 2020 KD</b>	31 Dec. 2019 KD
Cash and Bank balances	<b>1,297,562</b>	87,165
Short term deposits	-	2,490,102
Instalment credit debtors	-	3,137,980
Other assets	<b>197,870</b>	228,161
<b>Total assets</b>	<b>1,495,432</b>	5,943,408
Bank facilities	-	1,924,670
Accounts payable and other liabilities	<b>1,253,298</b>	1,216,719
<b>Total liabilities</b>	<b>1,253,298</b>	3,141,389
	<b>Year ended 31 Dec. 2020 KD</b>	Year ended 31 Dec. 2019 KD
Income from instalment credit	<b>461,668</b>	1,022,636
Loss for the year	<b>(2,638,778)</b>	(3,094,825)

6.1.2 In previous years, the Parent Company's board of directors approved to transfer part of its ownership in Arzan Capital (Holding) Ltd, equivalent to 6 million shares with nominal value of USD1 per share, to the employees of the subsidiary to be distributed in accordance with the Employee Stock Option Plan of Arzan Capital (Holding) Ltd. Accordingly, during the year, 432,067 shares equivalent to 0.575% (31 December 2019: 531,091 shares equivalent to 0.892%) of the Group's ownership interest in Arzan Capital (Holding) Limited were transferred. This transaction resulted in a loss of KD129,308 (31 December 2019: KD158,944) which has been recognised in the shareholders' equity.

6.1.3 During the year, the Group established a joint venture in Kuwait with a share capital of KD7,057,849 in which it owns 51%. The principal activity of the investee is investment. The Group classified this investment as a subsidiary since management believes that the Group has the power to control the investee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 6. Subsidiaries (continued)

#### 6.2 Subsidiaries with material non-controlling interests

The Group includes the following subsidiaries with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Results allocated to NCI		Accumulated NCI	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	%	%	KD	KD	KD	KD
Kuwait Invest Real Estate Co. – WLL	49	49	(95,983)	25,872	4,080,173	4,183,650
Arzan Capital (Holding) Ltd	21.98	21.40	121,027	441,836	5,081,630	4,934,190
Joint Venture	49	-	356,194	-	15,917,470	-

Summarised financial information for subsidiaries with material non-controlling interests, before inter Group elimination is set out below:

a) Kuwait Invest Real Estate Co. – WLL	31 Dec. 2020 KD	31 Dec. 2019 KD
Non-current assets	8,417,472	8,622,925
Current assets	8,767	8,021
<b>Total assets</b>	<b>8,426,239</b>	<b>8,630,946</b>
Current liabilities	99,355	92,884
<b>Total liabilities</b>	<b>99,355</b>	<b>92,884</b>
Equity attributable to the shareholders of the Parent Company	4,246,711	4,354,411
Non-controlling interests	4,080,173	4,183,650
<b>Total equity</b>	<b>8,326,884</b>	<b>8,538,061</b>
	<b>Year ended 31 Dec. 2020 KD</b>	<b>Year ended 31 Dec. 2019 KD</b>
(Loss)/income	(179,604)	66,677
Expenses and other charges	(16,279)	(13,877)
(Loss)/profit for the year attributable to the shareholders of the Parent Company	(99,900)	26,928
(Loss)/profit for the year attributable to NCI	(95,983)	25,872
<b>(Loss)/profit for the year</b>	<b>(195,883)</b>	<b>52,800</b>
Total comprehensive loss for the year attributable to the shareholders of the Parent Company	(107,701)	(34,921)
Total comprehensive loss for the year attributable to NCI	(103,477)	(33,551)
<b>Total comprehensive loss for the year</b>	<b>(211,178)</b>	<b>(68,472)</b>
Net cash flow used in operating activities	(2,234)	(5,013)
<b>Net cash outflows</b>	<b>(2,234)</b>	<b>(5,013)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 6. Subsidiaries (continued)

#### 6.2 Subsidiaries with material non-controlling interests (continued)

##### b) Arzan Capital (Holding) Ltd

	<b>31 Dec. 2020 KD</b>	31 Dec. 2019 KD
Non-current assets	<b>21,704,846</b>	26,057,886
Current assets	<b>8,611,246</b>	6,281,801
<b>Total assets</b>	<b>30,316,092</b>	32,339,687
Non-current liabilities	<b>114,333</b>	143,533
Current liabilities	<b>7,080,005</b>	9,141,752
<b>Total liabilities</b>	<b>7,194,338</b>	9,285,285
Equity attributable to the shareholders of the Parent Company	<b>18,040,124</b>	18,120,212
Non-controlling interests	<b>5,081,630</b>	4,934,190
<b>Total equity</b>	<b>23,121,754</b>	23,054,402
	<b>Year ended 31 Dec. 2020 KD</b>	Year ended 31 Dec. 2019 KD
Income	<b>2,485,156</b>	3,483,197
Expenses and other charges	<b>(1,934,476)</b>	(1,418,772)
Profit for the year attributable to the shareholders of the Parent Company	<b>429,653</b>	1,622,589
Profit for the year attributable to NCI	<b>121,027</b>	441,836
<b>Profit for the year</b>	<b>550,680</b>	2,064,425
Total comprehensive income for the year attributable to the shareholders of the Parent Company	<b>1,037,612</b>	1,542,731
Total comprehensive income for the year attributable to NCI	<b>292,280</b>	420,090
<b>Total comprehensive income for the year</b>	<b>1,329,892</b>	1,962,821
Net cash flow from operating activities	<b>272,635</b>	1,294,307
<b>Net cash inflows</b>	<b>873,957</b>	1,832,191

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 6. Subsidiaries (continued)

#### 6.2 Subsidiaries with material non-controlling interests (continued)

##### c) Joint Venture

	31 Dec. 2020 KD
Non-current assets	32,315,418
<b>Total assets</b>	<b>32,315,418</b>
Current liabilities	-
<b>Total liabilities</b>	<b>-</b>
Equity attributable to the shareholders of the Parent Company	16,397,948
Non-controlling interests	15,917,470
<b>Total equity</b>	<b>32,315,418</b>
	Year ended 31 Dec. 2020 KD
Income	723,140
Expenses and other charges	-
Profit for the year attributable to the shareholders of the Parent Company	366,946
Profit for the year attributable to NCI	356,194
<b>Profit for the year</b>	<b>723,140</b>
Total comprehensive income for the year attributable to the shareholders of the Parent Company	366,946
Total comprehensive income for the year attributable to NCI	356,194
<b>Total comprehensive income for the year</b>	<b>723,140</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 7 Income from instalment credit debtors

	Year ended 31 Dec. 2020	Year ended 31 Dec. 2019
	KD	KD
Interest income from instalment credit	463,580	901,446
Discount, commission and fees	69,061	249,898
Recovery of written off balances	129,407	443,925
	<b>662,048</b>	<b>1,595,269</b>

### 8 Revenue from contracts with customers

The Group earns revenue from its asset management and advisory services, which are transferred over time.

	Year ended 31 Dec. 2020	Year ended 31 Dec. 2019
	KD	KD
Assets management	73,424	88,325
Custodian and other fees	196,760	229,478
Advisory services	1,511,243	2,645,531
	<b>1,781,427</b>	<b>2,963,334</b>

Revenue from advisory services represents 85% of the revenue from contracts with customers for the year ended 31 December 2020 (31 December 2019: 89%).

### 9 Finance costs

	Year ended 31 Dec. 2020	Year ended 31 Dec. 2019
	KD	KD
<i>On financial liabilities at amortised cost:</i>		
Due to banks	48,548	238,885
Term loans	904,087	1,116,403
Murabaha payables	509,404	528,897
Others	205,216	226,913
	<b>1,667,255</b>	<b>2,111,098</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 10 Basic and diluted (loss)/earnings per share

Basic and diluted (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to the shareholders of the Parent Company by the weighted average number of shares outstanding during the year excluding treasury shares.

	Year ended 31 Dec. 2020 KD	Year ended 31 Dec. 2019 KD
(Loss)/profit for the year attributable to shareholders of the Parent Company - KD	<b>(9,511,226)</b>	1,095,948
Weighted average number of shares outstanding during the year to be used to account for basic earnings per share (excluding treasury shares) – shares	<b>792,302,850</b>	796,798,668
Shares to be issued for no consideration under share-based payments – note 28	<b>1,921,854</b>	-
Weighted average number of shares outstanding during the year to be used to account for diluted earnings per share (excluding treasury shares)	<b>794,224,704</b>	796,798,668
<b>Basic (loss)/earnings per share attributable to the shareholders of the Parent Company – Fils</b>	<b>(12.005)</b>	1.375
<b>Diluted (loss)/earnings per share attributable to the shareholders of the Parent Company – Fils</b>	<b>(11.975)</b>	1.375

For the year ended 31 December 2019, as there are no dilutive instruments outstanding basic and diluted earnings per share are identical.

### 11 Net gain / (loss) on financial assets

Net gain / (loss) on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2020 KD	Year ended 31 Dec. 2019 KD
<b>At amortised cost:</b>		
Cash and cash equivalents	<b>234,954</b>	344,816
Instalments credit debtors	<b>190,713</b>	(896,725)
Gain/(loss) on financial assets at amortised cost	<b>425,667</b>	(551,909)
<b>Financial assets at fair value through profit or loss:</b>		
(Loss)/gain on change in fair value	<b>(926,161)</b>	3,256,259
(Loss)/gain on sale	<b>(1,258,078)</b>	845,937
Dividend income	<b>380,979</b>	404,533
(Loss)/gain on financial assets at fair value through profit or loss	<b>(1,803,260)</b>	4,506,729
<b>Financial assets at fair value through other comprehensive income:</b>		
Interest income	<b>245,638</b>	610,768
Dividend income	<b>2,040,579</b>	1,855,357
Gain recognised in consolidated statement of profit or loss	<b>2,286,217</b>	2,466,125
Gain/(loss) on change in fair value	<b>20,595,653</b>	(5,567,842)
Gain/(loss) on sale	<b>14,105</b>	(3,689,399)
Gain/(loss) recognised in equity	<b>20,609,758</b>	(9,257,241)
Gain/(loss) on financial assets at fair value through other comprehensive income	<b>22,895,975</b>	(6,791,116)
<b>Net gain/(loss) on financial assets</b>	<b>21,518,382</b>	(2,836,296)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 12 Cash and cash equivalents

#### 12.1 Cash and cash equivalents

	<b>31 Dec. 2020</b>	31 Dec. 2019
	<b>KD</b>	KD
Cash and bank balances	<b>9,520,342</b>	7,839,904
Cash in managed portfolios	<b>1,120,934</b>	59,020
Term deposits – 1 to 3 months	<b>697,511</b>	-
Cash and cash equivalents	<b>11,338,787</b>	7,898,924
Less: due to banks	-	(1,930,923)
Cash and cash equivalents for statement of cash flows	<b>11,338,787</b>	5,968,001

Cash in managed portfolios amount of KD967,570 (31 December 2019: KD59,020) pledged against term loans and murabaha payables (notes 23 and 24).

#### 12.2 Restricted cash and cash equivalents

	<b>31 Dec. 2020</b>	31 Dec. 2019
	<b>KD</b>	KD
Cash and Bank balances	<b>2,207,380</b>	87,165
Term deposits – 1 to 3 months	<b>2,498,362</b>	3,490,102
	<b>4,705,742</b>	3,577,267
Provision of credit losses	<b>(3,408,180)</b>	(1,000,000)
Restricted cash and cash equivalents	<b>1,297,562</b>	2,577,267

Restricted cash and cash equivalents include balances deposited in a bank located in Lebanon and denominated in Lebanese Pound. Due to the current political and economic events, the central bank of Lebanon imposed a series of measures including restrictions on withdrawals and limitation of transfers of money abroad. Consequently, the Group lacks access to these bank balances on time and in full. Therefore, during the year, the Group recognised an additional provision for credit losses of KD2,408,180 against these restricted cash and cash equivalents of its subsidiary “IFC Lebanon” (note 6.1.1).

The term deposits carry effective interest rate ranging 2.5% - 5% (31 December 2019: 9.25% - 12%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 13 Instalment credit debtors

	31 Dec. 2020	2019 Dec. 2019
	KD	KD
Gross instalment credit debtors	7,898,948	11,408,073
Deferred income	(872,305)	(1,348,235)
	<b>7,026,643</b>	10,059,838
Specific provision for credit losses	(5,573,837)	(2,266,647)
General provision for credit losses	(829,957)	(3,664,538)
	<b>622,849</b>	4,128,653

Gross instalment credit debtors are repayable as follows:

	31 Dec. 2020	2020 Dec. 2019
	KD	KD
Within one year	1,735,303	3,036,274
More than a year	6,163,645	8,371,799
	<b>7,898,948</b>	11,408,073

The effective annual interest rate earned on instalment credit ranged from 5% to 10% per annum (31 December 2019: 5.75% to 7.5% per annum).

The gross instalment credit debtors include an amount of KD557,870 (31 December 2019: KD664,866) in respect of related parties (note 32). This amount is secured by way of pledge of certain local shares.

The movements in the provisions for credit losses are as follows:

	31 December 2020			31 December 2019		
	Specific provision KD	General provision KD	Total KD	Specific provision KD	General provision KD	Total KD
Opening balance	2,266,647	3,664,538	5,931,185	2,106,596	1,351,979	3,458,575
Write off during the year	(82)	-	(82)	(3,904)	(9,314)	(13,218)
Charge for the year	3,813,028	34,497	3,847,525	170,056	2,321,938	2,491,994
Reversal during the year	(506,582)	(2,869,608)	(3,376,190)	(583)	-	(583)
Foreign currency translation adjustments	826	530	1,356	(5,518)	(65)	(5,583)
Closing balance	<b>5,573,837</b>	<b>829,957</b>	<b>6,403,794</b>	2,266,647	3,664,538	5,931,185

Provision for credit losses is calculated, in all material respect, with the requirements of the Central Bank of Kuwait. However, during the year, the Group recognised a net provision of KD556,712 (31 December 2019: KD2,250,000) for instalment credit debtors of its subsidiary "IFC Lebanon" (note 6.1.1).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 14 Financial assets at fair value through profit or loss

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Local quoted shares	675,502	816,860
Foreign quoted shares	336,504	348,388
Foreign unquoted shares	1,772,332	2,115,357
Investments in managed portfolios	8,225,115	10,635,479
Investment in managed fund	493,785	588,775
	<b>11,503,238</b>	<b>14,504,859</b>

The investments in managed portfolios with aggregate carryings value of KD7,769,235 (31 December 2019: KD9,989,227) are pledged against term loans and murabaha payables (notes 23 and 24).

The hierarchy for determining and disclosing the fair values of financial assets at fair value through profit or loss is presented in Note 35.2.

### 15 Accounts receivable and other assets

	31 Dec. 2020	31 Dec. 2019
	KD	KD
<b>Financial assets</b>		
Trade receivables	2,686,496	2,442,229
Instalments sales receivables	1,173,216	952,210
Due from related parties	1,719,429	1,359,961
Staff loans receivables	-	1,970
	<b>5,579,141</b>	<b>4,756,370</b>
Provision for doubtful debts	<b>(2,959,544)</b>	<b>(2,320,095)</b>
	<b>2,619,597</b>	<b>2,436,275</b>
<b>Non-financial assets</b>		
Prepayments	63,561	168,591
Advance payments to purchase investments	-	79,615
Other assets	1,366,695	2,284,480
	<b>4,049,853</b>	<b>4,968,961</b>

The carrying values of the financial assets included above approximate their fair values and all are due within one year.

The movement in the provision for doubtful debts is as follows:

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Balance at the beginning of the year	2,320,095	2,209,758
Charge for the year	638,002	211,328
Written off during the year	-	(101,024)
Foreign currency adjustments	1,447	33
Balance at end of the year	<b>2,959,544</b>	<b>2,320,095</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 16 Properties held for trading

Properties held for trading represent the Group's share of investments in properties outside Kuwait.

The movement in the properties held for trading is as follows:

	31 Dec. 2020	2020 Dec. 2019
	KD	KD
<b>Balance at 1 January</b>	<b>1,409,531</b>	1,409,531
Provision for properties held for trading	<b>(702,491)</b>	(503,391)
<b>Balance at 31 December</b>	<b>707,040</b>	906,140

As a result of impairment testing of the carrying value of the properties, an amount of KD199,100 (31 December 2019: KD117,140) has been recognised as a provision in the current year. The impairment testing by management was based on fair value of the properties which has been determined based on valuation obtained from independent and qualified valuer as of the date of the consolidated financial statements.

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

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Local quoted shares	<b>37,093,806</b>	4,134,661
Local unquoted shares	<b>4,987,599</b>	12,679,879
Foreign unquoted shares	<b>38,792,528</b>	39,869,688
Investments in managed portfolios	<b>4,280,638</b>	7,076,658
Debt instruments	<b>2,617,816</b>	2,641,946
Investment funds	<b>94,436</b>	98,651
	<b>87,866,823</b>	66,501,483

These investments are held for medium to long-term strategic purposes. Accordingly, the Group has elected to designate these financial assets as at FVTOCI as it believes that recognising short-term fluctuations in the fair value of these financial assets in the consolidated statement of profit or loss would not be consistent with the Group's strategy of holding these financial assets for long-term purposes and realising their performance potential in the long run. The Group's financial assets at FVTOCI disaggregated by its business sectors are as follows:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 17 Financial assets at fair value through other comprehensive income (continued)

	Financial services KD	Real estate KD	Consumer services KD	Others KD	Total KD
<b>31 December 2020:</b>					
Local quoted shares	31,696,714	5,249,051	126,497	21,544	37,093,806
Local unquoted shares	3,769,465	33,312	1,181,600	3,222	4,987,599
Foreign unquoted shares	13,187,147	25,048,780	-	556,601	38,792,528
Investments in managed portfolios	2,419,049	-	1,861,589	-	4,280,638
Debt instruments	1,727,696	813,857	76,263	-	2,617,816
Investment funds	94,436	-	-	-	94,436
	<b>52,894,507</b>	<b>31,145,000</b>	<b>3,245,949</b>	<b>581,367</b>	<b>87,866,823</b>
<b>31 December 2019:</b>					
Local quoted shares	-	3,779,619	334,080	20,962	4,134,661
Local unquoted shares	11,432,368	33,392	1,186,562	27,557	12,679,879
Foreign unquoted shares	8,799,384	30,256,184	-	814,120	39,869,688
Investments in managed portfolios	2,160,153	-	4,916,505	-	7,076,658
Debt instruments	1,663,503	978,443	-	-	2,641,946
Investment funds	98,651	-	-	-	98,651
	<b>24,154,059</b>	<b>35,047,638</b>	<b>6,437,147</b>	<b>862,639</b>	<b>66,501,483</b>

Debt instruments amounting to KD813,857 (31 December 2019: KD978,443) are secured by charges over real estate properties and carry average interest rate of 7% (31 December 2019: 7%) per annum.

Quoted local shares and investments in managed portfolios with an aggregate carrying value of KD7,838,163 (31 December 2019: KD10,191,948) are pledged against term loans and murabaha payables (notes 23 and 24).

The hierarchy for determining and disclosing the fair values of financial instruments is presented in note 35.2.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 18 Investment in associates

18.1 The details of the Group's investment in associates are given below:

	Country of incorporation	Percentage of ownership		Activity
		31 December		
		2020	2019	
		%	%	
Offset Holding Co. - KSCC	Kuwait	<b>50.00</b>	50.00	Holding Company
Al Wafir Marketing Services Co. - KSCC	Kuwait	<b>34.00</b>	34.00	Real estate
Al Oula Slaughterhouse Co. - KSCC	Kuwait	<b>28.89</b>	28.89	Services
Gulf Real Estate Co. - WLL	Kuwait	<b>20.13</b>	20.13	Real estate
Arzan International Company for Hospital Construction and Management – WLL	Kuwait	<b>10.00</b>	10.00	Establishment & Management of Hospitals
Kuwait Clearing Company – KSC (18.1.1)	Kuwait	-	13.33	Services

18.1.1 During the year, the Group sold its entire ownership interest in its associate "Kuwait Clearing Company – KSCC" to a related party for a total consideration of KD12,015,000. As the legal formalities for transfer of ownership were being completed, this investment was initially reclassified to non-current asset held for sale and was stated at lower of carrying amount and fair value less cost to sell which resulted in an impairment loss of KD4,567,654 which was recognised in the consolidated statement of profit or loss. The sale transaction was completed during the year. However, for the year ended 31 December 2020, the Group recognised a share of results and received a dividend from that associate an amount of KD499,350 and KD427,200, respectively (31 December 2019: KD470,209 and KD Nil).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 18 Investment in associates (continued)

18.2 Summarised financial information of Group's material associates are set out below:

	Offset Holding Co. KSCC		Al Wafir Marketing Services Co. KSCC	
	31 Dec. 2020 KD	31 Dec. 2019 KD	31 Dec. 2020 KD	31 Dec. 2019 KD
<b>Assets</b>				
Current	<b>5,347,736</b>	4,971,334	<b>42,091,597</b>	31,349,934
Non-current	<b>16,270,845</b>	16,683,820	<b>39,906,261</b>	43,102,678
	<b>21,618,581</b>	21,655,154	<b>81,997,858</b>	74,452,612
<b>Liabilities</b>				
Current	<b>324,645</b>	212,036	<b>23,165,159</b>	22,459,531
Non-current	<b>869,740</b>	721,306	<b>24,962,076</b>	20,394,958
	<b>1,194,385</b>	933,342	<b>48,127,235</b>	42,854,489
	<b>20,424,196</b>	20,721,812	<b>33,870,623</b>	31,598,123
Non-controlling interests	<b>(3,611,690)</b>	(3,519,510)	<b>(947,334)</b>	(1,263,867)
Net assets	<b>16,812,506</b>	17,202,302	<b>32,923,289</b>	30,334,256
Group's share of net assets	<b>8,406,253</b>	8,601,151	<b>11,193,457</b>	10,313,222
Goodwill	-	-	<b>7,638,605</b>	7,772,154
Carrying amount	<b>8,406,253</b>	8,601,151	<b>18,832,062</b>	18,085,376
Revenue	<b>2,058,531</b>	2,032,975	<b>19,110,203</b>	20,840,727
(Loss)/profit	<b>(359,206)</b>	133,354	<b>3,597,642</b>	3,856,668
Group' share of results	<b>(179,603)</b>	66,677	<b>1,223,148</b>	1,311,213
Total comprehensive (loss)/income	<b>(389,796)</b>	(109,190)	<b>3,597,642</b>	3,856,668
Dividend received	-	-	<b>476,463</b>	635,283

The remaining associates are considered immaterial to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 18. Investment in associates (continued)

18.3 Set out below is the aggregate information for the individually immaterial associates.

	31 Dec. 2020	31 Dec. 2019
	KD	KD
<b>Aggregate share in associates' assets and liabilities:</b>		
Assets	7,700,087	7,404,823
Liabilities	2,258,629	2,274,336
Net assets	5,441,458	5,130,487
Group's share of net assets	1,523,331	1,428,438
Carrying amount	1,523,331	1,428,438
<b>Aggregate share in associates' results:</b>		
Revenue	1,082,717	815,225
Profit for the year	760,936	385,967
Group's share of results	224,901	125,176
Total comprehensive income	760,936	385,967
Dividends received	130,014	108,346

18.4 The movement in the investment in associates is as follows:

	31 Dec. 2020	31 Dec. 2019
	KD	KD
<b>At 1 January</b>	<b>44,631,874</b>	27,476,807
Additions	-	16,046,700
Disposals	(12,015,000)	-
Share of results	1,767,796	1,973,274
Dividends	(1,033,677)	(743,629)
Share of other comprehensive loss	(21,693)	(121,278)
Impairment loss	(4,567,654)	-
<b>At 31 December</b>	<b>28,761,646</b>	44,631,874

Investments in associate with a carrying value of KD12,888,288 (31 December 2019: KD37,863,555) are pledged against term loans and murabaha payables (notes 23 and 24).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 19 Investments in real estate under development

	31 Dec. 2020	31 Dec. 2019
	KD	KD
<b>Cost</b>		
Land cost	5,313,674	5,050,140
Development costs	157,188	133,828
Foreign currency differences	53,965	129,706
<b>Total cost</b>	<b>5,524,827</b>	5,313,674
Provision for impairment in value	(134,160)	-
<b>Net book value at end of the year</b>	<b>5,390,667</b>	5,313,674

Investments in real estate under development represent 33.54% share in the ownership of the right of use of land located in Al Dubaiya leased from the Ministry of Finance in Kuwait. The right of use of land is jointly owned by the Parent Company and other investors through a real estate portfolio agreement. Under the agreement, the real estate is being developed by one of the other investors, which is a company specialized in the field of real estate investments.

As a result of impairment testing of the carrying value of the property, the Group recognised an impairment loss of KD134,160 (31 December 2019: KD Nil). The impairment testing by management was based on fair value of the property which has been determined based on valuations obtained from independent and qualified valuers as of the date of the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 20 Investment properties

	Land KD	Building KD	Total KD
<b>Cost</b>			
1 January 2020	1,023,750	1,484,989	2,508,739
31 December 2020	1,023,750	1,484,989	2,508,739
<b>Accumulated depreciation</b>			
1 January 2020	-	912,275	912,275
Charge for the year	-	58,740	58,740
31 December 2020	-	971,015	971,015
<b>Net book value</b>			
<b>At 31 December 2020</b>	<b>1,023,750</b>	<b>513,974</b>	<b>1,537,724</b>
<b>Fair value as at 31 December 2020</b>	<b>1,915,430</b>	<b>972,070</b>	<b>2,887,500</b>
<b>Cost</b>			
1 January 2019	1,023,750	1,484,989	2,508,739
31 December 2019	1,023,750	1,484,989	2,508,739
<b>Accumulated depreciation</b>			
1 January 2019	-	853,534	853,534
Charge for the year	-	58,741	58,741
31 December 2019	-	912,275	912,275
<b>Net book value</b>			
<b>At 31 December 2019</b>	<b>1,023,750</b>	<b>572,714</b>	<b>1,596,464</b>
<b>Fair value as at 31 December 2019</b>	<b>1,732,680</b>	<b>979,820</b>	<b>2,712,500</b>

Land is not depreciated. Building is depreciated over 25 years. The fair value of the investment properties is determined based on independent valuations.

The investment properties represent the part of building constructed on land rented to related parties and third parties, and is accounted for as an investment property under IAS 40.

The investment properties are mortgaged against murabaha payables (note 24).


**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

21	Property and equipment		Office	Fixtures	Computer	Right	Total
	Land	Building	equipment	and	software	of use	
	KD	KD	and	decoration		assets	KD
	KD	KD	computers	and			KD
	KD	KD	KD	KD	KD	KD	KD
<b>2020:</b>							
<b>Cost</b>							
At 1 January	1,316,250	2,009,049	664,553	624,254	1,084,720	-	5,698,826
Additions	-	-	14,799	1,267	7,228	50,712	74,006
Foreign currency translation differences	-	1,703	1,256	489	295	-	3,743
At 31 December	1,316,250	2,010,752	680,608	626,010	1,092,243	50,712	5,776,575
<b>Accumulated depreciation</b>							
At 1 January	-	1,211,105	622,197	433,162	792,748	-	3,059,212
Charge for the year	-	81,126	20,436	68,039	205,410	19,218	394,229
Foreign currency translation differences	-	695	722	394	26	(201)	1,636
At 31 December	-	1,292,926	643,355	501,595	998,184	19,017	3,455,077
<b>Net book value</b>							
At 31 December 2020	1,316,250	717,826	37,253	124,415	94,059	31,695	2,321,498
<b>2019:</b>							
<b>Cost</b>							
At 1 January	1,316,250	2,000,497	643,516	515,563	1,023,325	-	5,499,151
Additions	-	-	16,605	115,547	61,629	-	193,781
Disposals	-	-	(1,127)	(8,550)	-	-	(9,677)
Foreign currency translation differences	-	8,552	5,559	1,694	(234)	-	15,571
At 31 December	1,316,250	2,009,049	664,553	624,254	1,084,720	-	5,698,826
<b>Accumulated depreciation</b>							
At 1 January	-	1,126,953	598,307	363,600	590,017	-	2,678,877
Charge for the year	-	80,910	19,973	76,130	202,939	-	379,952
Relating to disposal	-	-	(977)	(8,116)	-	-	(9,093)
Foreign currency translation differences	-	3,242	4,894	1,548	(208)	-	9,476
At 31 December	-	1,211,105	622,197	433,162	792,748	-	3,059,212
<b>Net book value</b>							
At 31 December 2019	1,316,250	797,944	42,356	191,092	291,972	-	2,639,614

The building is depreciated over 25 years.

The estimated useful lives of the Group's office equipment, fixtures and decoration for the calculation of depreciation is 4 years, with the exception of its computer software which is depreciated over 3 years. Land is not depreciated.

Land and building are mortgaged against murabaha payable (note 24).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 22 Accounts payable and other liabilities

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Trade payables	208,694	143,113
Due to related parties	93,542	3,547,720
Other payables	2,800,568	2,342,120
Lease liability	40,543	-
Accrued interest	20,597	104,483
Provision for staff leave	270,283	225,735
KFAS payable	226,802	226,802
NLST and Zakat payable	2,816,601	2,924,742
Advances received from investors (see 22.1 below)	481,294	3,795,856
Due to shareholders	361,314	361,314
	<b>7,320,238</b>	<b>13,671,885</b>

22.1 Advances received from investors represent amounts received by one of the Group's subsidiaries from investors to purchase investments on their behalf. As of the reporting date, the Group is in the process to transfer these investments to the investors.

### 23 Term loans

Term loans are due for repayment as follows:

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Within one year	6,868,250	9,254,500
After one year	4,500,000	8,720,000
	<b>11,368,250</b>	<b>17,974,500</b>

As of 31 December 2020, the outstanding term loans are as follows:

- KD5,000,000 obtained from a local bank carry interest rate 4.25% (31 December 2019: 5.5% to 6.15%) per annum and was repayable in various instalments ending in June 2022. However, during the year, term loan has been rescheduled to be repayable by January 2026 in 20 quarterly instalments of KD125,000 and the last instalment of KD2.5 million. This term loan is secured against mortgage of cash in managed portfolio, certain financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and investment in associate (notes 12.1, 14, 17 and 18).

- USD21 million (equivalent to KD6,430,200) obtained by one of the foreign subsidiaries from a local company in Kuwait. The loan is unsecured, carry interest rate of 7.25% per annum and repayable in full in February 2021. Subsequent to the financial position date, the Group repaid an amount of USD7 million. Furthermore, the Group signed a new agreement for the remaining balance to repayable in full on 31 March 2022.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 24 Murabaha payables

The Murabaha payables outstanding balance represent Islamic financings obtained in Kuwait Dinar from a local bank, carrying effective profit rates of 3.25% to 4.5% (31 December 2019: 3% to 5.75%) per annum. These financings are secured against pledge of cash in managed portfolio, certain financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment in associates, investment properties and property and equipment (notes 12.1, 14, 17, 18, 20 and 21) and payable in various instalments ending in March 2026.

Murabaha payable are due as follows:

	<b>31 Dec. 2020</b>	31 Dec. 2019
	<b>KD</b>	KD
Within one year	<b>2,743,822</b>	3,792,517
After one year	<b>9,857,500</b>	8,336,153
	<b>12,601,322</b>	12,128,670

### 25 Share capital and share premium

As at 31 December 2020, the authorised, issued and paid up share capital of the Parent Company consists of 802,882,556 shares of 100 fils each (31 December 2019: 802,882,556 shares). All shares are in cash.

The share premium is non-distributable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 26 Treasury shares

	31 Dec. 2020	31 Dec. 2019
Number of treasury shares	19,125,000	6,083,892
Percentage of ownership (%)	2.382%	0.758%
Market value (KD)	1,051,875	144,188
Cost (KD)	1,202,430	559,232

Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

### 28. Reserves

#### Legal reserve

In accordance with the Companies Law and the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, Zakat and directors' remuneration) is required to be transferred to legal reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid-up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

No transfer is required in a year in which the Parent Company has incurred a loss or where cumulative losses exist.

#### Voluntary reserve

The Parent Company's Articles of Association, as amended, require that 10% of the profit for the year attributable to the shareholders of the Parent Company (before contributions to KFAS, NLST, Zakat and directors' remuneration) should be transferred to voluntary reserve. There are no restrictions on distribution of voluntary reserve.

No transfer is required in a year in which the Parent Company has incurred a loss or where cumulative losses exist.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 28 Share based payments

During 2019, the Parent Company obtained approval of the general assembly of the shareholders to establish an employee stock option plan (ESOP) to reward the performance of its employees and the executive board members. The final approval of the ESOP was obtained from the regulatory authority in January 2021. The Parent Company granted the shares to the employees during 2020. Under the ESOP, the vesting conditions include the performance of the employees as well as the financial performance of the Parent Company. The shares are granted to the employees annually at no cost and vest on the dates of the general assembly in the following third, fourth and fifth years in predetermined ratios. While the ESOP has no specific time limit, a maximum of 10% of the Parent Company's share capital at the inception of the plan can be granted. The shares granted will be given to the employees either from the treasury shares or issue of new shares.

Pursuant to the plan, the board of directors approved to make available 2,407,333 shares for the year ended 31 December 2019. The fair value of the shares on the grant date was KD0.0375 and, therefore, the Group recognised an expense of KD18,205 in the consolidated statement of profit or loss.

No options exercised or forfeited during the year.

### 29 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Due to banks KD	Term loans KD	Murabaha Payables KD	Total KD
<b>Balance at 1 January 2020</b>	<b>1,930,923</b>	<b>17,974,500</b>	<b>12,128,670</b>	<b>32,034,093</b>
Cash flows:				
• Repayment	(1,976,736)	(13,029,500)	(4,671,631)	(19,677,867)
• Proceeds	45,813	6,430,200	5,100,000	11,576,013
Non-cash items:				
• Foreign currency differences	-	(6,950)	44,283	37,333
<b>31 December 2020</b>	<b>-</b>	<b>11,368,250</b>	<b>12,601,322</b>	<b>23,969,572</b>
<b>Balance at 1 January 2019</b>	<b>4,019,970</b>	<b>17,880,000</b>	<b>4,469,119</b>	<b>26,369,089</b>
Cash flows:				
• Repayment	(2,089,042)	(4,856,000)	(1,749,850)	(8,694,892)
• Proceeds	-	4,951,500	9,412,624	14,364,124
Non-cash items:				
• Foreign currency differences	(5)	(1,000)	(3,223)	(4,228)
<b>31 December 2019</b>	<b>1,930,923</b>	<b>17,974,500</b>	<b>12,128,670</b>	<b>32,034,093</b>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

### **30 Proposed dividends and annual general assembly**

Subsequent to the date of the consolidated statement of financial position, the board of directors have proposed not to distribute any dividend for the year ended 31 December 2020. This proposal is subject to the approval of the general assembly and the regulatory authorities.

The Annual General Assembly of the shareholders of the Parent Company held on 8 June 2020 approved the consolidated financial statements for the year ended 31 December 2019 without dividend. Further, the annual general assembly approved the board of directors' remuneration of KD36,000 for the year ended 31 December 2019 which has been recorded under the general and administrative expenses in the consolidated statement of profit or loss of the current year.

### **31 Fiduciary accounts**

Investment portfolios managed by the Group and assets held in trust or in a fiduciary capacity and related liabilities are not treated as the Group's assets or liabilities and, accordingly, are not included in the consolidated financial position. Total fiduciary assets as at the financial position date were KD32,213,170 (31 December 2019: KD33,483,866).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 32 Segmental information

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance, and is reconciled to Group profit or loss.

The Group's principal activities, significant assets and liabilities are carried out and located in Kuwait, GCC, Middle East, USA and Europe. The Group operates in four business segments; instalment credit, investments, financial brokerage and real estate. The segmental analysis of total revenues, profit for the year, total assets and total liabilities for the business segments are as follows:

	Instalment credit KD	Investments KD	Financial brokerage KD	Real estate KD	Total KD
<b>Year ended 31 December 2020</b>					
Total revenues	687,075	4,853,485	131,660	142,616	5,814,836
Loss for the year	(7,237,500)	(1,409,103)	(182,158)	(327,885)	(9,156,646)
<b>As at 31 December 2020</b>					
Total assets	2,094,135	133,729,888	11,287,988	8,285,676	155,397,687
Total liabilities	560,295	30,658,709	708,198	847,570	32,774,772
Net assets	1,533,840	103,071,179	10,579,790	7,438,106	122,622,915
<b>Year ended 31 December 2019</b>					
Total revenues	1,749,362	12,211,277	416,497	149,736	14,526,872
(Loss)/profit for the year	(6,677,930)	8,248,192	73,111	(103,362)	1,540,011
<b>As at 31 December 2019</b>					
Total assets	7,266,362	128,638,475	11,333,180	8,429,896	155,667,913
Total liabilities	2,806,417	42,902,244	752,817	726,316	47,187,794
Net assets	4,459,945	85,736,231	10,580,363	7,703,580	108,480,119

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 33 Related party balances and transactions

Related parties represent associates, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Parent Company and its subsidiaries which are related parties of the Parent Company have been eliminated on consolidation and are not disclosed in this note.

Details of significant related party balances and transactions are as follows:

	31 Dec. 2020 KD	31 Dec. 2019 KD
<b>Balances included in the consolidated statement of financial position</b>		
Instalment credit debtors - gross (note 13)	557,870	664,866
Due from related parties - net (note 15)	1,406,583	1,195,897
Disposed of non-current assets held for sale (note 18.1.1)	12,015,000	-
Due to shareholders (note 22)	361,314	361,314
Due to related parties (note 22)	93,542	3,547,720

	Year ended 31 Dec. 2020 KD	Year ended 31 Dec. 2019 KD
<b>Transactions included in the consolidated statement of profit or loss</b>		
Income from installment credit debtors	33,209	47,991
Rental income	33,255	25,768
Interest income	245,638	610,768
Impairment loss	4,567,654	-
General and administrative expenses	26,944	73,638
Finance costs	93,936	3,208
<b>Key management compensation:</b>		
Salaries and other short-term benefits	970,441	949,371
End of service benefits	53,435	54,100
Board of directors' remuneration (included in in general and administrative expenses)	36,000	42,000
Other committees' remunerations (included in general and administrative expenses)	22,350	-
Share based compensation	16,345	-



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 34 Risk management objectives and policies

The Group's activities expose it to variety of financial risks: market risk, credit risk and liquidity risk.

The Parent Company's board of directors sets out policies for reducing each of the risks discussed below.

The Group does not use derivative financial instruments, for speculative purposes.

The most significant financial risks to which the Group is exposed are described below.

#### 34.1 Market risk

##### a) Foreign currency risk

The Group mainly operates in the GCC, other Middle Eastern countries, Europe and USA and is exposed to foreign currency risk arising from various foreign currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the Group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows.

The Group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	<b>31 Dec. 2020</b>	31 Dec. 2019
	<b>Equivalent</b>	Equivalent
	<b>KD</b>	KD
US Dollar	<b>28,256,162</b>	21,547,955
Lebanese Lira	<b>4,171,230</b>	3,734,896
Great Britain Pound	<b>6,935,191</b>	6,904,269
Egyptian Pound	<b>2,531,791</b>	2,441,700
UAE Dirham	<b>707,040</b>	906,140
Saudi Riyal	<b>38,371</b>	36,003
Euro	<b>6,684,474</b>	10,529,417
Omani Riyal	<b>55,804</b>	55,770
Jordanian Dinar	<b>701,310</b>	732,929
Norway Krona	<b>466,119</b>	320,187

The following table details the Group's sensitivity to a 2% (2019: 2%) increase and decrease in the KD against above foreign currencies. The sensitivity analysis includes only outstanding foreign currencies denominated monetary assets and liabilities and adjusts their translation at the year-end for a 2% change in foreign currency rates. A positive number below indicates an increase in profit and equity and a negative number indicates decrease in profit and equity. All other variables are held constant. There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

	<b>+2% Impact</b>	+2% Impact	<b>-2% Impact</b>	-2% Impact
	<b>31 Dec. 2020</b>	31 Dec. 2019	<b>31 Dec. 2020</b>	31 Dec. 2019
	<b>KD</b>	KD	<b>KD</b>	KD
Profit for the year	<b>231,845</b>	156,849	<b>(231,845)</b>	(156,849)
Equity	<b>779,105</b>	787,336	<b>(779,105)</b>	(787,336)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 34 Risk management objectives and policies (continued)

#### 34.1 Market risk (continued)

##### b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. As the Group is not exposed to a significant interest rate risk on interest bearing assets, the Group is exposed to interest rate risk with respect to its borrowings which are both at fixed rate and floating interest rate. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored continuously and hedging strategies used, if required, to ensure positions are maintained within established limits.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The Group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2020 was as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Non- interest bearing items KD	Total KD	Effective interest rate %
<b>Assets</b>								
Cash and cash equivalents	10,641,276	697,511	-	11,338,787	-	-	11,338,787	-
Restricted cash and cash equivalents	-	-	-	-	-	1,297,562	1,297,562	-
Instalment credit debtors	289,765	-	-	289,765	333,084	-	622,849	5%-10%
Financial assets at fair value through profit or loss	-	-	-	-	-	11,503,238	11,503,238	-
Financial assets at FVTOCI	-	-	-	-	2,617,816	85,249,007	87,866,823	7%
Accounts receivable and other assets	-	-	-	-	-	4,049,853	4,049,853	-
	10,931,041	697,511	-	11,628,552	2,950,900	102,099,660	116,679,112	
<b>Liabilities</b>								
Accounts payable and other liabilities	-	-	-	-	-	7,320,238	7,320,238	-
Term loans	125,000	6,368,250	375,000	6,868,250	4,500,000	-	11,368,250	4.25%
Murabaha payables	181,250	181,250	2,381,322	2,743,822	9,857,500	-	12,601,322	3.25%-4.25%
Provision for employees' end of service benefits	-	-	-	-	-	1,484,962	1,484,962	-
	306,250	6,549,500	2,756,322	9,612,072	14,357,500	8,805,200	32,774,772	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**34 Risk management objectives and policies (continued)****34.1 Market risk (continued)****b) Interest rate risk (continued)**

The Group's interest rate exposure based on earlier of contractual repricing arrangements and maturity at 31 December 2019 was as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total up to 1 year KD	Over 1 year KD	Non- interest bearing items KD	Total KD	Effective interest rate %
<b>Assets</b>								
Cash and cash equivalents	7,898,924	-	-	7,898,924	-	-	7,898,924	-
Restricted cash and cash equivalents	87,164	2,490,103	-	2,577,267	-	-	2,577,267	9.25%-12%
Instalment credit debtors	683,380	349,127	2,003,766	3,036,273	1,092,380	-	4,128,653	5.75%-7.5%
Financial assets at fair value through profit or loss	-	-	-	-	-	14,504,859	14,504,859	-
Financial assets at FVTOCI	-	-	-	-	2,641,946	63,859,537	66,501,483	7%
Accounts receivable and other assets	-	-	-	-	-	4,968,961	4,968,961	-
	8,669,468	2,839,230	2,003,766	13,512,464	3,734,326	83,333,357	100,580,147	
<b>Liabilities</b>								
Due to banks	1,930,923	-	-	1,930,923	-	-	1,930,923	7.5%
Accounts payable and other liabilities	-	-	-	-	-	13,671,885	13,671,885	-
Term loans	-	4,044,500	5,210,000	9,254,500	8,720,000	-	17,974,500	5.5%-6.15%
Murabaha payables	-	552,486	3,240,031	3,792,517	8,336,153	-	12,128,670	3%-5.75%
Provision for employees' end of service benefits	-	-	-	-	-	1,481,816	1,481,816	-
	1,930,923	4,596,986	8,450,031	14,977,940	17,056,153	15,153,701	47,187,794	

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in interest rates of +1% and -1% (2019: +1% and -1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the Group's financial instruments held at each financial position date. All other variables are held constant.

	31 Dec. 2020		31 Dec. 2019	
	+ 1% KD	-1% KD	+ 1% KD	- 1% KD
Results for the year	(93,901)	93,901	(174,292)	174,292

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 34 Risk management objectives and policies (continued)

#### 34.1 Market risk (continued)

##### c) Price risk

The Group is exposed to equity price risk with respect to its equity investments. Equity investments are classified either as investments at fair value through profit or loss and investments at fair value through other comprehensive income.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the consolidated financial statements date.

If equity prices had been 10% higher/lower, the effect on the profit for the year and equity for the years ended 31 December 2020 and 2019 would have been as follows:

	Profit for the year		Equity	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	KD	KD	KD	KD
Financial assets at fair value through profit or loss	±1,150,324	±1,450,486	-	-
Financial assets at fair value through other comprehensive income	-	-	±8,786,682	±6,650,148

#### 34.2 Credit risk

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 Group's credit policy and exposure to credit risk is monitored on an ongoing basis. The Group seeks to avoid undue concentrations of risks with individuals or Groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The Group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarised below:

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Cash and cash equivalents	11,338,787	7,898,924
Restricted cash and cash equivalents	-	2,577,267
Instalment credit debtors	622,849	4,128,653
Financial assets at fair value through profit or loss (note 14)	8,718,900	10,635,479
Financial assets at fair value through other comprehensive income (note 17)	4,375,074	7,175,309
Accounts receivable and other assets	4,049,853	4,968,961
<b>Total</b>	<b>29,105,463</b>	<b>37,384,593</b>

As of 31 December 2020, instalment credit debtors and restricted cash and cash equivalents amount of KD Nil respectively, (31 December 2019: KD3,137,980 and KD2,577,267) are located in Lebanon. Most of the global credit rating agencies significantly lowered the ratings of Lebanon because of the consequences of the current economic and political events.

However, based on management assessment, the material expected credit loss impact arising from such financial assets have been recognised in these consolidated financial statements.


**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**34 Risk management objectives and policies (continued)**
**34.3 Concentration of assets**

The distribution of assets by geographic region is as follows:

	Kuwait KD	GCC KD	Other Middle Eastern countries KD	Europe and other KD	USA KD	Total KD
<b>31 December 2020</b>						
Cash and cash equivalents	4,106,070	5,745,786	1,172,505	-	314,426	11,338,787
Restricted cash and cash equivalents	-	-	1,297,562	-	-	1,297,562
Instalment credit debtors	622,849	-	-	-	-	622,849
Financial assets at FVTPL	8,444,737	394,485	1,376,035	68,826	1,219,155	11,503,238
Accounts receivable and other assets	999,509	805,373	1,401,941	43,960	799,070	4,049,853
Properties held for trading	-	707,040	-	-	-	707,040
Financial assets at FVTOCI	46,456,479	1,390,913	55,807	14,704,445	25,259,179	87,866,823
Investment in associates	28,761,646	-	-	-	-	28,761,646
Investment in real estate under development	3,946,689	-	1,443,978	-	-	5,390,667
Investment properties	1,537,724	-	-	-	-	1,537,724
Property and equipment	2,161,962	33,503	126,033	-	-	2,321,498
<b>Total</b>	<b>97,037,665</b>	<b>9,077,100</b>	<b>6,873,861</b>	<b>14,817,231</b>	<b>27,591,830</b>	<b>155,397,687</b>
<b>At 31 December 2019</b>						
Cash and cash equivalents	1,568,670	4,992,057	1,321,947	-	16,250	7,898,924
Restricted cash and cash equivalents	-	-	2,577,267	-	-	2,577,267
Instalment credit debtors	990,673	-	3,137,980	-	-	4,128,653
Financial assets at FVTPL	10,806,087	134,965	1,710,216	68,781	1,784,810	14,504,859
Accounts receivable and other assets	1,269,017	2,399,568	1,300,376	-	-	4,968,961
Properties held for trading	-	906,140	-	-	-	906,140
Financial assets at FVTOCI	23,989,849	1,688,275	319,329	19,141,128	21,362,902	66,501,483
Investment in associates	44,631,874	-	-	-	-	44,631,874
Investment in real estate under development	4,122,533	-	1,191,141	-	-	5,313,674
Investment properties	1,596,464	-	-	-	-	1,596,464
Property and equipment	2,500,973	1,769	136,872	-	-	2,639,614
<b>Total</b>	<b>91,476,140</b>	<b>10,122,774</b>	<b>11,695,128</b>	<b>19,209,909</b>	<b>23,163,962</b>	<b>155,667,913</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 34 Risk management objectives and policies (continued)

#### 34.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the financial position date to the contractual maturity date. The maturity profile for available for sale investments is determined based on management's estimate of liquidation of those investments. Maturity profile of assets and liabilities at 31 December 2020:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total Up to 1 year KD	Over 1 year KD	Total KD
<b>ASSETS</b>						
Cash and cash equivalents	10,641,276	697,511	-	11,338,787	-	11,338,787
Restricted cash and cash equivalents (see below)	1,297,562	-	-	1,297,562	-	1,297,562
Installment credit debtors	289,765	-	-	289,765	333,084	622,849
Financial assets at FVTPL	11,503,238	-	-	11,503,238	-	11,503,238
Accounts receivable and other assets	649,495	140,209	3,260,149	4,049,853	-	4,049,853
Properties held for trading	-	-	707,040	707,040	-	707,040
Financial assets at FVTOCI	-	-	-	-	87,866,823	87,866,823
Investment in associates	-	-	-	-	28,761,646	28,761,646
Investment in real estate under development	-	-	-	-	5,390,667	5,390,667
Investment properties	-	-	-	-	1,537,724	1,537,724
Property and equipment	-	-	-	-	2,321,498	2,321,498
<b>Total assets</b>	<b>24,381,336</b>	<b>837,720</b>	<b>3,967,189</b>	<b>29,186,245</b>	<b>126,211,442</b>	<b>155,397,687</b>
<b>LIABILITIES</b>						
Accounts payable and other liabilities	822,692	1,153,546	2,538,719	4,514,957	2,805,281	7,320,238
Term loans	125,000	6,368,250	375,000	6,868,250	4,500,000	11,368,250
Murabaha payables	181,250	181,250	2,381,322	2,743,822	9,857,500	12,601,322
Provision for employees' end of service benefits	-	-	-	-	1,484,962	1,484,962
<b>Total liabilities</b>	<b>1,128,942</b>	<b>7,703,046</b>	<b>5,295,041</b>	<b>14,127,029</b>	<b>18,647,743</b>	<b>32,774,772</b>

As of 31 December 2020, there are certain restrictions on the liquidity of cash and cash equivalents amount of KD1,297,562 (31 December 2019: KD2,577,267) (note 12.2).


**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**34 Risk management objectives and policies (continued)**
**34.4 Liquidity risk (continued)**

Maturity profile of assets and liabilities at 31 December 2019:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Sub-total Up to 1 year KD	Over 1 year KD	Total KD
<b>ASSETS</b>						
Cash and cash equivalents	7,898,924	-	-	7,898,924	-	7,898,924
Restricted cash and cash equivalents (see below)	-	2,577,267	-	2,577,267	-	2,577,267
Installment credit debtors	683,380	349,127	2,003,766	3,036,273	1,092,380	4,128,653
Financial assets at fair value through profit or loss	14,504,859	-	-	14,504,859	-	14,504,859
Accounts receivable and other assets	992,013	184,622	3,792,326	4,968,961	-	4,968,961
Properties held for trading	-	-	906,140	906,140	-	906,140
Financial assets at fair value through other comprehensive income	-	-	-	-	66,501,483	66,501,483
Investment in associates	-	-	-	-	44,631,874	44,631,874
Investment in real estate under development	-	-	-	-	5,313,674	5,313,674
Investment properties	-	-	-	-	1,596,464	1,596,464
Property and equipment	-	-	-	-	2,639,614	2,639,614
<b>Total assets</b>	<b>24,079,176</b>	<b>3,111,016</b>	<b>6,702,232</b>	<b>33,892,424</b>	<b>121,775,489</b>	<b>155,667,913</b>
<b>LIABILITIES</b>						
Due to banks	1,930,923	-	-	1,930,923	-	1,930,923
Accounts payable and other liabilities	660,291	4,610,727	5,509,782	10,780,800	2,891,085	13,671,885
Term loans	-	4,044,500	5,210,000	9,254,500	8,720,000	17,974,500
Murabaha payables	-	552,486	3,240,031	3,792,517	8,336,153	12,128,670
Provision for employees' end of service benefits	-	-	-	-	1,481,816	1,481,816
<b>Total liabilities</b>	<b>2,591,214</b>	<b>9,207,713</b>	<b>13,959,813</b>	<b>25,758,740</b>	<b>21,429,054</b>	<b>47,187,794</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 34 Risk management objectives and policies (continued)

#### 34.4 Liquidity risk (continued)

The contractual maturity profile of the financial liabilities based on undiscounted cash flow is as follows:

31 December 2020	Sub-total						Total
	Up to 1 month	1-3 months	3-12 months	Up to 1 year	Over 1 year		
Financial liabilities	KD	KD	KD	KD	KD	KD	KD
Accounts payable and other liabilities	822,692	1,153,546	2,538,719	4,514,957	2,805,281	7,320,238	
Term loans	130,313	6,474,388	390,938	6,995,639	4,691,250	11,686,889	
Murabaha payables	188,953	188,953	2,468,108	2,846,014	10,227,994	13,074,008	
Provision for employees' end of service benefits	-	-	-	-	1,484,962	1,484,962	
	<b>1,141,958</b>	<b>7,816,887</b>	<b>5,397,765</b>	<b>14,356,610</b>	<b>19,209,487</b>	<b>33,566,097</b>	

31 December 2019	Sub-total						Total
	Up to 1 month	1-3 months	3-12 months	Up to 1 year	Over 1 year		
Financial liabilities	KD	KD	KD	KD	KD	KD	KD
Due to banks	2,032,297	-	-	2,032,297	-	2,032,297	
Accounts payable and other liabilities	660,291	4,610,727	5,509,782	10,780,800	2,891,085	13,671,885	
Term loans	-	4,207,202	5,519,715	9,726,917	9,242,470	18,969,387	
Murabaha payables	-	573,303	3,393,478	3,966,781	8,738,822	12,705,603	
Provision for employees' end of service benefits	-	-	-	-	1,481,816	1,481,816	
	<b>2,692,588</b>	<b>9,391,232</b>	<b>14,422,975</b>	<b>26,506,795</b>	<b>22,354,193</b>	<b>48,860,988</b>	



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 35 Fair value measurement

#### 35.1 Fair value hierarchy

value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are Grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### 35.2 Fair value measurement of financial instruments

The carrying amounts of the Group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorised as follows:

	31 Dec. 2020	31 Dec. 2019
	KD	KD
<b>Financial assets:</b>		
<b><i>At amortised cost:</i></b>		
Cash and cash equivalents	11,338,787	7,898,924
Restricted cash and cash equivalents	1,297,562	2,577,267
Installments credit debtors	622,849	4,128,653
Accounts receivable and other assets	4,049,853	4,968,961
<b><i>At fair value:</i></b>		
Financial assets at fair value through profit or loss	11,503,238	14,504,859
Financial assets at fair value through other comprehensive income	87,866,823	66,501,483
<b>Total</b>	<b>116,679,112</b>	<b>100,580,147</b>
<b>Financial liabilities:</b>		
<b><i>At amortised cost:</i></b>		
Due to banks	-	1,930,923
Accounts payable and other liabilities	7,320,238	13,671,885
Term loans	11,368,250	17,974,500
Murabaha payables	12,601,322	12,128,670
Provision for employees' end of service benefits	1,484,962	1,481,816
<b>Total</b>	<b>32,774,772</b>	<b>47,187,794</b>

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 35 Fair value measurement (continued)

#### 35.2 Fair value measurement of financial instruments (continued)

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position are Grouped into the fair value hierarchy as follows:

	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<b>31 December 2020</b>				
<b>Financial assets at fair value through profit or loss:</b>				
Local quoted shares	675,502	-	-	675,502
Foreign quoted shares	336,504	-	-	336,504
Investment in managed portfolios	8,225,115	-	-	8,225,115
Foreign unquoted shares	-	-	1,772,332	1,772,332
Investment fund	-	493,785	-	493,785
<b>Financial assets at fair value through other comprehensive income:</b>				
Local quoted shares	37,093,806	-	-	37,093,806
Local unquoted shares	-	-	4,987,599	4,987,599
Foreign unquoted shares	-	-	38,792,528	38,792,528
Investment in managed portfolios	4,280,638	-	-	4,280,638
Debit instruments	-	-	2,617,816	2,617,816
Investment funds	-	94,436	-	94,436
	<b>50,611,565</b>	<b>588,221</b>	<b>48,170,275</b>	<b>99,370,061</b>

#### 31 December 2019

##### Financial assets at fair value through profit or loss:

Local quoted shares	816,860	-	-	816,860
Foreign quoted shares	348,388	-	-	348,388
Investment in managed portfolios	10,635,479	-	-	10,635,479
Foreign unquoted shares	-	-	2,115,357	2,115,357
Investment fund	-	588,775	-	588,775

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

Local quoted shares	4,134,661	-	-	4,134,661
Local unquoted shares	-	-	12,679,879	12,679,879
Foreign unquoted shares	-	-	39,869,688	39,869,688
Investment in managed portfolios	7,076,658	-	-	7,076,658
Debit instruments	-	-	2,641,946	2,641,946
Investment funds	-	98,651	-	98,651
	<b>23,012,046</b>	<b>687,426</b>	<b>57,306,870</b>	<b>81,006,342</b>

During the year, local quoted shares classified as financial assets at fair value through other comprehensive income have been transferred from level 3 to level 1.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 2 and level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out below.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2020

**35 Fair value measurement (continued)****35.2 Fair value measurement of financial instruments (continued)****Financial assets in level 3:**

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The valuation techniques used for instruments categorised in Levels 2 and 3 are described below:

a) Unquoted equity securities are valued using cash flow projections based on financial estimates approved by senior management. The growth rates used to arrive at the terminal value ranged from 2.5%. Further the revenue growth projections are based on the assessment of the future business growth.

*Key assumptions used in fair value calculations*

The calculation of fair value is most sensitive to the following assumptions:

- Discount rates;
- Growth rates used to extrapolate cash flows beyond the budget period;
- Local inflation rates.

*Discount rates*

Discount rates are calculated by using risk free rate, equity market risk premium, beta factor and company specific risk premium (alpha factor).

*Market share assumptions*

These assumptions, as well as use of industry data for growth rates, are important as the entity's relative position to its competitors might change over the budget period.

*Projected growth rates and local inflation rates*

Assumptions are based on references from published industry research reports.

b) Investments in funds have been valued based on Net Asset Value (NAV) of the fund provided by the fund manager.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

There were no changes to the valuation techniques during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 35 Fair value measurement (continued)

#### 35.2 Fair value measurement of financial instruments (continued)

##### Level 3 fair value measurements

The Group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2020	31 Dec. 2019
	KD	KD
Opening balance	57,306,870	62,138,109
Change in fair value	(8,864,899)	819,191
Sales / Transfer	(13,206,397)	(31,403,471)
Purchases	12,934,701	27,601,345
Impairment of financial assets at FVTOCI	-	(1,848,304)
Closing balance	<b>48,170,275</b>	57,306,870

##### **Non-financial instruments**

Investment properties were fair valued at 31 December 2020 and are classified under level 3 fair value hierarchy and reconciliation is provided in note 20.

##### **Description of significant unobservable inputs to valuation of non-financial assets:**

Fair value of investment properties were determined using Mark to Market method, conducted by valuers considering transaction prices of the property and similar properties. The significant unobservable valuation input used for the purpose of valuation is the market price per square foot / meter and varies from property to property. A reasonable change in this input would result in an equivalent amount of change in fair value.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 36 Capital risk management

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimisation of the capital structure.

The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of the following:

	<b>31 Dec. 2020</b>	31 Dec. 2019
	<b>KD</b>	KD
Due to banks	-	1,930,923
Term loans (note 23)	<b>11,368,250</b>	17,974,500
Murabaha payables (note 24)	<b>12,601,322</b>	12,128,670
Less:		
Cash and cash equivalents (note 12.1)	<b>(11,338,787)</b>	(7,898,924)
Restricted cash and cash equivalents (note 12.2)	<b>(1,297,562)</b>	(2,577,267)
Net debt	<b>11,333,223</b>	21,557,902
Equity	<b>122,622,915</b>	108,480,119
Net debt to equity ratio	<b>9.24%</b>	19.87%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 37 Capital commitments

At the date of the consolidated statement of financial position, the Group had capital commitments amounting to KD282,396 (31 December 2019: KD282,396) for real estate under development.

### 38 Division of the Parent Company

During 2018, the Parent Company's Board of Directors approved a proposal for the division of the Parent Company into two companies by transferring assets from the Parent Company to the new company. The Parent Company will continue to conduct all of its current activities and the activity of the new company will be of a holding company. On division, each shareholder of the Parent Company will receive a share in the new company.

On 7 November 2019, the Directors' suggested alternatives in respect of the division were discussed and it approved a proposal to decrease the share capital from KD80 million to KD29 million through a distribution of shares of a subsidiary to the shareholders of the Parent Company. Therefore, a request was submitted to the CMA for approval.

On 19 February 2020, the CMA indicated that after it had studied extensively the request submitted by the Parent Company, it had concluded that the transaction, in terms of legal adoption and technical procedure, is not a reduction of the share capital in excess of the need, and that the closest description appropriate to it in the form and content is a "Division", and that the CMA is currently working to prepare rules for companies division. Based on the foregoing, the CMA is unable to approve the Parent Company's request to reduce the share capital, for the reasons mentioned above. Accordingly, the transaction will be postponed until the CMA completes preparing these rules.

As of the date of the consolidated financial position, no effect of the above has been recognised in these consolidated financial statements.

### 39 Effect of COVID-19

The outbreak of Coronavirus ("COVID-19") pandemic and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global and local equity markets have experienced significant volatility and weakness. While governments and central banks have reacted with various financial packages and reliefs designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time. Management of the Group is actively monitoring the effects COVID-19 may have on its business operations.

In light of COVID-19, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the consolidated financial statements. Below are the key assumptions about the future and other key sources of estimation that may have a significant risk of causing material adjustments to the consolidated financial statements:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

### 39 Effect of COVID-19 (continued)

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

The Group has analyzed impairment indicators arising and significant uncertainties around its investment properties, especially arising as a result of COVID-19.

Accordingly, the Group has performed an impairment assessment of its investment properties, considering the negative impact of COVID-19 on market value of properties and concluded that recoverable amounts of certain properties are lower than their carrying values as at the end of the year. As a result, during the year the Group has identified an impairment loss amounting to KD134,160 in respect of investment in real estate under development in these consolidated financial statements.

#### *Fair valuation of financial assets*

The uncertainties caused by COVID-19 have required the Group to reassess the inputs and assumptions used for the determination of fair value of financial assets at FVTPL.

The Group has determined the fair value of its equity securities, managed funds, fixed income securities and equity participations in real estate properties based on most recent market information relating to the respective investments and recognized resulting unrealized loss in these consolidated financial statements.

#### *Going concern*

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

Further, management is aware that a continued and persistent disruption could negatively impact the consolidated financial position, performance and cash flows of the Group in the future. Management continues to closely monitor the market trends, its supply-chain, industry reports and cash flows to minimise any negative impact on the Group.

### 40 Comparative amounts

Certain other comparative amounts have been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year.