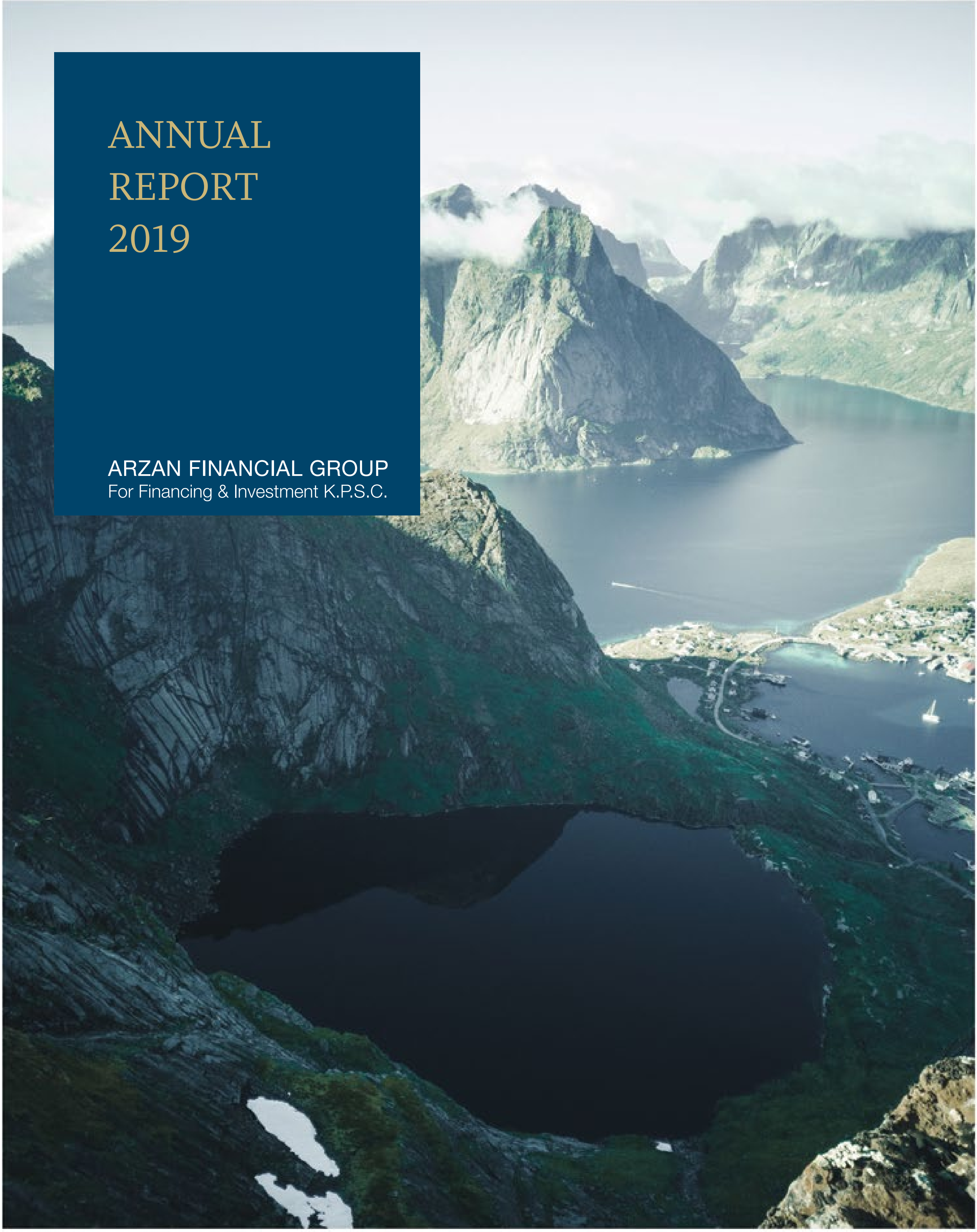
ANNUAL REPORT 2019

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



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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 eight thousand and two hundred and fifty seven thousand Kuwaiti Dinars)

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

H.H. Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
CROWN PRINCE OF KUWAIT

Content

BOARD MEMBERS

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Wafa Ahmad Al-Qatami
Chairman

Jassem Hasan Zainal
Vice Chairman & CEO

Ibrahim Saleh Al-Tharban
Board Member

Emad Abdullah Al-Essa
Board Member

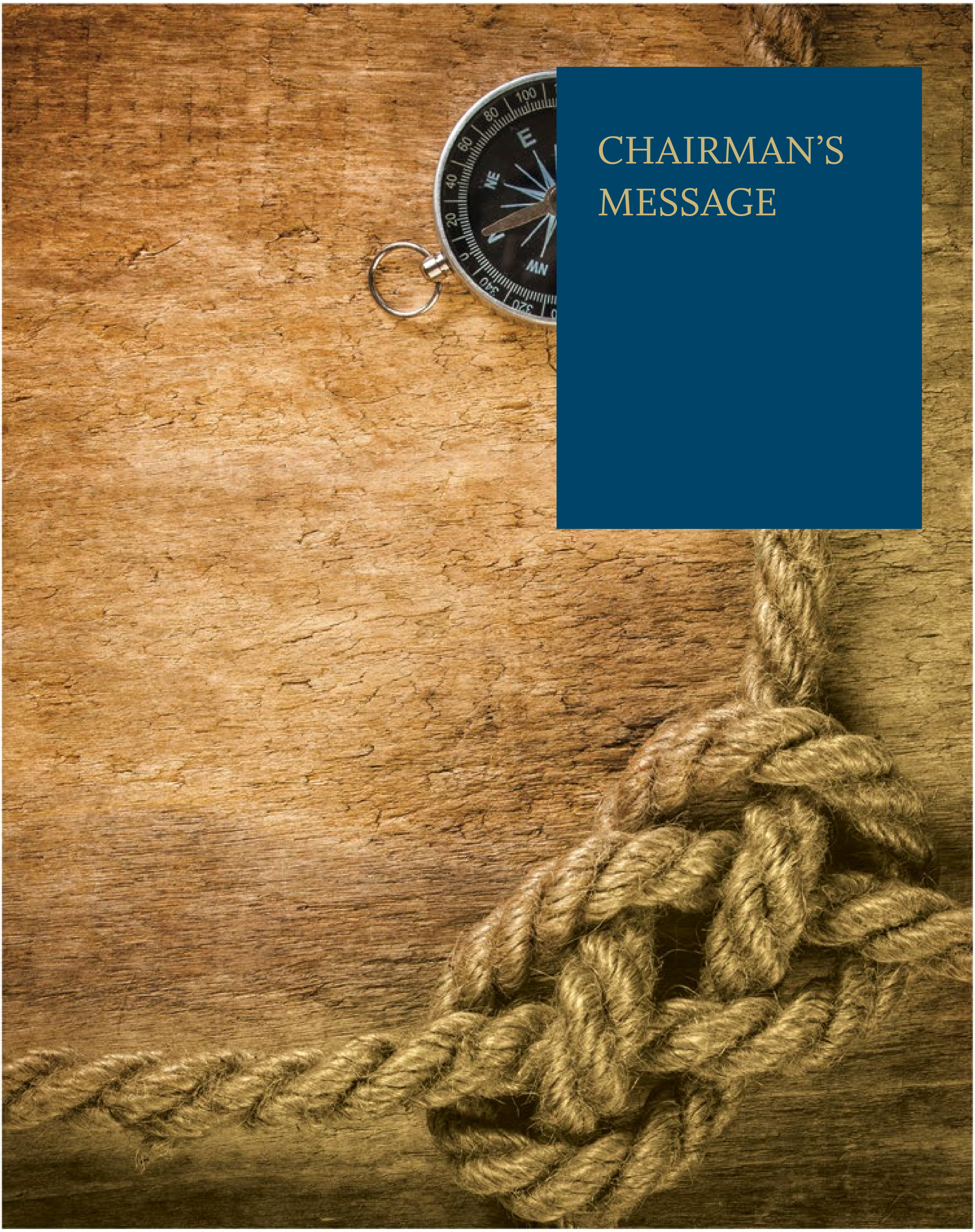
Abdul Hamid Mohammad Mihrez
Board Member

Bader Jassem Al Hajri
Board Member

Rami Khaled Abdullah
Board Member

Ruba Fati Ghanem
Board Secretary

CHAIRMAN'S MESSAGE



Honorable Shareholders,

For myself and on behalf of my colleagues on the Board of Directors, I am pleased to present to you the annual report for the year 2019 of Arzan Financial Group for Financing and Investment. The Company has drawn a new strategy for the Group's business to serve as a continuity and emphasis of the previous strategy that seeks to attain the leadership position in the finance and investment industry in the State of Kuwait and the region by expanding our customer base and increasing our financial and investment services that achieves the objectives of customers and investors. The strategy also focuses on diversifying the sources of income and the quality of its revenues, thereby supporting the progress of the Company's growth.

Operating Environment:

The world has witnessed gloomy economic events since the start of 2019 especially after the sharp declines of the world financial markets at the end of 2018 against the backdrop of geopolitical tensions and US – Chinese trade war the consequences of which have negatively impacted global growth. In addition, the region suffered as a result of the continuous decline of oil prices with huge effects on the economies of oil exporting countries, with the gross domestic product of the State of Kuwait falling short of the expectations for the year 2019.

On the other hand, Kuwait achieved several key milestones in developing its financial markets in line with international standards and succeeded in attracting more foreign investments. As a result, the Kuwait Stock Exchange was promoted to the emerging markets category by Morgan Stanley Index (MSCI), the world leader in research-based financial indicators and analyses. Kuwait Stock Exchange is expected to receive a relative weight of 0.69% on the Morgan Stanley Index for Emerging Markets with effect from May 2020.

Kuwait has witnessed two successful initial public offerings during the fourth quarter of the year: the IPO of Boursa Kuwait Company and the IPO of First North Zor Company for Energy and Water. Both IPOs were covered several times. The strong demand for both IPOs was a clear indication of the market's readiness to absorb such investment opportunities.

Arzan Financial Group's adoption of a strong and comprehensive framework of sound corporate governance constitutes a key support element in strengthening the links of confidence with stakeholders. This framework is a cornerstone for achieving and maintaining sustainable growth for the Group. For this reason we continue to strive to achieve the growth, development and strengthening of the operations and practices of sound governance in all operations and sectors of the Group. In parallel, the Group's Board of Directors continues to provide wise directions to the Executive Management in implementing the Group's adopted plans and strategies.

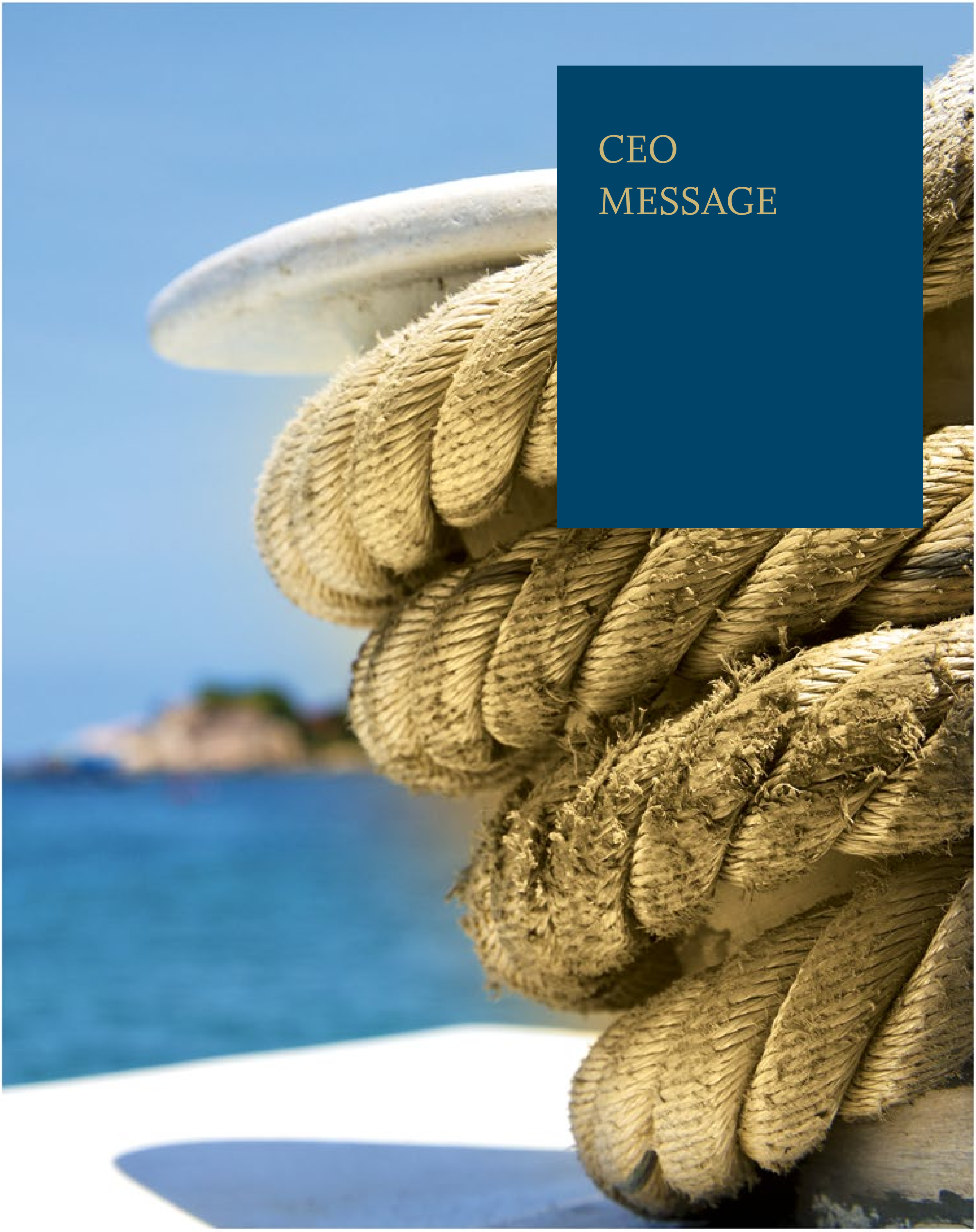
The Group achieved positive results in 2019 with an unprecedented increase in operating revenues that amounted to KD 14.527 million compared to KD 8.657 million in 2018, representing an increase of 68% for the year, that would have resulted in a net profit higher than that of the previous year had it not been for the need to take precautionary profits against several financial assets of our subsidiary company in the Lebanese Republic as a result of the political events that have had a negative impact on the economic situation in Lebanon. As a result, Arzan Financial Group achieved a net profit of KD 1.096 million for the year 2019, compared to a profit of KD 2.534 million in the previous year.

In conclusion, and on behalf of my colleagues on the Board of Directors, I express my deepest thanks, gratitude and appreciation to His Highness the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al Sabah, His Highness the Crown Prince, Sheikh Nawwaf 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 Mr. Khaled Al-Rowdhan, 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.

I am also pleased to seize this opportunity to express my thanks and appreciation to our esteemed shareholders for their valuable trust and unlimited support. I also wish to express my sincere thanks and appreciation to all the customers of the Company for the confidence and support they have extended to us. I 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.

Wafa Ahmad Al Qatami - Chairman of Board of Directors



CEO MESSAGE

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Honorable Shareholders,

In 2019, Arzan Financial Group achieved a number of positive results and promoted the Group's position in the money and investment industry with a view to achieving sustained growth for the Company's shareholders and customers. These results were achieved by diversifying the Group's sources of income, expanding our customer base and increasing our financial and investment services in order to cater for our customers' requirements and achieve their goals.

2019 witnessed the lowest rates of global economic growth since 2008 according to the World Economy Report issued by the International Monetary Fund in October 2019, brought about by concerns over the trade war between the USA and the People's Republic of China. At the same time, the US Federal Reserve Bank reduced interest rates three times during 2019 to avoid economic recession.

In addition, the procedures associated with the United Kingdom's exit from the European Union, which took several turns and failed to reach final agreement on the method of implementing such exit, resulting in a negative impact on several real estate investments of the Company in the United Kingdom.

At the local level, oil prices witnessed several fluctuations: Several factors contributed to the upward trend of oil prices, foremost among which were the stricter sanctions imposed by the USA against Iranian oil exports, the continuous reduction of oil production by OPEC countries and the disturbances in Venezuela. However, renewed tensions between the USA and China led to a decline of oil prices once again during the year.

In 2019, the Kuwaiti economy grew at a lower rate of 0.6% according to International Monetary Fund forecasts, and the Central Bank of Kuwait reduced the discount rate by 25 basis points to 2.75% in October 2019.

The Kuwaiti financial market witnessed several remarkable developments during 2019, the main development being the step taken by Morgan Stanley Cap Indexes (MSCI) promoted the Kuwait Stock Exchange to the emerging markets category with a relative weight of 0.69%, to be implemented in May, 2020. It is expected that net cash inflows to the Kuwaiti market will amount to US $ 2.7 billion, as a result of this promotion.

The Kuwait Stock Exchange had the best performance with the GCC region, and the Boursa Kuwait Index of Returns for All Shares gained 24%, while the index of total revenues of the main market's 19 companies gained 32% for the year.

The Boursa Kuwait privatization initial public offering in the last quarter of the year was quite successful and was welcomed by the Kuwaiti nationals who subscribed to 50% of the issued capital of Boursa Kuwait Company, and the rate of subscription was 850%. This IPO was launched following the allocation in February 2019, of 44% of the company's capital, through auction, to a strategic alliance in which Arzan Group participated an managed to buy a 14.4% share in the company's capital. The privatization of Boursa Kuwait Company was the first operation to implement the privatization of a public utility in Kuwait. It is an important step toward achieving the ambitious national development targets specified in the Kuwait Vision 2035, and is expected to promote Kuwait as a regional financial center. It also gives the private sector an opportunity to contribute directly to and play a stronger role in developing the stock exchange and the national economy.

With a view to achieve the Group's strategy for the years 2019-2021, the Group's Board of Directors approved in February 2019 a scheme to divide the company into two shareholding companies, one of which would undertake the main activities of the company and the other would be a holding company that would manage the long-term investments. With such division and the strengthening of Arzan Financial Group as a separate entity, it would be able to allocate resources to research, development and creativity. This step would also give the company a stronger competitive power in terms of the real performance of the various activities of the company and expanding its customer base in addition allowing the shareholders to evaluate the real performance of both companies. Pursuant to the Board's approval of the project, Management approached the supervision authorities following completion of all the legal, supervisory and accounting requirements, and is now waiting for obtaining the approvals in order to implement the project.

The Group continues to attract competent young and ambitious individuals to join the company, while the Human Resources Department provides the best training programs to the young recruits in order to develop and improve their skills and competences in various fields.

Despite the local and international operating environment, the Group achieved positive results in 2019, with Group total operating revenues rising to KD 14.5 million by the end of December 2019 compared to KD 8.7 million at the end of December 2018. The Group had to take precautionary provisions of KD 3.250 against certain financial assets of our subsidiary company (International Finance Company – Arzan) in the Lebanese Republic as a result of the political events that rocked the Lebanese economy and caused a sharp decline in various economic sectors particularly following the demonstrations that led to the resignation of the Lebanese government and ushered a period of political instability that brought about the closure of banks which coincided with the decline of the Lebanese Pound against the US Dollar. Following these developments, global rating agencies reduced the classification of the country, with Moody's lowering Lebanon's rating to CCC and S&P reducing it to CCC2. In light of these developments, restrictions were imposed on the remittance and withdrawing of funds. This, in turn, limited the activity of the Company, increased risks and lowered all profit indicators for 2019.

I would like to seize this opportunity to express my deep thanks and appreciation to our esteemed shareholders for their valuable trust and unlimited support. I would also like to express my thanks and appreciation of all the Company's customers for the trust and support extended to us. Similarly, I want to thank all the Company's employees for their loyalty and dedication to work.

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.

Jassem Zainal - Chief Executive Officer

MANAGEMENT REPORT

ARZAN WEALTH

Arzan Wealth (DIFC) Limited is a Dubai-based advisory firm regulated by the Dubai Financial Services Authority. Arzan Wealth is 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 underwriting and co-investing in our transactions, alongside our loyal client base.

In 2019, we applied our prudent risk management approach in terms of market selection and asset quality and reinforced our primary strategy to preserve and protect the wealth of investors. We successfully advised on the acquisition of one new deal under the Yielding Asset Platform in The Netherlands, in addition to a new Investment in the US under the Private Equity Platform, while devoting significant time and attention to asset management opportunities within our existing advisory portfolio, especially those in the UK which were facing Brexit-related headwinds. Arzan Wealth took the strategic view to expand its physical presence beyond the Middle East by establishing a wholly owned entity, Arzan Wealth (UK) Limited in London, to provide more effective oversight of transactions undertaken with third party managers in continental Europe and the UK.
Furthermore, we were able to advise on two successful exits of assets in the US and The Netherlands for our clients, at favorable returns.

For the Real Estate Debt Platform, 2019 was a slow year and did not offer attractive opportunities that fall within our quality and risk guidelines, despite our serious pursuit of several transactions. We continue to identify and advise on other senior and mezzanine opportunities as we believe that real estate debt should play a role in any portfolio of investments focused on an attractive income stream and enhanced risk-adjusted returns. We are specifically pursuing several transactions for 2020 that utilize the REILS amortizing mezzanine structure that we launched 2 years ago, which offers a Sharia-compliant and tax efficient manner for our clients to gain exposure to equity-like returns from US real estate investment.

Under the Yielding Asset Platform, we continued in 2019 with our cautious and highly selective approach to the UK and European markets. While the UK is currently still nominally part of the EU, the uncertainty over the post-Brexit trading relationship between the UK and its largest trade partner, the EU, is affecting the country's attractiveness as a destination for inward investment. On the other hand, with the confidence in the safety and security of The Netherlands market, we successfully advised on the acquisition of a portfolio of three newly refurbished and high-quality office buildings in Amsterdam in April 2019. Due to its stable and dynamic business environment, Amsterdam has recently welcomed a number of global players who moved their business from London.

The US-China trade conflict, and unpredictability of U.S. policy actions in general, have injected uncertainty into business planning, threatening to weaken economic activity. However, we were able in Q4 2019 to advise on the launch of the Arzan Food & Beverage New Brands Vehicle that invests in specialized food and consumer product companies in the United States. The strategy is focused on innovative, organic, non-GMO and fast-growth brands in the F&B and Consumer Goods sectors, and takes advantage of a major consumer behavior shift away from big-brand, processed foods and towards new, smaller and healthier brands that focus on well-being.

Arzan Wealth successfully advised on the sale of the fourth asset from our US Single Tenant Portfolio at favorable returns. Also, we successfully advised our clients on the sale of a Class A office building in the Hague, The Netherlands, achieving strong returns for investors. The total of eleven asset sales reflect our continued focus on completing the cycle for our clients and advising on profitable exits for them.

Looking forward towards 2020, Arzan Wealth remains cautious and diligent in its approach to new transactions as we analyze the potential impact of various geo-political and macroeconomic trends around the world. As we saw in 2019, global events like Brexit and suffering retail markets, must be taken into consideration in our advisory decisions during the year, and lowering risk should remain our primary focus. Trade disputes and geopolitical frictions have become key drivers of the economy and markets, as they inject significant volatility and unpredictability onto the global scene.

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

In 2019, 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.

As an active investment's manager, 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.

For the year 2019 we focused on developing our investment solution offering and enhancing our clients base. Also, in 2019 the division has planned and directed Arzan Financial Group efforts in Kuwait Bourse deal from the early stages of participation in the deal until the deal conclusion. Our concern for the upcoming year, are the current geo-political tension in the region and the sustainability of the global growth. Our aim is to monitor global and regional Macro environment closely and implement prudent strategies to navigate through 2020 and achieve our client's objectives.

ARZAN BROKERAGE

In 2019 , The Division is closely monitoring the Brokerage Subsidiaries which are EFG Hermes IFA (Kuwait), Arzan Securities Brokerage (Egypt), and IFA Financial Services (Jordan). Annual and quarterly reports are produced as well as annual visitations to optimize operational efficiencies for our brokerage subsidiaries and the division.

During 2019, The division initiated the rebranding strategy of our subsidiaries in Egypt and Jordan. IFA securities brokerage (Egypt) has changed its name to Arzan Securities Brokerage and expanded its marketing plans in promoting its products and services which proved to be successful in attracting Institutional and high net worth clients. Also, Arzan securities Brokerage has introduced new services and product during 2019 like short selling and trading platforms (Desktop application & Mobile application). For 2020 We will aim at improving the subsidiaries profitability margins and financial position through higher operating efficiencies.

Talal Al Bahar - Executive Director of Asset Management & Brokerage

ARZAN VENTURE CAPITAL

ArzanVC 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 2019. Arzan VC has now invested in a total of 24 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 & 2019.

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 2019, we witnessed a higher activity in VC investments and noted an improvement in the quality of startups compared to previous years.

Hasan Zainal - Partner

ARZAN CORPORATE CREDIT

In 2019 , The credit department has been concentrating on corporate clients with a current portfolio of considerable number of local clients that are spread over all economy sectors and operating locally and internationally with concentration on small to medium size enterprises. Based on the quality of the clients' financial statements and senior management expertise in their fields, the strategy of the credit department is to develop the portfolio on annual basis at a progressive rate while constantly pursuing potential new clients to increase the portfolio, reduce concentration risk and minimize impact of any delinquent account.

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 establish a close relationship with its clients to monitor the clients' performance and 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, income, collaterals evaluation, and clients' commitment as well as clients under screening.

ARZAN COLLECTION

In 2019, Arzan Collection Co. was obtained new contracts with a several distinguished companies in Kuwait to provide them with all collections services. Arzan Collection Co built an overseas network of agents in 9 countries covering most of MENA countries and some Asia countries such as India, Pakistan and Philippine. Arzan Collections Company is one of the group companies that provide all types of collections and follow-up services either in a friendly way or legal way for Arzan Finance Group portfolios and some other sectors in Kuwait.

Arzan Collections management team with an experience of 24 years in that field serves many sectors in Kuwait such as banks , financing companies , investments companies , telecom, real estate, retailers and insurance companies.

INSTALLMENT SALES SERVICE

The company expanded its range of services by introducing a new installment sales service called EasyBuy via one of our subsidiaries Easy Buy Company. EasyBuy is an installment sales service that facilitates customers 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 ten branches throughout 2018, and it reached 19 branches in 2019.

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 focusses on customer satisfaction by offering competitive pricing, simplified installment plans, and less requirements.

MARKETING

In 2019, 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.

In 2019, 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.

Marketing and Public Relations activities are key factor of successful expansion of Arzan Financial Group.
These important factors enable us to increase our business and strengthen our position in the community and in our clients minds.

In addition, Arzan Financial Group provided a great appearance in press , social media channels & CSR participations through allocating 1% of AFG profits to support the CSR activities in 2019.

Fawaz Almunaya - Marketing & PR Supervisor

INFORMATION TECHNOLOGY

In 2019, 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.

Upon completion of T24 Implementation and Insight data warehouse, AFG business and IT department ensured the organization's objectives are met. Post implementation activity carried out to ensure the system functionality is verified and functioning as per design. We have centralized data storage system that allows the business to integrate data from multiple applications and sources in one location with the Business Intelligence tool. IT Department is enhancing the system by developing business & regulatory reports to meet the business needs.

In align with organization strategy, we are fully committed to implement paperless environment to automate all the processes and requests. The main objective is to increase the Productivity, collaborate and ease the manual Process. AFG is proud to announce that we met the objective of Phase I successfully. During Phase two we will be enhancing the project a step further to do internal approvals from the Mobile Application for any internal process. All these activities carried out through internal development (end to end) through the mobile. We believe a project is successful upon its utilization, and the team is dedicated to striving towards the Mission, Vision & Values of the Organization.

Information Technology department is managing the project of replacing the Legacy system in ICF Lebanon to T24 System. We are into execution stage as the data migration process is successfully completed. AFG IT team supports the team in Lebanon in every aspect to complete the project and to be part of success story.

AFG IT team in coordination with the business owner successfully implemented the ci-net requirement for the SME loan portfolio. The data submission initiated well before the deadline given by Ci-net. Also, AFG started submitting the consumer Loan data daily. AFG Internal IT team does the enhancement based on the requirement in order to be compliant with the regulatory.
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.

ADMINISTRATION

In 2019, administration department focused on providing all services and fulfilling all other departments' and subsidiaries needs. Administration department have three main functions, which are governmental services, general services, and general registration.

In the field of general services, general registration, and documents archiving, Administration department have completed multi projects to ensure a well-defined goal that's going to achieve the group objectives as the following:

- Renovation project to ensure having unified corporate identity for the group workplace.
- upgraded the electronic archiving system and created a well-prepared store equipped with high technology in order to preserve the company's documents and customers' information to keep them safely in high confidential environment.

- New fire proof safes in order to protect the company's important documents and records.
- Installation of new surveillance cameras to be in line with the requirement of the Ministry of Interior to maintain the security of the property and the safety of its employees.

Administration department have renewed all the licenses of Arzan Financial Group. It also established a new company in the name of Easybuy, in order to be in line with the groups' vision and objectives. In 2019, Admin department supported and provided the Group and its subsidiaries with all necessary documents to carry out their activities as soon as possible. Therefore, administration department have been keen to develop their employees by providing training courses in different fields that will increase the efficiency and capabilities of the employees to ensure their readiness and preparation to manage their duties, which will help in achieving top management vision and objectives

Ahmad AL Homaid - IT & Admin Manager

HUMAN RESOURCES

In the year 2019, the Human Resource Department at Arzan Financial Group has ensured commitment to attracting and retaining the most talented and diverse workforce to ensure our services are delivered to our clients with professionalism and integrity. To achieve these objectives, we provided a wide range of training and development programs and exceptional professional growth opportunities to all our employees. Our Human Resource strategy focuses on acquiring and retaining the most efficient employees and to help them develop professionally to achieve organizational and personal goals. The annual manpower plan for the year clearly defines the requirement and criteria for each position and sets out the key performance indicators against which employees are appraised to ensure the workforce reflects Arzan's values and highest standard of excellence.

Arzan continued to emphases on employee development to expand capabilities and build competencies to meet client expectations and the Company's core operating values. The Human Resource team worked closely with department heads and senior management to enable our employees to deliver business objectives. Annual training plans were developed in accordance to departmental and organizational requirements and employee's role was clearly defined. Our performance management system helps in recognizing and rewarding outstanding performances 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.

At Arzan, we attract, develop and retain a highly talented and motivated workforce to foster a healthy and productive work environment for employees in order to position Arzan as an employer of choice. Reward and recognition form an integral part of our Company's Human Resource Policy and we offer competitive compensation and benefits package to ensure employee satisfaction. Our employees are supported to take up Professional certifications and also identify ways in which the company can be improved or the working conditions can be enhanced. We at Arzan believe that employee satisfaction is the key to a successful and smooth running organization

Abeer Botrous - Human Resources 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 Manager of the 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 2019, the internal audit department was evaluated by an external audit firm as per article 6-9 of Module- 15 (Corporate Governance) issued by Kuwait Capital Market Authority and the external audit report was submitted to Board of Directors and the Board Audit Committee

Karthikeyan Palanisamy - Internal Audit Senior Manager

RISK MANAGEMENT

1. Arzan Risk Management Principles

The The management of risk is a part of the strategic management at Arzan. We actively take risks in connection 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 risk principles.

a. Risk is taken within Board of Directors defined risk appetite guidelines;
b. Every risk taken needs to be approved by the appropriate authority;
c. Risk should be continuously monitored and managed;
d. A strong risk culture 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 decisions are 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 2019, 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 are committed to maintain this culture in the coming years by imparting 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).

We manage the identification, assessment, and mitigation of high and emerging risks through an internal governance process and the use of risk management tools. Our approach to risk assessment aims to ensure that we mitigate the impact of these risks on our financial results, long-term strategic goals, and reputation.

The overall focus on Risk Management throughout 2019 was on maintaining our risk profile in line with our strategy, with a focus on balance sheet optimization. This approach is reflected in the different risk metrics summarized below.

- Credit Risk Management

Credit Risk Management is very critical 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 selection of creditworthy customers acts a first line of defence for avoiding any Expected Default (ED) and Non-Performing Loans (NPL). We have also developed

various concentration limits to ensure that undue concentration and long tail-risks (large unexpected losses) are avoided and a high graded diversified portfolio is maintained.
Every new facility, extension and/or material change to a credit facility (such as its tenor, collateral structure or major covenant) to any counterparty requires approval from the appropriate authority level. In terms of SME credit, Arzan has not given individual authority to any individual employee of any cadre, according to the premise that group decisions are always better than individual decisions.
In addition to determine the counterparty credit quality and our risk appetite, we also use various credit mitigation techniques to optimize credit exposure and reduce potential credit losses. Credit risk mitigations, described more fully below, are applied in the following terms;

a. Comprehensive and enforceable credit documentation with adequate terms and conditions;
b. Collateral held as security to reduce losses by increasing the recovery of obligations.
c. Risk transfer, which shifts the probability of default risk of an obligor to third party including insurance companies.

Arzan regularly monitors the quality of its credit portfolio to ensure that it meets the required standards and early warning signals are promptly triggered for taking risk mitigating decisions.

- Expected Credit Loss (ECL)

Risk Management has implemented IFRS 9 in coordination with KPMG for calculating the Expected Credit loss (ECL) using the general approach. The facilities are required to be allocated to one of the three impairment stages by determining whether a significant increase in credit risk has occurred since initial recognition or whether the facility has defaulted. 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. 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.

- Market Risk Management

Arzan 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 business manager to take prompt decisions and avoid excessive risks. We have enhanced our model, increasing its coverage to ensure that VaR findings become an integrated part of key decision making.

- Foreign Currency

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 through future commercial transactions, 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 2019 by Risk Department in accordance with the group's risk management policies.

- Capital Adequacy

Risk Management has started implementing capital adequacy regulations issued by Capital Market Authority (CMA) and the first report shall be presenting the capital adequacy requirements as of December 31, 2019.

- 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 monitored liquidity on a Quarterly basis in 2019.

- Operational Risk Management

Arzan has devised and implemented a comprehensive framework for the management of Operational Risk. 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 of Key Risk Indicators (KRIs) and is logging each operational risk incident.

In addition, Risk Management is consistently trying to update the policies and procedures, authority matrix and organization structure to ensure that employees are not able to exploit internal controls for misappropriation of Arzan assets.

- Compliance Risk

During the year 2019, Arzan has complied with CMA guidelines on Corporate Governance, submitting the report to CMA within the deadline prescribed by the authority. With the exception of the violation we received regarding the disclosure of the company's strategy.

- 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 2019, we have imparted AML training to 50 employees 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

Nawal Baddar - Risk Manager

FINANCE DEPARTMENT

During 2019, the Arzan Financial Group achieved profits of KD 1.096 million compared to profits of KD 2.534 million which is a 57 % decrease from the previous year.

The company has achieved operating revenues in the amount of KD 14.527 million as compared to 8.657 million KD, with an increase equivalent to 68%. The reason for the increase is due to the followings:

1. Increase in change in fair value of financial assets at fair value through profit or loss.
2. Increase in gain on sale of financial assets at fair value through profit or loss
3. Increase in share of results of associates.
4. Increase in revenue from contracts with customers.

Expenses and other charges also amounted to KD 12.987 compared to KD 6.333 million, with increase of 105%, And the reasons for this increase is due to the followings:

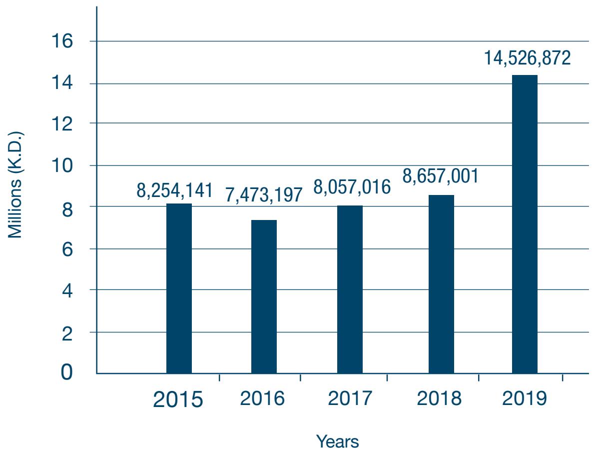
1. Impairment of financial assets at fair value of financial assets through other comprehensive income.
2. Provision of credit losses for restricted cash and cash equivalents.
3. Increase in provision for instalment credit debtors.
4. Increase in finance costs.

The following are the financial indicators that reflect the performance of Arzan Financial Group during the past five years.

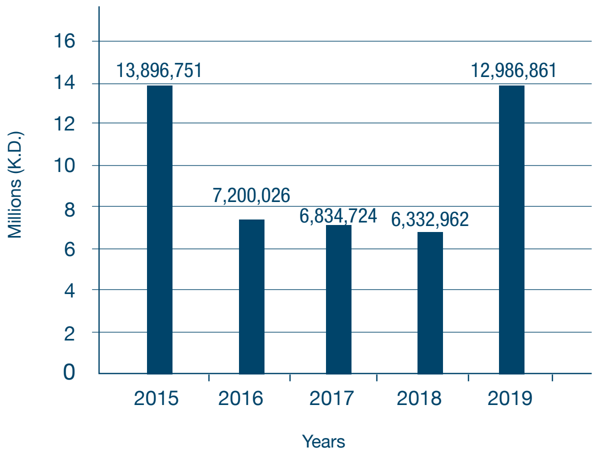
Mohammed Farid - Finance Executive Director

FINANCIAL REPORT ANALYSIS

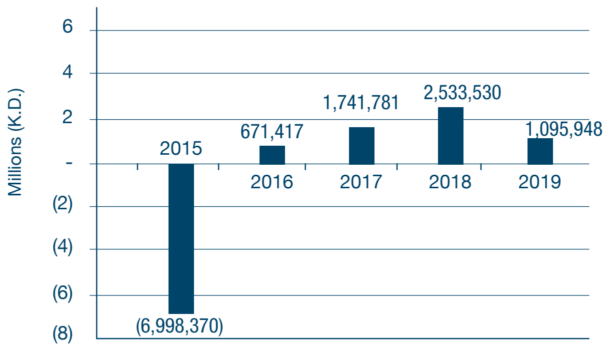
Total Income



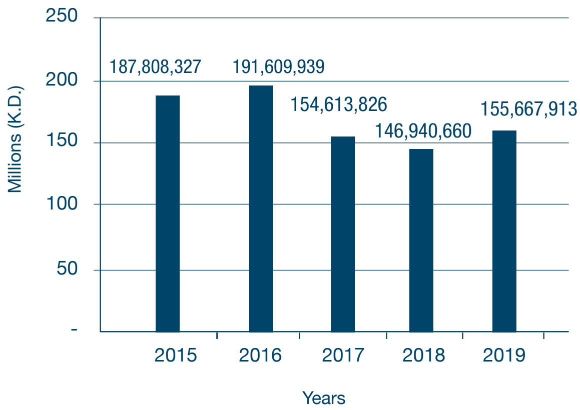
Total Expenses



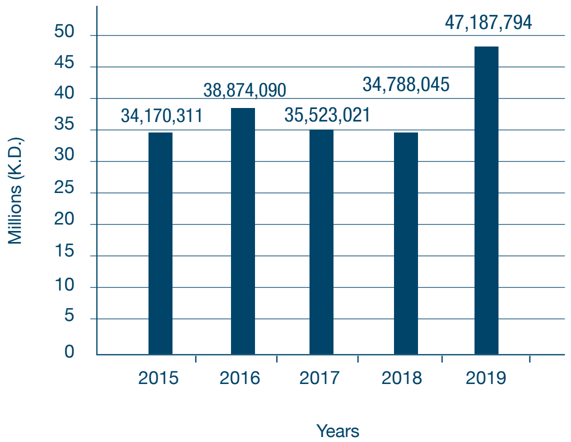
Net Income attributable to the parent company



Assets

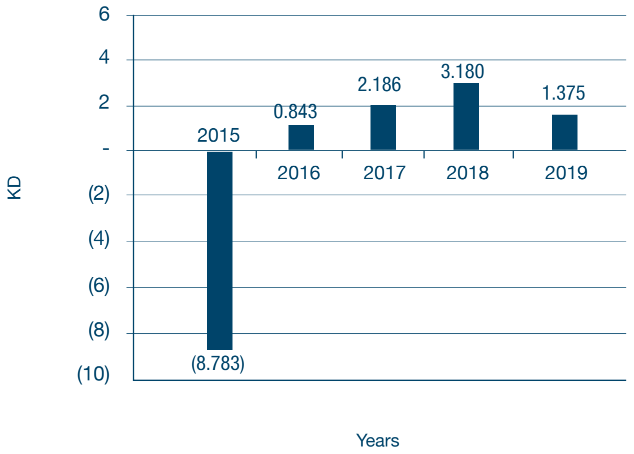


Total Liabilities

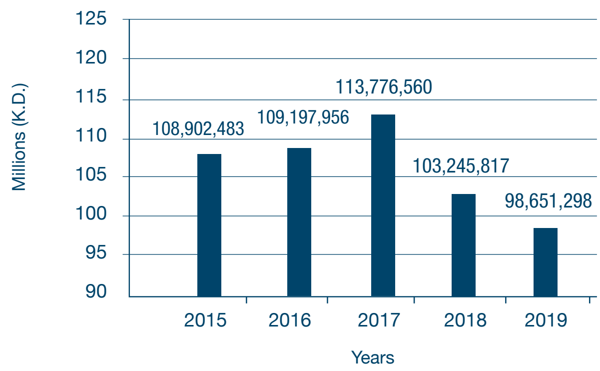


FINANCIAL REPORT ANALYSIS

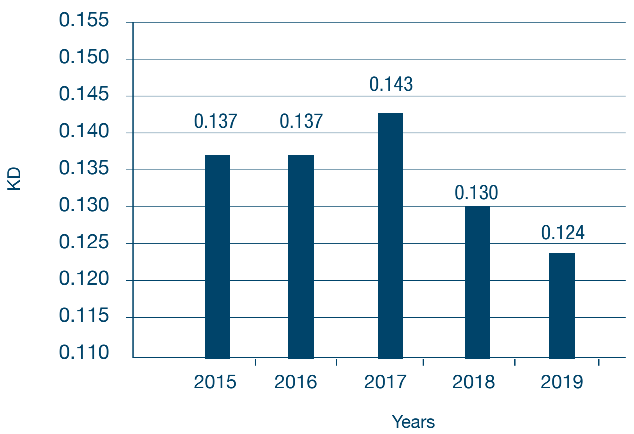
Earnings per Share



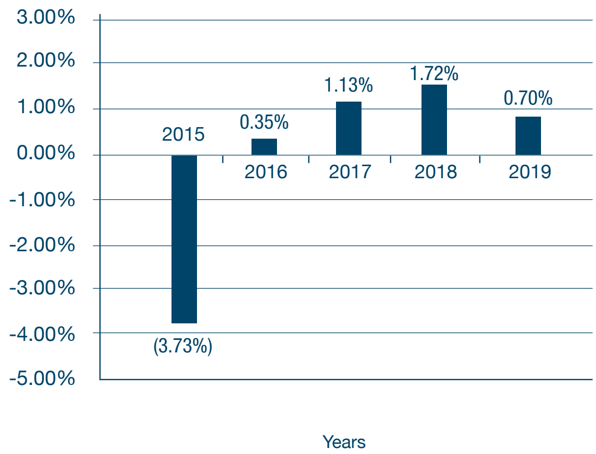
Shareholders' equity attributable to parent company



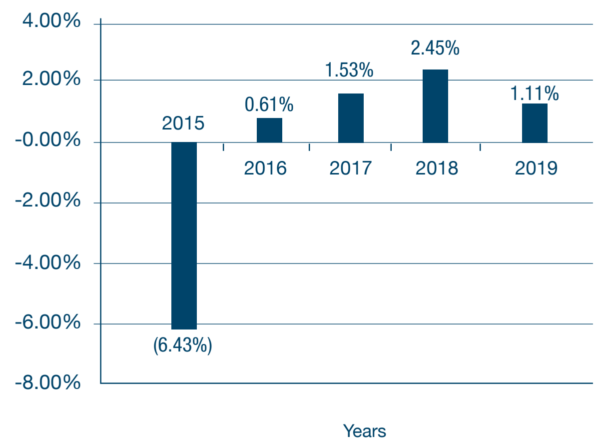
Book Value

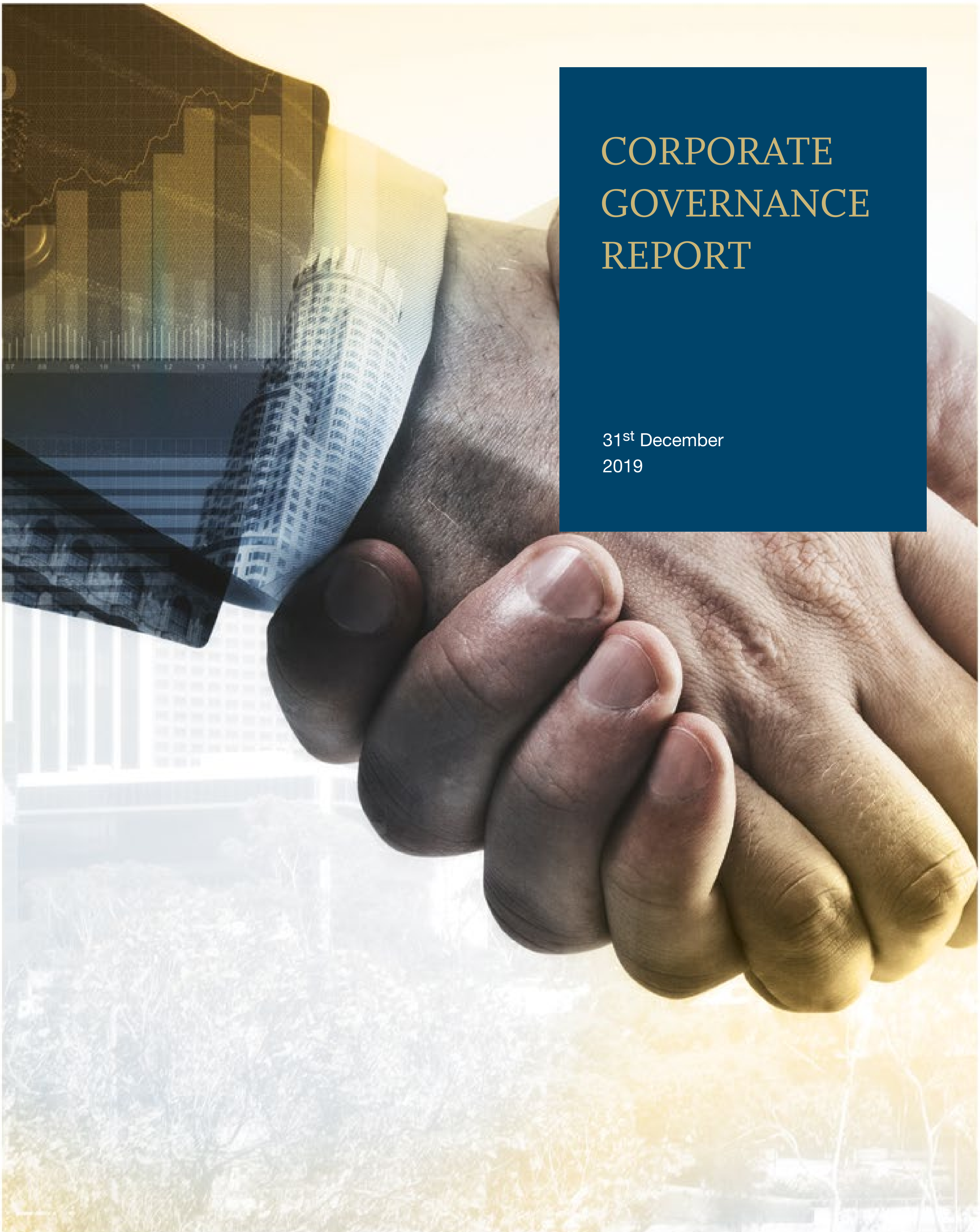


Return on Assets



Return on Equity





CORPORATE GOVERNANCE REPORT

31st December
2019

ARZAN
أرزان

1. RULE 1: CONSTRUCT A BALANCED BOARD COMPOSITION

The role of the Board of Directors (the "Board") represents the point of balance that works to achieve shareholders' objectives and follow-up the functions of the Executive Management of the Company. The Board of Arzan Financial Group believes that the skills, experiences and characteristics of its members fit their responsibilities and the activities of the Company Board members provide a range of expertise to the Board, including, but not limited, the following:

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

1.1. Brief on the composition of the Board of Directors, as follows:

The Board's decisions have a significant impact on the performance of the Company and the integrity of its financial position. Therefore, the Company is keen to have a BOD that is composed of a sufficient number of members that allows to form the necessary number of committees emanating from the Board, within the requirements of sound governance.

The Board of Directors consists of seven (7) members, including the independent members, for 2017-2019 Session. (It is approved as of the General Assembly that took place on the 21st of May 2019, to appoint Mr. Bader Jassim Al Hajri – non-executive member, to the Board of Directors during the end of the financial year of 2019. And he also received 100% of the total attendance shares to replace the outgoing member, Mr. Ammar Taleb Hajeyah.

The Nomination and Remuneration Committee have reviewed the applications of the candidates for the position of membership of the Board of Directors for the session of 2017 – 2019. The Nomination and Remuneration Committee have also reviewed the applications of the candidates to fill in the vacancy of the resigned member of the Board of Directors for the session from 2017 - 2019, and it was confirmed that the applicants fulfilled the requirements mentioned in the instructions of the Kuwait Capital Markets Authority regarding the rules of competence and integrity of candidates.

The following are the resumes of the BOD members for 2017-2019 Session:

Name	Member Classification (Executive, Non-Executive, Independent, Secretary)	Qualifications and Practical Expertise	Election Date/ appoint Board Secretary
Wafa Ahmad Al Qatami	Board Chairman, representing Al-Rana Trading Company (Non-Executive Member)	• Political Science and General Management, AUC of Beirut 1973, Lebanon • Experience of 42 years in banking, investment, real estate and financial institutions.	19 July 2017
Jassem Hassan Zainal	Board Vice Chairman and Chief Executive Officer Representative of Dhahiat Al-Sura Real Estate Company (Executive Member)	• Bachelor of Science - Civil Engineering, Miami University (1980), USA. • BA in General Studies - Mathematics, Miami University (1981), Miami, USA. • MA of Science - Civil Engineering, Kuwait University (1991), State of Kuwait. • 36 years of experience in banking, investment and financial institutions	19 July 2017
Ibrahim Saleh Al-Tharban	Board Member Representative of Manara Horizon Real Estate Company (Non-Executive Member)	• Bachelor of Commerce - Accounting, Kuwait University (1975), State of Kuwait. • 41 years of experience in banking, investment, real estate and financial institutions.	19 July 2017
Emad Abdullah Al-Essa	Board Member Representative of Kivan International (Non-Executive Member)	• Bachelor of Science - Business Administration, Polytechnic University (1986), Pomona, California, USA. • MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. • 32 years of experience in investment, real estate and financial institutions.	19 July 2017
Rami Khaled Abdullah	Board Member Representative of Asjad Kuwait (Non-Executive Member)	• Bachelor of Arts - Business Administration, Beirut American University (2000), Beirut, Lebanon. • MA of Business Administration - Accounting, George Washington University (2004), Washington DC, USA. • Certified Financial Analyst - CFA, (2008), USA. • Certified Public Accountant (CPA), (2005) USA. • Certified Financial Manager - CFM (2002), USA. • Certified Management Accountant - CMA, (2001), USA. • 22 years of experience in auditing, consulting, investment, real estate and financial institutions.	19 July 2017
Abdul Hamid Mohammad Mihrez	Independent Member	• Bachelor of Science - Biology, Beirut American University (1999), Beirut, Lebanon. • MA in Business Administration - Finance, Lebanese American University (2002), Beirut, Lebanon. • Certified Financial Analyst - CFA, (2005), USA. • 17 years of experience in investment, real estate and financial institutions.	19 July 2017
Ammar Taleb Hajeyah	Independent Member	• Bachelor of Business Administration - Finance, Kuwait University (2004), Kuwait. • MA in of Strategic Management, Maastricht Business School - Kuwait (2008), State of Kuwait. • 17 years of experience in investment, real estate and financial institutions.	19 July 2017
Bader Jassim Al Hajri	non-executive member	• Bachelor of Business Administration – Marketing – Kuwait University (1999). • 18 years of experience in banking, investment, real estate, financial, and internet services.	21 May 2019
Ruba Ghanem	Secretary	• Bachelor of Business Administration - Banking, Granttown University 2014, USA. • 19 years of experience in banking, investment and financial institutions.	19 July 2017

1.2. Brief on the Company's Board of Directors' meetings, through the following statement

The Board of Directors held 7 meetings in the year 2019, as follows:

Member's Name	Meeting # (01/2019) on 20/02/2019	Meeting # (02/2019) on 24/03/2019	Meeting # (03/2019) on 14/05/2019	Meeting # (04/2019) on 17/06/2019	Meeting # (05/2019) on 25/07/2019	Meeting # (06/2019) on 31/10/2019	Meeting # (07/2019) on 7/11/2019	Number of Meetings
Wafa Al Qatami	√	×	√	√	√	√	√	**6**
Jassem Hassan Zainal	√	√	√	√	√	√	√	**7**
Ibrahim Al-Tharban	×	×	×	√	√	√	√	**4**
Abdel Hamid Mihrez	×	√	√	√	√	√	×	**5**
Emad Abdullah Al-Essa	√	×	√	√	√	√	√	**6**
Rami Khaled Abdullah	√	√	×	×	×	×	×	**2**
Ammar Taleb Hajeyah	√	√	Resigned	Resigned	Resigned	Resigned	Resigned	**2**
Bader Jassim Al Hajri *	×	×	×	√	√	√	√	**4**

*Appointment of Mr. Bader Jassim Al Hajri on the 21st of May 2019, replacing Mr.Ammar Taleb Hajeyah

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

The Board of Directors shall devote sufficient time to carry out the tasks and responsibilities entrusted thereto, including preparing for the Board meetings and committees emanating therefrom, keenness to attend these meetings and 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 minutes of discussions and deliberations including the voting process. The said minutes shall be signed by all members and the Secretary. All Board minutes of meetings, records, books and reports submitted from/ to the Board shall be kept, ensuring a full and rapid access of the Board members to the minutes of Board meetings, documents and records relating to the Company. The Board has appointed a Secretary of 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 to her.

Meetings shall be held, at least Six meetings a year, included at least one meeting on a quarterly basis. Sufficient documentation 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 II: ESTABLISH APPROPRIATE ROLES AND RESPONSIBILITIES

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

The role of the Board of Directors in the Company is a balance point that works to achieve the shareholders' objectives and follow with the Executive Management of the Company. The Board seeks to achieve the Company's strategic objectives by ensuring that the Executive Management performs its tasks to the fullest and 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 adopted the corporate governance policy, which clearly includes the tasks and responsibilities entrusted to both the Board of Directors and the Executive Management, as well as authority matrix that promotes separation of competencies between Board and the Executive Management, and in a way that guarantees full independence, so that the Board of Directors can effectively carry out its responsibilities. This includes the powers and authorities delegated to the executive management.

2.2. Achievements of the Board of Directors during the year.

The Board operates in accordance with an approved code of conduct that includes the main responsibilities, as well as other responsibilities as provided by relevant regulations and laws. Some of the most prominent actions undertaken by the Board during 2019 include, but not limited to, the following:

- Supervising the monitoring and review the performance of the Board of Directors and the Executive Management.
- Ratify Arzan's financing and borrowing requirements.
- Ratify the annual and interim budget and ensure that performance is measured in accordance with the budget and work plans.
- Consideration of annual financial statements, interim lists, dividend declarations and notices to shareholders in accordance with the recommendation of the Board Audit Committee and its appropriations.
- assurance of risk management systems, internal controls and financial and operational systems.
- Adoption of the modern internal policies and procedures for the company, including risk management framework manual.
- Review and approve the amendments of the company's internal policies and procedures, including: anti-money laundering and terrorist financing policy, SME credit policy, Board of Directors 'business charter, provision Committee charter, SWIFT policy, whistle-blower policy, financial management procedures, retail finance policy and procedures, Risk Policies and Procedures: Liquidity Risks - Investment Risks - Operations Risks, Policies and Procedures for Evaluating the Performance of Board Members, Board Committees, and Executive Management
- Ensuring the company's compliance with policies and procedures that respects the shareholders' rights, the activities and internal regulations in force and the company's commitment to implement the governance system.

- Review, amend and approve the company's organizational structure.
- Recommend the extraordinary general assembly to reduce the company's capital.
- Approving of the method of calculating the expected credit loss
- Monitor the performance of each member of the board of directors and executive management in accordance with KPI's
- Approving of the appointment of candidates for executive positions.
- Approving of annual / semi-annual reports sent to government / regulatory authorities.
- Adoption of reports to the General Assembly.

2.3. Brief about the applying the formation requirements of independent and specialized committees by the Board of Directors. The following information shall be mentioned about 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 charter, as specified in the Board of Directors charter and in accordance with the regulations approved by the Board.

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 Company's culture of compliance by ensuring the independence of external auditors and the integrity and fairness of the Company's financial statements, ensuring the adequacy and efficiency of the Company's internal controls. The Committee operates on the basis of a charter approved by the Board. Among the prominent works practices in the year 2019, for example:

- Reviewing and discussing the interim and final financial statements before submitting them to the Board of Directors and expressing their opinion thereon as of 31/12/2018, 31/3/2019, 30/6/2019, 30/9/2019 and studying the observations made by the external auditors on the financial statements.
- Review the Audit of the Internal Control Systems evaluation report for the year ended 31/12/2018.
- Recommend to the Board of Directors the appointment/reappointment of external auditors
- Approve the report of the Audit Committee for the financial year ended on 31/12/2018 and recommendation to the BoD.
- Review the results of the internal audit reports and ensure that corrective action has been taken against it.
- Review the results of an audit report and evaluate the performance of the internal audit department.

The audit committee consists of the following:

1. The number of 3 members appointed according to the decision of the Board of Directors issued in its minutes No. 4/2017 dated 7/19/2017 for the session from (2017-2019) and they are:

- Ibrahim Al- Tharban - Chairman of the Committee (non-executive member).
- Ammar Hajeyah - Independent member (non-executive member) until March 28, 2019.
- Abdul Hamid Mihrez - Independent Member (Non-Executive member) from April 25, 2019, in accordance with the Board of Directors 'decision by passing on 15/4/2019.
- Imad Al-Essa - Member of the Committee (non-executive member).

2. The committee was reconstituted with 4 members who were appointed according to the decision of the Board of Directors issued in its minutes No. 4/2019 on 17/6/2019 in order to complete the session (2017-2019) and they are:

- Ibrahim Al- Tharban - Chairman of the Committee (non-executive member).
- Imad Al-Essa - Vice-Chairman of the Committee (non-executive member).
- Abdul Hamid Mihrez – Member of committee (Independent Member).
- Bader Al-Hajri - Member of committee (non-executive member).

Audit Committee has convened Four (4) meetings during the year 2019, as follows:

Member's Name	Meeting # (01/2019) on 19/03/2019	Meeting # (02/2019) on 14/05/2019	Meeting # (03/2019) on 25/07/2019	Meeting # (04/2019) on 31/10/2019	Number of Meetings
Ibrahim Al-Tharban (Chairman of the Committee)	√	*	√	√	3
Emad Abdullah Al-Essa (Member of The Committee)	√	√	√	√	4
Ammar Taleb Hajeyah (Member of The Committee)	√	Resigned	Resigned	Resigned	1
Abdul hamid Mohammad Mihrez (Member of The Committee)	*	√	√	√	3
Bader Jassim Al Hajri (Member of The Committee)	*	*	√	√	2
External Auditor	√	√	√	√	4
Internal Auditor	√	√	√	√	4

Changes in the membership of the Audit Committee:

Mr. Abdel Hamid Mohammad Mihrez joined on April 15, 2019 in place of Mr. Ammar Taleb Hajeyah.

Mr. Imad Abdullah Al-Essa assumed the position of Vice-Chairman of the Committee on 17 June 2019.

Mr. Bader Jassim Al-Hajri joined on June 17, 2019.

Risk Committee:

The Risk Committee is responsible for assisting the Board in performing 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 charter approved by the Board of Directors. The following are examples to the key works undertaken by the Committee during 2019:

- Review the periodic reports on the nature of risks to which the Company is exposed to and submitting them to the Board of Directors.
- Review the organizational structure of the Company and develop recommendations and submit them to the Board of directors for approval.
- Review the risk management business plan for approval.
- Review the company division project report.
- Review the methodology for calculating Expected Credit Loss and submit it to the Board of Directors for approval.
- Approving the incentive program for the company's employees.
- Review the auditor's report on the CRS common reporting Standard and submit it to the Board of directors for approval.
- Review the external Penetration test report.
- Review the discussion of the auditor's report on FATCA and submit it to the Board of directors for approval.
- Review the amendments of the company's internal policies and procedures, including: anti-money laundering and terrorist financing policy, SME credit policy, Board of Directors 'business charter, provision Committee charter, SWIFT policy, whistle-blower policy, financial management procedures, retail finance policy and procedures, Risk Policies and Procedures: Liquidity Risks - Investment Risks - Operations Risks, Policies and Procedures for Evaluating the Performance of Board Members, Board Committees, and Executive Management, Conformity and Compliance Management Policies and Procedures.
- Review recent policies and procedures, including: a guide to the risk management framework

The risk committee consists of the following:

1. 3 members appointed according to the decision of the Board of Directors issued in its minutes No. 4/2017 dated 7/19/2017 for the session from (2017-2019) and they are:

- Ibrahim Saleh Al- Tharban - Chairman of the Committee (non-executive member).
- Jassem Hassan Zainal - Vice-Chairman of the Committee (Executive).
- Abdul Hamid Muhammad Mihrez - Committee Member (non-executive member-Independent).

2. The committee was reconstituted with 4 members who were appointed according to the decision of the Board of Directors issued in its minutes No. 4/2019 on 17/6/2019 in order to complete the session (2017-2019) and they are:

- Ibrahim Al- Tharban - Chairman of the Committee (non-executive member).
- Jassem Hassan Zainal - Vice-Chairman of the Committee (Executive)
- Emad Al-Essa - Member of the Committee (non-executive member).
- Badr Al-Hajri - Member of the Committee (non-executive member).

During 2019, Risk Management Committee has convened 4 meetings, as follows:

Member's Name	Meeting # (01/2019) on 7/03/2019	Meeting # (02/2019) on 14/05/2019	Meeting # (03/2019) on 25/07/2019	Meeting # (04/2019) on 31/10/2019	Number of Meetings
Ibrahim Al-Tharban Chairman of the) (Committee	√	√	×	√	3
Jassem Hassan Zainal - Committee Vice Chairman	√	√	√	√	4
Emad Abdullah Al Essa Committee Member	-	-	√	√	2
Abdel Hamid Mihrez – Committee Member	√	√	×	×	2
Bader Jassim Al Hajri Committee Member	×	×	√	√	2

Changes of committee membership throughout the year:

Mr. Bader Jassim Al-Hajri joined on June 17, 2019, in place of Mr. Abdul Hamid Mohammad Mihrez.

Nomination and Remuneration Committee:

This committee bears the responsibilities related to the fees of Board of Directors and its Executive Management, in line with their performance, qualifications and levels of expertise. The Committee also assumes additional responsibilities related to the nominations in accordance with CMA regulations and the other laws. The Committee operates on the basis of a charter approved by the Board of Directors. Among the key works undertaken by the Committee during 2019, for example:

- approval of the annual remuneration, remuneration and benefits report for the members of the Board of Directors and the Executive Board, and the recommendation on the Board of Directors' proposed remuneration for approval.
- Review the employee motivation program
- Study and review the application for candidates for the membership of the group's board of directors to complete the Board membership.
- approval of the annually self-evaluation of the members of the Board of Directors and the Committees

The Nomination and Remuneration Committee consists of the following four (4) members appointed by Board resolution issued in its Minutes No. 4/2017, dated 19/07/2017, and to reappoint them according to the decision of the Board of Directors issued in its MoM No. 4/2019 dated 17/6/2019 for the session from (2017-2019), they are:

- Wafa Al Qatami – Chairman of the Committee (Non-Executive Member)
- Jassem Hassan Zainal - Committee Vice Chairman (Executive Member)
- Rami Ali – Committee Member (Non-Executive Member)
- Abdel Hamid Mihrez – Committee Member (Independent Member)

The Nomination and Remuneration Committee has convened twice during 2019, as follows:

Member's Name	Meeting # (1/2019) on 24/03/2019	Meeting # (2/2019) on 02/05/2019	Number of Meetings
(Wafa Al Qatami (Chairman	×	√	1
(Jassem Hassan Zainal (Vice Chairman	√	√	2
(Rami Khaled Abdullah (Non-Executive Member	√	√	2
(Abdel Hamid Mihrez (Independent Member	√	√	2

2.4. A summary of how to apply the requirements that allow the Members of the Board of Directors to obtain accurate and timely information and data.

The executive management provides full, accurate and timely information and data to all members of the board of directors in general and to non-executive and independent board members in particular, through the secretary of the board of directors who provides the members of the board with all the documents that will be discussed during the board meeting time Sufficient to obtain all the basic information and data that enables Council members to carry out their duties and tasks efficiently and effectively.

3. RULE III: RECRUIT HIGHLY QUALIFIED CANDIDATES FOR MEMBERS OF A BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT.

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

After its selection by the General Assembly, the BoD formed the Nomination and Remuneration Committee, from 4 members and one of its members is an independent member, and its Chairman is a non-executive board member. the Board has specified the duration of the Committee's membership and its method of work, as well as identifying the committee responsibilities and authorities within its charter which was approved by BoD.

3.2. Report on the remunerations to the Members of the Board of Directors and Executive Management.

The Company's Articles of Association also stipulate a clear policy for remuneration bonuses to the Board Chairman and members. The company's remuneration policy is based on the following principles:

- Observance of 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.

Directors' Remunerations:

The Company adheres to the remuneration system of the Board of Directors as stipulated in Article 198 of Companies Law No. (1/ 2016) and the approval of the General Assembly shall be taken regarding the remuneration of the Board members.

Executive Management 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.

The Company prepares an annual report on all remunerations granted to the members of the Board of Directors and the Executive Management, to be presented to the General Assembly of the Company and read by the Chairman of the Board.

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.

The Nomination and Remuneration Committee has prepared the 2019 Remuneration Report for presentation to the General Assembly.

4. RULE IV: SAFEGUARD THE INTEGRITY OF FINANCIAL REPORTING

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 proves 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. Brief about the application of the formation requirements of 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 Company's culture of compliance by ensuring the independence of external auditors and the integrity and fairness of the Company's financial statements, ensuring the adequacy and efficiency of the Company's internal controls. The Audit Committee in Arzan consists of 4 non-executive Members.

4.3. During 2019, there is no contradiction between the recommendations of the Audit Committee and the decisions of the Board of Directors.

4.4. Verification of the independence and neutrality of the external Auditor.

The Company's Ordinary General Assembly appoints/reassigns 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 take into consideration that the auditor shall be registered in the special register of the Authority, so that he fulfills all the conditions stipulated in the Authority's 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 is not performing any other works to the Company that are not within the scope of auditing, which may affect his neutrality or independence. The Audit Committee shall discuss with the external auditor before submitting the annual financial statements to the Board for decision.

The office of Grand Thornton - Al Qatami and Al Aiban was reappointed as the Group's auditor for the current year ending 31/12/2019, by a decision issued by the ordinary general assembly of the company held on 21/05/2019.

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

5. RULE V: APPLY SOUND SYSTEMS OF RISK MANAGEMENT AND INTERNAL AUDIT

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

The company organizational structure approved by the Board of Directors have a Risk Management department, which is independence, affiliated to the risk committee and, accordingly, 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. About the application of the requirements to form a risk management committee.

The Board has formed a Risk Management Committee, with 4 members, and the Chairman of the Committee is a non-executive member. The Chairman of the Board does not occupy the membership of the Committee, and the Board has specified the duration of the Committee's membership and its method of work, as well as identifying the responsibilities and authorities within the charter which was approved by the BoD.

5.3. Summary clarifying the control and internal audit 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 for the Company, wise selection of the 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. A brief statement on the application of the formation requirements the internal audit department/office/ unit.

The company organizational structure approved by the Board of Directors have an Internal Audit department, which enjoy full technical independence, affiliated to the audit committee and, accordingly, to the Board of Directors. The Internal Audit Department reports separately to the Audit Committee of the Board. 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 shall 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 VI: PROMOTE CODE OF CONDUCT AND ETHICAL STANDARDS:

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

- 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. Summary of the policies and mechanisms on reducing the conflicts of interest.

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 VII: ENSURE TIMELY AND HIGH-QUALITY DISCLOSURE AND TRANSPARENCY

7.1. Summary of applying mechanisms for presentation and accurate and transparent disclosure that define aspects, areas and characteristics of disclosure.

The company is committed to apply the highest levels of transparency, as the Board of Directors has adopted disclosure policies and procedures to ensure the provision of accurate and timely information to shareholders and stakeholders. The Compliance Department coordinates with all departments of the company to disclose information accurately and in a timely manner to the Capital Markets Authority and Boursa Kuwait.

7.2. Brief about the application of the requirements of the Board of Directors disclosure and executive management disclosures.

The company has a special record that organizes disclosures of board members and executive management. The IT infrastructure has also been developed in proportion to the company's position. Where the company has allocated a link on the electronic page to facilitate the process of disclosing insiders about dealing in company securities.

7.3. A brief statement on the application of the formation requirements of a unit of investors affairs.

The Investors 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.
- Recommend the general development measures in the quality of the services provided to investors.

7.4. Brief on how to develop the infrastructure for the information technology on which it shall significantly rely on in the disclosure processes.

The company has created a dedicated section on the company's corporate governance website, so that all recent information and data that helps shareholders, current and potential investors to exercise their rights is displayed. This page includes information about the company and the board of directors and executive management, and also includes a section on governance, and a link to the insiders' disclosure form And disclosures on material information and financial data are also displayed on the company's website.

8. RULE VIII: RESPECT THE RIGHTS OF SHAREHOLDERS

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

Arzan is committed to protect 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 shall treat 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. The right of shareholders 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. A summary of the creation of a special record at the Clearing Agency as part of the requirements for on-going monitoring of shareholders' data.

For the purpose of continuous follow-up of all shareholders' data, the Company maintains a special record kept by 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.

The data contained in the Company's Shareholders' Register shall be treated with the utmost protection and confidentiality, in a manner consistent with the law, the executive regulations and the instructions issued by the Regulatory Authority.

Data of the Registrar and Stock Transfer Agent

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

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

The Company establishes a mechanism for participating in the meetings of the General Assembly of shareholders, 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.
- Provide 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 IX: RECOGNIZE THE ROLES OF STAKEHOLDERS

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

Arzan acknowledges the rights of stakeholders and promotes cooperation between them and the Company in the various fields. The Company's Board has adopted a Stakeholder Rights policy. A link has also been placed on the company's website, allowing stakeholders to be notified about any act that may constitute a violation or a violation of their rights.

9.2. Brief on how to encourage stakeholders to keep track of the company's various activities.

In order not to create conflict between the transactions of stakeholders, whether contracts or transactions with the Company, the interests of the shareholders, it shall be observed that none of the stakeholders may have 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 the 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 X: ENCOURAGE AND ENHANCE PERFORMANCE

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

Arzan has developed training plans for the Board of Directors, executive management and employees of the company. Training programs are carried out on a regular basis in accordance with the company's approved training plan.

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

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

The Company has established approved policies and procedures from the Board of Directors through which a formal process of reviewing the annual performance of the Board of Directors and its committees is carried out, and the effectiveness of their performance and their contribution to the management of Arzan Finance Group.

The purpose of the performance appraisal process is to have a formal, structured and coordinated way of evaluating the performance of the Board and its committees to take steps to improve the performance of the Board. This process will also benefit from the Board's recommendations to shareholders in the re-election phase.

Executive Management evaluation performance:

Performance evaluation is a powerful tool for translating business plans into actions, developing the Company's culture to achieve its strategic objectives. The Company assesses 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 self-evaluation of the Board of Directors' performance, with a special evaluation of its committees, and an assessment 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. This is done through the filling out of the questionnaires listed below by the members of the Board:

- Self-Assessment Questionnaire
- Committee Evaluation Questionnaire
- Board of Directors' Assessment Questionnaire

The Nominations and Remuneration Committee reviews the performance assessment of the board of Directors and the Committees and submits a short annual report to the Board of Directors on its recommendations.

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

The Board of Directors promotes corporate values and applies them to the company's employees by achieving strategic goals and improving performance rates and annual training programs granted by Arzan Group to its employees, to ultimately improve their performance and develop skills.

11. RULE XI: FOCUS ON THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

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

The company is committed to achieving sustainable development for society and the economy in general, and those working for it in particular. The company has a social responsibility policy that was adopted by the Board of Directors to ensure contribution to achieving sustainable social and economic development.

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

Arzan Financial Group uses its social media and website to be able to show its efforts on a large scale, and it also uses local newspapers and magazines to achieve this goal as well.

- Arzan Financial Group held an awareness session regarding CPR for all employees on 14/1/2019.
- Arzan Financial Group was a golden sponsor for the Kuwaiti Special Needs Event that took place on 12/06/2019.
- Arzan Financial Group cooperated with the National Life-Saving Campaign "Help- Sa'ed" on 25/6/2019
- Arzan Financial Group provided a sponsorship for a student project of the University of Kuwait, College of Engineering for the project of "Water Cleaner Robot" 29/12/2019

BOARD DECLARATION
on the Integrity and Fairness of the financial statements

March 30, 2020

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:

a) consolidated statement of financial position as at 31 December 2019,
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 2019, 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
Wafa Ahmad Al Qatami	Chairman	
Jassem Hasan Zainal	Vice Chairman	
Ibrahim Saleh Al-Tharban	Member – B.O.D.	
Emad Abdullah Al-Essa	Member – B.O.D.	
Abdulhameed Mohammed Mehrez	Member – B.O.D.	
Bader Jassim Al Hajri	Member – B.O.D.	
Rami Khaled Abdullah	Member – B.O.D.	

CEO AND EXECTIVE DIRECTOR - FINANCE DECLARATION

on the Integrity and Fairness of the financial statements

March 30, 2020

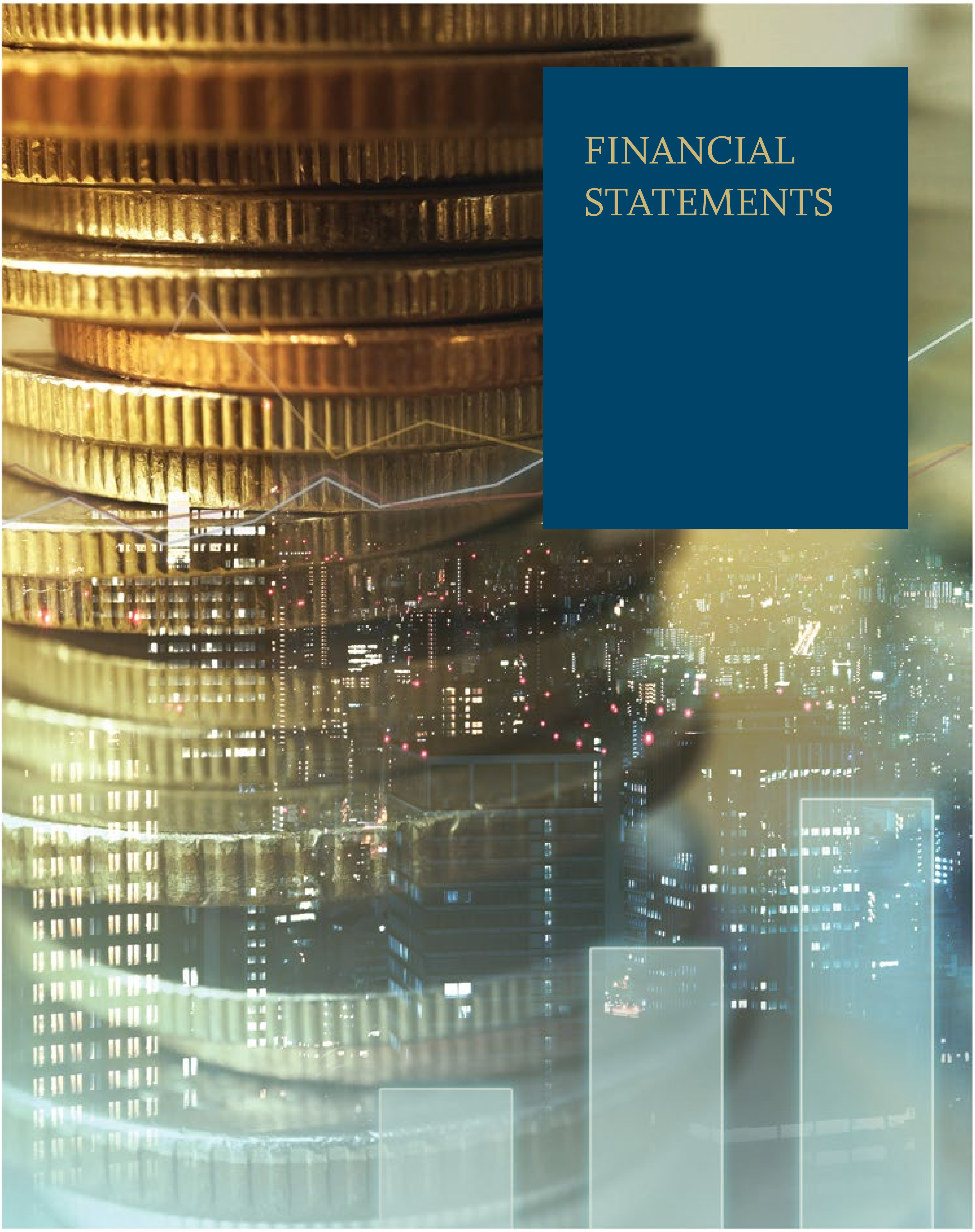
We, the CEO and Exective Director - Finance hereby certify that to the best of our knowledge and belief, the consolidated financial statements of Arzan Financial Group for Financing & Investment KPSC ("the Parent Company") and its subsidiaries (collectively, the "Group"), which comprise:

a) consolidated statement of financial position as at 31 December 2019,
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 2019, 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
Exective Director - Finance



FINANCIAL STATEMENTS

ARZAN
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Content

Grant Thornton
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INDEPENDENT AUDITOR 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 ("Parent Company ") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use 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 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 of Accounting

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 4.13 and 18 to the consolidated financial statements.

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

Other information included in the Group's 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 Annual Report, other than the consolidated financial statements and our Auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our Auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our Auditor's report.

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

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 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 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 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 2019 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit and to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law 7 of 2010, as amended, relating to the Capital Markets Authority and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business or financial position of the Parent Company.

We further report that, during the course of our audit, we have not become aware, of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of the banking business, and its related regulations during the year ended 31 December 2019 that might have had a material effect on the business or financial position of the Parent Company.

Anwar Y. Al-Qatami, F.C.C.A.
(Licence No. 50-A)
of Grant Thornton –
Al-Qatami, Al-Aiban & Partners

Kuwait
20 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 KD	2018 KD
Income			
Income from instalment credit debtors	7	**1,595,269**	1,695,184
Revenue from contracts with customers	8	**2,963,334**	1,656,324
Realised profit from instalment sales		**245,158**	53,219
Rental income		**149,737**	153,437
Interest income		**955,584**	974,485
Gain on sale of financial assets at fair value through profit or loss		**845,937**	391,004
Change in fair value of financial assets at fair value through profit or loss		**3,256,259**	953,926
Share of results of associates	18	**1,973,274**	206,489
Dividend income	11	**2,259,890**	2,255,153
Loss on sale of properties held for trading		**-**	(18,119)
Reversal of provision for properties held for trading		**-**	65,156
Gain/(loss) on foreign currency exchange		**60,096**	(28,446)
Other income		**222,334**	299,189
		14,526,872	8,657,001
Expenses and other charges			
Staff costs		**(3,062,993)**	(2,649,208)
General and administrative expenses		**(1,705,311)**	(1,624,024)
Finance costs	9	**(2,111,098)**	(1,580,541)
Depreciation	20 & 21	**(438,693)**	(418,828)
(Provision)/reversal of provision for instalment credit debtors	13	**(2,491,994)**	216,111
Impairment of investment in real estate under development	19	**-**	(67,080)
Provision for properties held for trading	16	**(117,140)**	-
Impairment of financial assets at FVTOCI	17	**(1,848,304)**	-
Provision for doubtful debts	15	**(211,328)**	(209,392)
Provision of credit losses for restricted cash and cash equivalents	12.2	**(1,000,000)**	-
		(12,986,861)	(6,332,962)
Profit for the year before provisions for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST)		**1,540,011**	2,324,039
Provision for KFAS		**-**	(6,746)
Provision for NLST		**-**	(30,529)
Profit for the year		**1,540,011**	2,286,764
Attributable to:			
Shareholders of the Parent Company		**1,095,948**	2,533,530
Non-controlling interests		**444,063**	(246,766)
Profit for the year		**1,540,011**	2,286,764
Basic and diluted earnings per share attributable to the shareholders of the Parent Company (Fils)	10	**1.375**	3.180

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 KD	2018 KD
Profit for the year	**1,540,011**	2,286,764
Other comprehensive income:		
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the year	**(5,783,928)**	(10,810,454)
Items that may be reclassified subsequently to consolidated statement of profit or loss:		
Financial assets at fair value through other comprehensive income:		
- Net change in fair value arising during the year	**216,086**	45,894
Exchange differences arising on translation of foreign operations	**43,435**	112,177
Share of other comprehensive loss of associates	**(121,278)**	(201,285)
Total other comprehensive loss for the year	**(5,645,685)**	(10,853,668)
Total comprehensive loss for the year	**(4,105,674)**	(8,566,904)
Attributable to:		
Shareholders of the Parent Company	**(4,435,575)**	(8,176,280)
Non-controlling interests	**329,901**	(390,624)
Total comprehensive loss for the year	**(4,105,674)**	(8,566,904)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 KD	2018 KD
Assets			
Cash and cash equivalents	12.1	**7,898,924**	10,374,053
Restricted cash and cash equivalents	12.2	**2,577,267**	-
Instalment credit debtors	13	**4,128,653**	7,904,355
Financial assets at fair value through profit or loss	14	**14,504,859**	9,847,774
Accounts receivable and other assets	15	**4,968,961**	4,191,835
Properties held for trading	16	**906,140**	1,023,280
Financial assets at fair value through other comprehensive income	17	**66,501,483**	76,596,937
Investment in associates	18	**44,631,874**	27,476,807
Investment in real estate under development	19	**5,313,674**	5,050,140
Investment properties	20	**1,596,464**	1,655,205
Property and equipment	21	**2,639,614**	2,820,274
Total assets		**155,667,913**	146,940,660
Liabilities and equity			
Liabilities			
Due to banks	22	**1,930,923**	4,019,970
Accounts payable and other liabilities	23	**13,671,885**	7,049,378
Term loans	24	**17,974,500**	17,880,000
Murabaha payables	25	**12,128,670**	4,469,119
Provision for employees' end of service benefits		**1,481,816**	1,369,578
Total liabilities		**47,187,794**	34,788,045
Equity			
Share capital	26	**80,288,256**	80,288,256
Share premium	26	**23,803,273**	23,803,273
Treasury shares	27	**(559,232)**	(559,232)
Legal reserve	28	**503,767**	503,767
Voluntary reserve	28	**503,767**	503,767
Foreign currency translation reserve		**(297,691)**	(318,402)
Fair value reserve		**(4,299,739)**	(2,436,904)
(Accumulated losses)/retained earnings		**(1,291,103)**	1,461,292
Total equity attributable to the shareholders of the Parent Company		**98,651,298**	103,245,817
Non-controlling interests		**9,828,821**	8,906,798
Total equity		**108,480,119**	112,152,615
Total liabilities and equity		**155,667,913**	146,940,660

Jassem Hasan Zainal
Vice chairman and CEO

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	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/ (accumulated losses) KD	Sub-Total KD	Non-controlling interests KD	Total KD
Balance at 1 January 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
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	-	(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 (note 6.1.2)	-	-	-	-	-	-	-	-	-	697,245	697,245
Total transactions with owners	-	-	-	-	-	-	-	(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)	-	-	-
Balance at 31 December 2019	80,288,256	23,803,273	(559,232)	503,767	503,767	(297,691)	(4,299,739)	(1,291,103)	98,651,298	9,828,821	108,480,119

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2019

	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 KD	Sub-Total KD	Non-controlling interests KD	Total KD
Balance at 1 January 2017	80,288,256	23,803,273	(559,232)	246,687	246,687	(415,344)	8,235,780	1,930,453	113,776,560	5,314,245	119,090,805
Adjustment arising on adoption of IFRS 9	-	-	-	-	-	-	(330,075)	(1,592,801)	(1,922,876)	-	(1,922,876)
Balance as at 1 January 2018 (restated)	80,288,256	23,803,273	(559,232)	246,687	246,687	(415,344)	7,905,705	337,652	111,853,684	5,314,245	117,167,929
Disposal of partial interest in a subsidiary (note 6.1.2)	-	-	-	-	-	-	-	(431,587)	(431,587)	431,587	-
Effect of change in ownership percentage of subsidiary	-	-	-	-	-	-	-	-	-	3,551,590	3,551,590
Total transactions with owners	-	-	-	-	-	-	-	(431,587)	(431,587)	3,983,177	3,551,590
Profit/(loss) for the year	-	-	-	-	-	-	-	2,533,530	2,533,530	(246,766)	2,286,764
Other comprehensive income/(loss) for the year	-	-	-	-	-	96,942	(10,806,752)	-	(10,709,810)	(143,858)	(10,853,668)
Total comprehensive income/(loss) for the year	-	-	-	-	-	96,942	(10,806,752)	2,533,530	(8,176,280)	(390,624)	(8,566,904)
Loss on disposal of financial assets at FVTOCI	-	-	-	-	-	-	464,143	(464,143)	-	-	-
Transferred to reserves	-	-	-	257,080	257,080	-	-	(514,160)	-	-	-
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

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 2019

	Notes	2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit for the year		**1,540,011**	2,286,764
Adjustments:			
Interest income		**(955,584)**	(974,485)
Dividend income	11	**(2,259,890)**	(2,255,153)
Impairment of investment in real estate under development	19	**-**	67,080
Loss on sale of properties held for trading		**-**	18,119
Provision (reversal) of provision for properties held for trading	16	**117,140**	(65,156)
Share of results of associates	18	**(1,973,274)**	(206,489)
Provision/(reversal) of provision for instalment credit debtors	13	**2,491,994**	(216,111)
Impairment of financial assets at FVTOCI		**1,848,304**	-
Provision for doubtful debts	15	**211,328**	209,392
Finance costs	9	**2,111,098**	1,580,541
Depreciation	20 & 21	**438,693**	418,828
Provision for employees' end of service benefits		**178,976**	239,318
Provision of credit losses for restricted cash and cash equivalents	12.2	**1,000,000**	-
		4,748,796	1,102,648
Changes in operating assets and liabilities:			
Instalment credit debtors		**1,283,707**	(500,173)
Financial assets at fair value through profit or loss		**(4,657,085)**	749,649
Accounts receivable and other assets		**(544,103)**	(2,082,116)
Accounts payable and other liabilities		**6,635,918**	(166,425)
Employees' end of service benefits paid		**(66,737)**	(45,793)
Net cash from/(used in) operating activities		**7,400,496**	(942,210)
INVESTING ACTIVITIES			
Purchase of property and equipment	21	**(193,781)**	(153,229)
Purchase of financial assets at FVTOCI		**(17,936,865)**	(3,543,385)
Proceeds from sale of financial assets at FVTOCI		**4,569,474**	2,874,657
Proceeds from sale of properties held for trading		**-**	351,623
Additions on investments in real estate under development	19	**(133,828)**	(997,141)
Restricted cash and cash equivalents	12	**(3,577,267)**	-
Dividend income received		**2,259,890**	2,255,153
Dividend from associates	18	**743,629**	721,958
Interest income received		**511,234**	389,275
Net cash (used in)/from investing activities		**(13,757,514)**	1,898,911

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2019

	Notes	**2019** **KD**	2018 KD
FINANCING ACTIVITIES			
Net movement in term loans		**95,500**	1,500,000
Net movement in murabaha payable		**7,662,774**	(797,948)
Finance costs paid		**(2,124,505)**	(1,483,356)
Dividends paid to non-controlling interests		**(264,067)**	-
Change in ownership of subsidiary		**697,245**	3,576,900
Net cash from financing activities		**6,066,947**	2,795,596
Net (decrease)/increase in cash and cash equivalents		**(290,071)**	3,752,297
Foreign currency adjustments		**(96,011)**	22,270
Cash and cash equivalents at beginning of the year	12	**6,354,083**	2,579,516
Cash and cash equivalents at end of the year	12	**5,968,001**	6,354,083

Non-cash transactions:

Accounts receivable and other assets		**(673,062)**	(3,204,643)
Due from/to related parties		**-**	713,848
Accounts payables and other liabilities		**(72,099)**	3,576,900
Instalment credit debtors		**-**	(1,277,476)
Purchase of financial assets at FVTOCI		**-**	2,917,958
Financial assets at fair value through profit or loss		**-**	2,691,951

The notes set out on pages 12 to 67 form an integral part of these consolidated financial statements.

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 Kuwait Boursa 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 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 2019

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 2019

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 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 20 April 2020. 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 2019 which have been adopted by the Group. Information on these new standards is presented below:

Standard or Interpretation	Effective for annual periods beginning
IFRS 16 Leases	1 January 2019
IAS 28 - Amendments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

3 Changes in accounting policies (continued)
3.1 New and amended standards adopted by the Group (continued)

IFRS 16 Leases
IFRS 16 replaced IAS 17 and the related Interpretations. IFRS 16 introduced new and amended requirements with respect to accounting for leases. As a result, lessee accounting is now significantly different and removes distinction between finance and operating leases. It now requires recognition of a right-of-use asset and lease liability at commencement date for all leases, except for short term leases and low value leases. However, the accounting by lessor has largely remained unchanged.

Transition on date of initial application:
On transition, for leases previously accounted for as operating leases management has assessed that these leases that fall under the definition of IFRS 16 have a remaining lease term of less than 12 months and therefore, the Group has elected the optional exemption to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The new accounting policy for leases is detailed in Note 4.25.

IAS 28 – Amendments
The amendments to IAS 28 clarify that an entity applies IFRS 9 Financial Instruments, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These include long-term interests that, in substance, form part of the Group's net investment in an associate or joint venture.

The adoption of this amendment did not result in any significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle
Amendments to IFRS 3 and IFRS 11 - Clarify that when an entity obtains control of a business that is a joint operation it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings

The adoption of these amendments did not result in any significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3 Changes in accounting policies (continued)

3.2 IASB Standards issued but not yet effective

At the date of authorisation of these 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
IFRS 3 - Amendments	1 January 2020
IAS 1 and IAS 8 - Amendments	1 January 2020

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 Changes in accounting policies (continued)
3.2 IASB Standards issued but not yet effective (continued)

IFRS 3 – Amendments
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

Management does not anticipate that the application of the amendments in the future will 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'.

Management does not anticipate that the application of the amendments 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

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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
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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 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

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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 2019

4 Significant accounting policies (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 2019

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 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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

4. Significant accounting policies (continued)

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)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. Significant accounting policies (continued)

4.15 Financial instruments (continued)

4.15.2 Classification of financial assets (continued)

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 2019

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.
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Significant accounting policies (continued)
4.15 Financial instruments (continued)

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.

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 statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

4. Significant accounting policies (continued)
4.15 Financial instruments (continued)
4.15.4 Impairment of financial assets (continued)

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, term loans and 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. Significant accounting policies (continued)

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

4. Significant accounting policies (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

4. Significant accounting policies (continued)
4.23 Property and equipment (continued)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

4. Significant accounting policies (continued)
4.25 Equity, reserves and dividend payments (continued)

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.
- Fair value reserve – comprises valuation gains and losses relating to available for sale financial assets.

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
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4. Significant accounting policies (continued)
4.26 Leased assets (continued)
Accounting policy applicable from 1 January 2019 (continued)

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 contacts. 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 ecognized 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 ecognized 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Significant accounting policies (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

4. Significant accounting policies (continued)

4.30 Foreign currency translation (continued)

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.

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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 Significant management judgements and estimation uncertainty (continued)
5.1 Significant management judgments (continued)

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 criterial 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

5 Significant management judgements and estimation uncertainty (continued)
5.2 Estimates uncertainty (continued)
5.2.3 Impairment of financial assetss (continued)

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.

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 company.

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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 as at 31 December		Place of incorporation	Principal activities	Reporting date
	2019	2018			
Direct subsidiaries:					
Al-Addan Real Estate Co. – SPC	**100%**	100%	Kuwait	Trading in all real estate activities	31 December 2019
Arzan CC for Collection Co. – SPC	**100%**	100%	Kuwait	Trading in real estate activities and collecting money on behalf of others	31 December 2019
Kuwait Invest Real Estate Co.– WLL	**51%**	51%	Kuwait	Real estate services	31 December 2019
International Finance Company – SAL (6.1.1)	**100%**	100%	Lebanon	Finance services including financing, management and brokerage	30 September 2019
Arzan Securities Brokerage Co. SAE [Formerly: IFA Securities Brokerage Co.- SAE]	**84.55%**	84.55%	Egypt	Brokerage services	30 September 2019
International Financial Advisers Company – WLL	**65.20%**	65.20%	Jordan	Brokerage services	30 September 2019
Saudi Invest Real Estate Co. – WLL	**100%**	100%	Saudi Arabia	Real estate services	31 December 2019
Arzan VC I Ltd.	**100%**	100%	United Arab Emirates	Projects management	31 December 2019
HI Equity Company Ltd.	**99.29%**	99.29%	Cayman Islands	Real estate	30 September 2019
HI Debt Company Ltd.	**99.29%**	99.29%	Cayman Islands	Real estate	30 September 2019
Arzan Capital (Holding) Limited (6.1.2)	**78.6%**	81.81%	United Arab Emirates	Holding Company	30 September 2019
Arzan AM Limited	**100%**	100%	United Arab Emirates	General Trading	31 December 2019
Arzan Real Estate Co. – SAE	**80%**	80%	Egypt	Real estate	30 September 2019
Blender Company for Rent and Lease Lands and Properties – SPC	**100%**	100%	Kuwait	Real estate	31 December 2019
Seven Seas Resorts Co. – KSCC (6.1.3)	**100%**	-	Kuwait	Hospitality	31 December 2019
Easy Buy Company – SPC (6.1.4)	**100%**	-	Kuwait	Credit facilities services	31 December 2019
Indirect subsidiaries:					
Through Arzan Capital (Holding) Limited:					
Arzan Wealth (DIFC) Co. Limited	**100%**	100%	United Arab Emirates	Financial advisory services	30 September 2019
Arzan VC for Projects Management –WLL	**99%**	99%	Kuwait	Projects management	31 December 2019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

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 has recently been 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, subsequent to the year end 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 e Lebanese banks including the bank where the subsidiary's cash is primarily deposited.

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 Lebanon. As a result, the Group recognised provision of credit losses for restricted cash and cash equivalents and an additional provision for instalment credit debtors amounting to KD1,000,000 and KD2,250,000, respectively, in the consolidated statement of profit or loss for the year ended 31 December 2019 (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.

Summarised financial information of IFC Lebanon as at and for the year ended 31 December 2019, before inter Group elimination, is set out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

6. Subsidiaries (continued)
6.1 Composition of the group (continued)

	31 Dec. 2019 KD	31 Dec. 2018 KD
Cash and bank balances	**87,165**	79,193
Short term deposits	**2,490,102**	2,959,626
Instalment credit debtors	**2,137,980**	6,444,330
Other assets	**228,161**	205,329
Total assets	**5,943,408**	9,688,478
Bank facilities	**1,924,670**	2,607,027
Accounts payable and other liabilities	**1,216,719**	1,146,696
Total liabilities	**3,141,389**	3,753,723

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
Income from instalment credit	**1,022,636**	1,236,805
(Loss) / profit for the year	**(3,094,825)**	455,865

6.1.2 In the previous year, 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 531,091 shares equivalent to 0.892% (31 December 2018: 1,442,095 shares equivalent to 2.36%) of the Group's ownership interest in Arzan Capital (Holding) Limited were transferred. This transaction resulted in a loss of KD158,944 (31 December 2018: KD431,587) recognised in the shareholders' equity.

Furthermore, Arzan Capital (Holding) Limited increased its share capital by USD2.3 million in cash from USD72.8 million to USD75.1 million in which the Group did not participate. As a result, the Group's ownership diluted from 81.08% to 78.60%.

6.1.3 During the year, the Group acquired from a related party 100% ownership of Seven Seas Resorts Company located in Kuwait with for a consideration of KD2,040. No bargain purchase or goodwill resulted on the acquisition.

6.1.4 During the year, the Group established a new subsidiary under the name of Easy Buy Company – SPC in Kuwait with a share capital of KD300,000 representing its 100% ownership interest in the subsidiary.

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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. 2019 %	31 Dec. 2018 %	**31 Dec. 2019 KD**	31 Dec. 2018 KD	**31 Dec. 2019 KD**	31 Dec. 2018 KD
Kuwait Invest Real Estate Co. – WLL	**49**	49	**25,872**	(322,645)	**4,183,650**	4,217,202
Azan Capital (Holding) Ltd	**21.40**	18.19	**441,836**	63,838	**4,934,190**	3,980,372

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. 2019 KD**	31 Dec. 2018 KD
Non-current assets	**8,622,925**	8,655,746
Current assets	**8,021**	6,393
Total assets	**8,630,946**	8,662,139
Current liabilities	**92,884**	55,605
Total liabilities	**92,884**	55,605
Equity attributable to the shareholders of the Parent Company	**4,354,411**	4,389,332
Non-controlling interests	**4,183,650**	4,217,202
Total equity	**8,538,061**	8,606,534

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
Income / (loss)	**66,677**	(105,501)
Expenses and other charges	**(13,877)**	(552,958)
Profit / (loss) for the year attributable to the shareholders of the Parent Company	**26,928**	(335,814)
Profit / (loss) for the year attributable to NCI	**25,872**	(322,645)
Profit/(loss) for the year	**52,800**	(658,459)
Total comprehensive loss for the year attributable to the shareholders of the Parent Company	**(34,921)**	(438,464)
Total comprehensive loss for the year attributable to NCI	**(33,551)**	(421,269)
Total comprehensive loss for the year	**(68,472)**	(859,733)
Net cash flow used in operating activities	**(5,013)**	(7,034)
Net cash outflows	**(5,013)**	(7,034)

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6. Subsidiaries (continued)
6.2 Subsidiaries with material non-controlling interests (continued)

b) Arzan Capital (Holding) Ltd

	31 Dec. 2019 KD	31 Dec. 2018 KD
Non-current assets	**26,057,886**	18,938,052
Current assets	**6,281,801**	3,202,992
Total assets	**32,339,687**	22,141,044
Non-current liabilities	**143,533**	107,617
Current liabilities	**9,141,752**	248,954
Total liabilities	**9,285,285**	356,571
Equity attributable to the shareholders of the Parent Company	**18,120,212**	17,804,101
Non-controlling interests	**4,934,190**	3,980,372
Total equity	**23,054,402**	21,784,473

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
Income	**3,483,197**	1,152,791
Expenses and other charges	**(1,418,772)**	(627,656)
Profit for the year attributable to the shareholders of the Parent Company	**1,622,589**	461,297
Profit for the year attributable to NCI	**441,836**	63,838
Profit for the year	**2,064,425**	525,135
Total comprehensive income for the year attributable to the shareholders of the Parent Company	**1,542,731**	104,382
Total comprehensive income for the year attributable to NCI	**420,090**	14,445
Total comprehensive income for the year	**1,962,821**	118,827
Net cash flow from operating activities	**1,294,307**	1,656,904
Net cash inflows	**1,832,191**	1,216,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2019

7 Income from instalment credit debtors

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
Interest income from instalment credit	**901,446**	923,980
Discount, commission and fees	**249,898**	467,218
Recovery of written off balances	**443,925**	303,986
	1,595,269	1,695,184

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. 2019 KD	Year ended 31 Dec. 2018 KD
Assets management	**88,325**	67,150
Custodian and other fees	**229,478**	263,081
Advisory services	**2,645,531**	1,326,093
	2,963,334	1,656,324

Revenue from advisory services represents 89% of the revenue from contracts with customers for the year ended 31 December 2019 (31 December 2018: 80%).

9 Finance costs

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
On financial liabilities at amortised cost:		
Due to banks	**238,885**	298,946
Term loans	**1,040,500**	981,210
Murabaha payable	**528,897**	255,195
Others	**302,816**	45,190
	2,111,098	1,580,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

10 Basic and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the 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. As there are no dilutive instruments outstanding basic and diluted earnings per share are identical.

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
Profit Profit for the year attributable to shareholders of the Parent Company	**1,095,948**	2,533,530
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	**796,798,668**	796,798,668
Basic and diluted earnings per share attributable to the shareholders of the Parent Company – Fils	**1.375**	3.180

11 Net (loss)/gain on financial assets

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

	Year ended 31 Dec. 2019 KD	Year ended 31 Dec. 2018 KD
At amortised cost:		
Cash and cash equivalents	**898,591**	896,935
Instalments credit debtors	**(896,725)**	1,911,295
Gain on financial assets at amortised cost	**1,866**	2,808,230
Financial assets at fair value through profit or loss:		
Gain on change in fair value	**3,256,259**	953,926
Gain on sale	**845,937**	391,004
Dividend income	**404,533**	372,827
Gain on financial assets at fair value through profit or loss	**4,506,729**	1,717,757
Financial assets at fair value through other comprehensive income:		
Interest income	**56,993**	77,550
Dividend income	**1,855,357**	1,882,326
Gain recognised in consolidated statement of profit or loss	**1,912,350**	1,959,876
Loss on change in fair value	**(5,567,842)**	(10,764,560)
Loss on sale	**(3,689,399)**	(464,143)
Loss recognised in equity	**(9,257,241)**	(11,228,703)
Loss on financial assets at fair value through other comprehensive income	**(7,344,891)**	(9,268,827)
Net loss on financial assets	**(2,836,296)**	(4,742,840)

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12 Cash and cash equivalents

12.1 Cash and cash equivalents

	31 Dec. 2019 KD	31 Dec. 2018 KD
Cash and bank balances	**7,898,924**	7,414,427
Term deposits – 1 to 3 months	**-**	2,959,626
Cash and cash equivalents	**7,898,924**	10,374,053
Less: due to banks	**(1,930,923)**	(4,019,970)
Cash and cash equivalents for statement of cash flow	**5,968,001**	6,354,083

12.2 Restricted cash and cash equivalents

	31 Dec. 2019 KD	31 Dec. 2018 KD
Cash and bank balances	**87,165**	-
Term deposits – 1 to 3 months	**3,490,102**	-
	3,577,267	-
Provision of credit losses	**(1,000,000)**	-
Restricted cash and cash equivalents	**2,577,267**	-

Restricted cash and cash equivalents represent 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, at the end of the year, the Group recognised a provision for credit losses of KD1,000,000 against these restricted cash and cash equivalents of its subsidiary “IFC Lebanon” (note 6.1.1). However, subsequent to the reporting date, KD1,924,670 of the restricted cash and cash equivalents has been used to repay the outstanding balance of due to banks.

The term deposits carry effective interest rate ranging 9.25% - 12% (31 December 2018: 7.25% - 8%) per annum.

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13 Instalment credit debtors

	31 Dec. 2019	2019 Dec. 2018
	KD	KD
Gross instalment credit debtors	**11,408,073**	12,904,423
Deferred income	**(1,348,235)**	(1,541,493)
	10,059,838	11,362,930
Specific provision for credit losses	**(2,266,647)**	(2,106,596)
General provision for credit losses	**(3,664,538)**	(1,351,979)
	4,128,653	7,904,355

Gross instalment credit debtors are repayable as follows:

	31 Dec. 2019	31 Dec. 2018
	KD	KD
Within one year	**3,036,274**	3,477,065
More than a year	**8,371,799**	9,427,358
	11,408,073	12,904,423

The effective annual interest rate earned on instalment credit ranged from 5.75% to 7.5% per annum (31 December 2018: 5.5% to 7% per annum).

The gross instalment credit debtors include an amount of KD664,866 (31 December 2018: KD759,723) in respect of related parties (note 33). 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 2019			31 December 2018		
	Specific provision KD	**General provision KD**	**Total KD**	Specific provision KD	General provision KD	Total KD
Opening balance	**2,106,596**	**1,351,979**	**3,458,575**	2,000,048	118,794	2,118,842
Effect of adoption IFRS 9	**-**	**-**	**-**	416,949	1,131,606	1,548,555
Write off during the year	**(3,904)**	**(9,314)**	**(13,218)**	-	-	-
Charge for the year	**170,056**	**2,321,938**	**2,491,994**	51,533	198,428	249,961
Transfer	**-**	**-**	**-**	(42,580)	42,580	-
Reversal during the year	**(583)**	**-**	**(583)**	(326,084)	(139,988)	(466,072)
Foreign currency translation differences	**(5,518)**	**(65)**	**(5,583)**	6,730	559	7,289
Closing balance	**2,266,647**	**3,664,538**	**5,931,185**	2,106,596	1,351,979	3,458,575

Provision for credit losses is calculated, in all material respect, with the requirements of the Central Bank of Kuwait. However, at the end of the year, the Group recognised an additional general provision of KD2,250,000 for instalment credit debtors of its subsidiary “IFC Lebanon” (note 6.1.1).

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14 Financial assets at fair value through profit or loss

	31 Dec. 2019 KD	31 Dec. 2018 KD
Local quoted shares	**816,860**	929,905
Foreign quoted shares	**348,388**	221,427
Foreign unquoted shares	**2,115,357**	1,998,196
Investments in managed portfolios	**10,635,479**	6,698,246
Investment in managed fund	**588,775**	-
	14,504,859	9,847,774

The investments in managed portfolios with aggregate carryings value of KD9,989,227 (31 December 2018: KD6,262,169) are pledged against term loans and murabaha payable (notes 24 and 25).

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. 2019 KD	31 Dec. 2018 KD
Financial assets		
Trade receivables	**2,442,229**	2,693,434
Instalments sales receivable	**952,210**	503,331
Due from related parties	**1,359,961**	948,467
Staff loans receivable	**1,970**	3,479
	4,756,370	4,148,711
Provision for doubtful debts	**(2,320,095)**	(2,209,758)
	2,436,275	1,938,953
Non-financial assets		
Prepayments	**168,591**	147,791
Advance payments to purchase investments	**79,615**	1,000,976
Other assets	**2,284,480**	1,104,115
	4,968,961	4,191,835

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 accounts receivable is as follows:

	31 Dec. 2019 KD	31 Dec. 2018 KD
Balance at the beginning of the year	**2,209,758**	1,654,249
Arising on adoption of IFRS 9	**-**	371,204
Charge for the year	**211,328**	290,781
Written off during the year	**(101,024)**	(27,518)
Reversal during the year	**-**	(78,958)
Foreign currency	**33**	-
Balance at end of the year	**2,320,095**	2,209,758

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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. 2019	31 Dec. 2018
	KD	KD
Balance at 1 January	**1,409,531**	1,799,345
Disposal during the year	**-**	(389,814)
	1,409,531	1,409,531
Provision for properties held for trading	**(503,391)**	(386,251)
Balance at 31 December	**906,140**	1,023,280

As a result of impairment testing of the carrying value of the properties, an amount of KD117,140 (31 December 2018: gain on reversal of provision by KD65,156) has been recognised as a provision in the current years. 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. 2019	31 Dec. 2018
	KD	KD
Local quoted shares	**4,134,661**	5,146,295
Local unquoted shares	**12,679,879**	13,325,654
Foreign unquoted shares	**39,869,688**	28,981,411
Investments in managed portfolios	**7,076,658**	22,275,990
Debt instruments	**2,641,946**	6,618,848
Investment funds	**98,651**	248,739
	66,501,483	76,596,937

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:

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17 Financial assets at fair value through other comprehensive income

	Financial services KD	Real estate KD	Consumer services KD	Others KD	Total KD
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
	24,154,059	35,047,638	6,437,147	862,639	66,501,483

Debt instruments amounting to KD978,443 (31 December 2018: KD894,299) are secured by charges over real estate properties and carry average interest rate of 7% (31 December 2018: 7%) per annum.

During the year, based on the management's impairment testing for the debt instruments, loss on impairment of financial assets at FVTOCI has been recognised in the consolidated statement of profit or loss. The carrying value of this investment in that debt instrument of KD5,724,549, after impairment, has been reclassified to foreign unquoted shares as it has been converted to equity instruments.

Quoted and unquoted local shares and investments in managed portfolios with an aggregate carrying value of KD10,191,948 (31 December 2018: KD28,178,450) are pledged against term loans and murabaha payables (notes 24 and 25).

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

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18 Investment in associates

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

	Country of incorporation	Percentage of ownership 31 December 2019 %	2018 %	Activity
Offset Holding Co. - KSCC	Kuwait	**50.00**	50.00	Holding Company
Al Wafir Marketing Services Co. - KSCC	Kuwait	**34.00**	34.00	Real estate
Al Oula Slaughterhouse Co. - KSCC	Kuwait	**28.89**	28.89	Services
Gulf Real Estate Co. - WLL	Kuwait	**20.13**	20.13	Real estate
Arzan International Company for Hospital Construction and Management – WLL	Kuwait	**10.00**	10.00	Establishment & Management of Hospitals
Kuwait Clearing Company - KSC	Kuwait	**13.33**	-	Services

During the year, the Group reclassified its investment in Kuwait Clearing Company – KSC (Closed) amounting to KD16,046,700 representing 13.33% ownership interest from financial assets at fair value through other comprehensive income to investment in associate. Although, the Group owns less than 20% ownership interest in Kuwait Clearing Company – KSC (Closed), it exercises significant influence over the investee as it is represented by two of the ten members on the board of directors of the investee.

The reclassification of the investment as an associate resulted in provisional goodwill of KD11,540,530. The provisional fair value of the identifiable assets and liabilities as at the date of acquisition of the above investee are as follows:

	31 Dec. 2019 KD
Total assets	**41,373,690**
Total liabilities	**7,577,415**
Net assets	**33,796,275**
Purchase consideration	**16,046,700**
Share of net assets acquired	**(4,506,170)**
Goodwill	**11,540,530**

The fair value of identifiable assets and liabilities acquired have been provisionally determined by the management of the Group. The estimates referred to above, and resultant goodwill, are subject to revision within twelve months of the acquisition date.

All associates are unquoted.

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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		Kuwait Cleaning Co. KSCC	
	31 Dec. 2019 KD	31 Dec. 2018 KD	**31 Dec. 2019 KD**	31 Dec. 2018 KD	**31 Dec. 2019 KD**	31 Dec. 2018 KD
Assets						-
Current	**4,971,334**	4,905,494	**31,349,934**	19,016,499	**34,423,814**	-
Non-current	**16,683,820**	17,019,595	**43,102,678**	31,231,539	**9,804,534**	-
	21,655,154	21,925,089	**74,452,612**	50,248,038	**44,228,348**	
Liabilities						-
Current	**212,036**	380,633	**22,459,531**	6,978,174	**2,461,935**	-
Non-current	**721,306**	663,546	**20,394,958**	14,545,073	**4,142,366**	-
	933,342	1,044,179	**42,854,489**	21,523,247	**6,604,301**	-
	20,721,812	20,880,910	**31,598,123**	28,724,791	**37,624,047**	-
Non-controlling interests	**(3,519,510)**	(3,569,418)	**(1,263,867)**	(771,455)	**(301,118)**	-
Net assets	**17,202,302**	17,311,492	**30,334,256**	27,953,336	**37,322,929**	
						-
Group's share of net assets	**8,601,151**	8,655,746	**10,313,222**	9,503,743	**4,976,379**	-
Goodwill	**-**	-	**7,772,154**	7,905,703	**11,540,530**	-
Carrying amount	**8,601,151**	8,655,746	**18,085,376**	17,409,446	**16,516,909**	-
Revenue	**2,032,975**	1,229,045	**20,840,727**	11,000,204	**8,167,337**	-
Profit / (loss)	**133,354**	(1,289,004)	**3,856,668**	2,293,115	**3,526,654**	-
Total comprehensive (loss)/income	**(109,190)**	(402,548)	**3,856,668**	2,293,115	**3,526,654**	-
Group' share of results	**66,677**	(644,502)	**1,311,213**	779,627	**470,209**	-
Dividend received	**-**	-	**635,283**	635,283	**-**	

The remaining associates are considered immaterial to the Group.

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18. Investment in associates (continued)

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

	31 Dec. 2019 KD	31 Dec. 2018 KD
Aggregate share in associates' assets and liabilities:		
Assets	**7,404,823**	1,488,535
Liabilities	**2,274,336**	76,917
	5,130,487	1,411,618
Aggregate share in associates' results:		
Revenue	**815,225**	190,325
Profit for the year	**385,967**	71,364
Group's share of total comprehensive income	**125,176**	71,309
Dividends received	**108,346**	86,675

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

	31 Dec. 2019 KD	31 Dec. 2018 KD
At 1 January	**27,476,807**	28,178,561
Additions	**16,046,700**	15,000
Share of results	**1,973,274**	206,489
Dividends	**(743,629)**	(721,958)
Share of other comprehensive loss	**(121,278)**	(201,285)
At 31 December	**44,631,874**	27,476,807

Investments in associate with a carrying value of KD37,863,555 (31 December 2018: KD8,140,899) are pledged against term loans and murabaha payables (notes 24 and 25).

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19 Investments in real estate under development

	31 Dec. 2019	31 Dec. 2018
	KD	KD
Cost		
Land cost	**5,050,140**	4,120,080
Lands purchased	**-**	854,154
Development costs	**133,828**	142,986
Foreign currency	**129,706**	-
Total cost	**5,313,674**	5,117,220
Provision for impairment in value	**-**	(67,080)
Net book value at end of the year	**5,313,674**	5,050,140

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 KD Nil (31 December 2018: KD67,080). 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.

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20 Investment properties

	Land KD	Building KD	Total KD
Cost			
1 January 2019	**1,023,750**	**1,484,989**	**2,508,739**
31 December 2019	**1,023,750**	**1,484,989**	**2,508,739**
Accumulated depreciation			
1 January 2019	**-**	**853,534**	**853,534**
Charge for the year	**-**	**58,741**	**58,741**
31 December 2019	**-**	**912,275**	**912,275**
Net book value			
At 31 December 2019	**1,023,750**	**572,714**	**1,596,464**
Fair value as at 31 December 2019	**1,732,680**	**979,820**	**2,712,500**
Cost			
1 January 2018	1,023,750	1,484,989	2,508,739
31 December 2018	1,023,750	1,484,989	2,508,739
Accumulated depreciation			
1 January 2018	-	794,795	794,795
Charge for the year	-	58,739	58,739
31 December 2018	-	853,534	853,534
Net book value			
At 31 December 2018	1,023,750	631,455	1,655,205
Fair value as at 31 December 2018	1,638,953	1,029,797	2,668,750

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 third parties, and is accounted for as an investment property under IAS 40.

The investment properties are mortgaged against murabaha payables (note 25).

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21 Property and equipment

2019:	Land KD	Building KD	Office equipment and computers KD	Fixtures and decoration KD	Computer software KD	Total KD
Cost						
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**
Accumulated depreciation						
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**
Net book value						
At 31 December 2019	**1,316,250**	**797,944**	**42,356**	**191,092**	**291,972**	**2,639,614**

2018:	Land KD	Building KD	Office equipment and computers KD	Fixtures and decoration KD	Computer software KD	Total KD
Cost						
At 1 January	1,316,250	2,000,606	627,545	419,519	1,004,455	5,368,375
Additions	-	-	36,800	96,850	19,579	153,229
Disposals	-	-	(21,258)	(1,081)	(1,088)	(23,427)
Foreign currency translation differences	-	(109)	429	275	379	974
At 31 December	1,316,250	2,000,497	643,516	515,563	1,023,325	5,499,151
Accumulated depreciation						
At 1 January	-	1,046,385	594,690	318,343	380,901	2,340,319
Charge for the year	-	80,615	23,807	46,047	209,620	360,089
Relating to disposal	-	-	(20,480)	(1,009)	(868)	(22,356)
Foreign currency translation differences	-	(47)	290	219	364	827
At 31 December	-	1,126,953	598,307	363,600	590,017	2,678,877
Net book value						
At 31 December 2018	1,316,250	873,544	45,209	151,963	433,308	2,820,274

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 25).

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22. Due to banks

This represents outstanding amounts of the credit facilities obtained by the Group from foreign banks in the form of overdraft facilities. The credit facilities carry interest rate of 7.50% per annum (31 December 2018: 5.25% - 5.75% per annum), payable on demand and secured against term deposits.

23. Accounts payable and other liabilities

	31 Dec. 2019 KD	31 Dec. 2018 KD
Trade payables	**143,113**	142,228
Due to related parties (see (i) below)	**3,547,720**	971,561
Other payables	**2,342,120**	2,100,280
Accrued interest	**104,483**	117,890
Provision for staff leave	**225,735**	204,561
KFAS payable	**226,802**	226,802
NLST and Zakat payable	**2,924,742**	2,924,742
Advances received from investors (see (ii) below)	**3,795,856**	-
Due to shareholders	**361,314**	361,314
	13,671,885	7,049,378

i) Due to related parties includes an amount of KD1,957,190 received by one of Group's subsidiaries from a related party for the purpose of purchase of investment on its behalf. Subsequent to the reporting date, transactions amounting to KD1,957,190 were completed and the investments were purchased and transferred to the related party.

ii) 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 investment to the investors.

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24. Term loans

As of 31 December 2019, the outstanding term loans obtained from local banks amounting to KD14,944,000 carries annual interest rates ranging from 5.5% to 6.15% (31 December 2018: 5.75% to 6.4%) per annum and repayable in various instalments ending in June 2022. Local term loans are secured against mortgage of certain financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and investment in associate (notes 14, 17 and 18).

Furthermore, during the year, one of the subsidiaries obtained a new loan of USD10 million (equivalent to KD3,030,500) from an investment company located in Kuwait. The loan carries an annual interest rate of 10% and repaid in full on 16 March 2020. The term loan is unsecured.

	31 Dec. 2019	31 Dec. 2018
	KD	KD
Within one year	**9,254,500**	4,856,000
After one year	**8,720,000**	13,024,000
	17,974,500	17,880,000

25 Murabaha payable

These represent Islamic financings obtained in Kuwait Dinar and US Dollar from local and foreign financial institutions, carrying effective profit rates of 3% to 5.75% (31 December 2018: 3% to 6%) per annum. These financings are secured against pledge of 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 14, 17, 18, 20 and 21) and payable in various instalments ending in May 2024. Murabaha payable are due as follows:

	31 Dec. 2019	31 Dec. 2018
	KD	KD
Within one year	**3,792,517**	856,619
After one year	**8,336,153**	3,612,500
	12,128,670	4,469,119

26 Share capital and share premium

As at 31 December 2019, the authorised, issued and paid up share capital of the Parent Company consists of 802,882,556 shares of 100 fils each (31 December 2018: 802,882,556 shares). All shares are in cash.

The share premium is non-distributable.

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27 Treasury shares

	31 Dec. 2019	31 Dec. 2018
Number of treasury shares	**6,083,892**	6,083,892
Percentage of ownership (%)	**0.758%**	0.758%
Market value (KD)	**144,188**	170,349
Cost (KD)	**559,232**	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.

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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
Balance at 1 January 2019	**4,019,970**	**17,880,000**	**4,469,119**	**26,369,089**
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)**
31 December 2019	**1,930,923**	**17,974,500**	**12,128,670**	**32,034,093**
Balance at 1 January 2018	5,226,027	16,380,000	5,267,067	26,873,094
Cash flows:				
• Repayment	-	(3,744,000)	(5,047,663)	(8,791,663)
• Proceeds	37,933	4,000,000	4,250,000	8,287,933
Non-cash items:				
• Transfer	(1,244,000)	1,244,000	-	-
• Foreign currency differences	10	-	(285)	(275)
31 December 2018	4,019,970	17,880,000	4,469,119	26,369,089

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 2019. 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 21 May 2019 approved the consolidated financial statements for the year ended 31 December 2018 without dividend. Further, the annual general assembly approved to distribute directors' remuneration of KD42,000 for the year then ended which has been included in 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 KD33,483,866 (31 December 2018: KD35,154,384).

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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
Year ended 31 December 2019					
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**
As at 31 December 2019					
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**
Year ended 31 December 2018					
Total revenues	1,918,943	6,810,687	(273,104)	200,475	8,657,001
(Loss)/profit for the year	(2,153,694)	4,976,208	(532,589)	(3,161)	2,286,764
As at 31 December 2018					
Total assets	11,910,718	115,104,497	11,607,284	8,318,161	146,940,660
Total liabilities	3,612,551	29,851,432	772,949	551,113	34,788,045
Net assets	8,298,167	85,253,065	10,834,335	7,767,048	112,152,615

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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. 2019 KD	31 Dec. 2018 KD
Balances included in the consolidated statement of financial position		
Instalment credit debtors-gross (note 13)	**664,866**	759,723
Due from related parties - net (note 15)	**1,195,897**	798,190
Due to shareholders (note 23)	**361,314**	361,314
Due to related parties (note 23)	**3,547,720**	971,561

Transactions included in the consolidated statement of profit or loss	**Year ended 31 Dec. 2019 KD**	Year ended 31 Dec. 2018 KD
Income from installment credit debtors	**47,991**	54,888
Interest income	**610,768**	662,760
General and administrative expenses	**73,638**	103,163
Finance costs	**3,208**	-
Key management compensation:		
Salaries and other short-term benefits	**949,371**	1,006,870
End of service benefits	**54,100**	52,681
Board of directors' remuneration (included in in general and administrative expenses)	**42,000**	42,000
Board committee remuneration	**-**	22,200

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34 Risk management objectives and policies

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:

	31 Dec. 2019 Equivalent KD	31 Dec. 2018 Equivalent KD
US Dollar	**21,547,955**	30,260,871
Lebanese Lira	**3,734,896**	7,950,216
Great Britain Pound	**6,904,269**	5,388,312
Egyptian Pound	**2,441,700**	2,168,729
UAE Dirham	**906,140**	1,096,242
Saudi Riyal	**36,003**	(8,458)
Euro	**10,529,417**	4,884,635
Omani Riyal	**55,770**	54,110
Jordanian Dinar	**732,929**	785,744
Norway Krona	**320,187**	339,036

The following table details the Group's sensitivity to a 2% (2018: 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.

	+2% Impact 31 Dec. 2019 KD	+2% Impact 31 Dec. 2018 KD	**-2% Impact 31 Dec. 2019 KD**	-2% Impact 31 Dec. 2018 KD
Profit for the year	**156,849**	373,653	**(156,849)**	(373,653)
Equity	**787,336**	684,735	**(787,336)**	(684,735)

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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 Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Positions are monitored on a daily basis 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 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 %
Assets								
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	-
Accounts receivable and other assets	-	-	-	-	-	4,968,961	4,968,961	-
	8,669,468	2,839,230	2,003,766	13,512,464	1,092,380	19,473,820	34,078,664	
Liabilities								
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	

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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 2018 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 %
Assets								
Cash and cash equivalents	7,414,427	2,959,626	-	10,374,053	-	-	10,374,053	7.25%-8%
Instalment credit debtors	590,264	337,601	2,253,948	3,181,813	4,722,542	-	7,904,355	5.5%-7%
Financial assets at fair value through profit or loss	-	-	-	-	-	9,847,774	9,847,774	-
Accounts receivable and other assets	-	-	-	-	-	4,191,835	4,191,835	-
	8,004,691	3,297,227	2,253,948	13,555,866	4,722,542	14,039,609	32,318,017	
Liabilities								
Due to banks	4,019,970	-	-	4,019,970	-	-	4,019,970	5.25%-5.75%
Accounts payable and other liabilities	-	-	-	-	-	7,049,378	7,049,378	-
Term loans	-	1,014,000	3,842,000	4,856,000	13,024,000	-	17,880,000	5.75%-6.4%
Murabaha payables	-	537,869	318,750	856,619	3,612,500	-	4,469,119	3%-6%
Provision for employees' end of service benefits	-	-	-	-	-	1,369,578	1,369,578	-
	4,019,970	1,551,869	4,160,750	9,732,589	16,636,500	8,418,956	34,788,045	

The following table illustrates the sensitivity of the result for the year to a reasonably possible change in interest rates of +1% and –1% (2018: +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. 2019		31 Dec. 2018	
	+ 1% KD	**-1% KD**	+ 1% KD	- 1% KD
Results for the year	**(174,292)**	**174,292**	(80,907)	80,907

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31 December 2019

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 2019 and 2018 would have been as follows:

	Profit for the year		**Equity**	
	31 Dec. 2019 KD	31 Dec. 2018 KD	**31 Dec. 2019 KD**	31 Dec. 2018 KD
Financial assets at fair value through profit or loss	**±1,450,486**	±984,777	**-**	-
Financial assets at fair value through other comprehensive income	**-**	-	**±6,650,148**	±7,659,694

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. 2019 KD	31 Dec. 2018 KD
Cash and cash equivalents	**7,898,924**	10,374,053
Restricted cash and cash equivalents	**2,577,267**	-
Instalment credit debtors	**4,128,653**	7,904,355
Financial assets at fair value through profit or loss (note 14)	**10,635,479**	6,698,246
Financial assets at fair value through other comprehensive income	**7,175,309**	22,524,729
Accounts receivable and other assets	**4,968,961**	4,191,835
Total	**37,384,593**	51,693,218

As of 31 December 2019, instalment credit debtors and restricted cash and cash equivalents amount of KD5,715,247 are located in Lebanon. During the year, 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.

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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
31 December 2019						
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 fair value through profit or loss	**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 fair value through other comprehensive income	**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**
Total	**91,476,140**	**10,122,774**	**11,695,128**	**19,209,909**	**23,163,962**	**155,667,913**
At 31 December 2018						
Cash and cash equivalents	2,993,462	2,997,024	4,376,535	-	7,032	10,374,053
Installment credit debtors	1,641,296	-	6,263,059	-	-	7,904,355
Financial assets at fair value through profit or loss	7,192,074	-	1,719,867	71,747	864,086	9,847,774
Accounts receivable and other assets	2,554,412	336,905	1,300,518	-	-	4,191,835
Properties held for trading	-	1,023,280	-	-	-	1,023,280
Financial assts at fair value through other comprehensive income	40,920,853	1,634,375	506,207	10,728,518	22,806,984	76,596,937
Investment in associates	27,476,807	-	-	-	-	27,476,807
Investment in real estate under development	4,068,906	-	981,234	-	-	5,050,140
Investment properties	1,655,205	-	-	-	-	1,655,205
Property and equipment	2,738,298	997	80,979	-	-	2,820,274
Total	91,241,313	5,992,581	15,228,399	10,800,265	23,678,102	146,940,660

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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 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
ASSETS						
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
Total assets	**24,079,176**	**3,111,016**	**6,702,232**	**33,892,424**	**121,775,489**	**155,667,913**
LIABILITIES						
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
Total liabilities	**2,591,214**	**9,207,713**	**13,959,813**	**25,758,740**	**21,429,054**	**47,187,794**

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

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

Maturity profile of assets and liabilities at 31 December 2018:

	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
ASSETS						
Cash and cash equivalents	7,414,427	2,959,626	-	10,374,053	-	10,374,053
Installment credit debtors	590,264	337,601	2,253,948	3,181,813	4,722,542	7,904,355
Financial assets at fair value through profit or loss	9,847,774	-	-	9,847,774	-	9,847,774
Accounts receivable and other assets	745,843	223,247	3,222,745	4,191,835	-	4,191,835
Properties held for trading	-	-	1,023,280	1,023,280	-	1,023,280
Financial assets at fair value through other comprehensive income	-	-	-	-	76,596,937	76,596,937
Investment in associates	-	-	-	-	27,476,807	27,476,807
Investment in real estate under development	-	-	-	-	5,050,140	5,050,140
Investment properties	-	-	-	-	1,655,205	1,655,205
Property and equipment	-	-	-	-	2,820,274	2,820,274
Total assets	18,598,308	3,520,474	6,499,973	28,618,755	118,321,905	146,940,660
LIABILITIES						
Due to banks	4,019,970	-	-	4,019,970	-	4,019,970
Accounts payable and other liabilities	448,581	644,093	3,065,620	4,158,294	2,891,084	7,049,378
Term loans	-	1,014,000	3,842,000	4,856,000	13,024,000	17,880,000
Murabaha payables	-	537,869	318,750	856,619	3,612,500	4,469,119
Provision for employees' end of service benefits	-	-	-	-	1,369,578	1,369,578
Total liabilities	4,468,551	2,195,962	7,226,370	13,890,883	20,897,162	34,788,045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2019 Financial liabilities	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
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**
	2,692,588	**9,391,232**	**14,422,975**	**26,506,795**	**22,354,193**	**48,860,988**

31 December 2018 Financial liabilities	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
Due to banks	4,231,019	-	-	4,231,019	-	4,231,019
Accounts payable and other liabilities	448,581	644,093	3,065,620	4,158,294	2,891,084	7,049,378
Term loans	-	1,078,220	4,082,660	5,160,880	13,840,030	19,000,910
Murabaha payables	-	112,625	781,580	894,205	3,829,250	4,723,455
Provision for employees' end of service benefits	-	-	-	-	1,369,578	1,369,578
	4,679,600	1,834,938	7,929,860	14,444,398	21,929,942	36,374,340

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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).

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35 Fair value measurement (continued)

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. 2019	31 Dec. 2018
	KD	KD
Financial assets:		
At amortised cost:		
Cash and cash equivalents	**7,898,924**	10,374,053
Restricted cash and cash equivalents	**2,577,267**	-
Installments credit debtors	**4,128,653**	7,904,355
Accounts receivable and other assets	**4,968,961**	4,191,835
At fair value:		
Financial assets at fair value through profit or loss	**14,504,859**	9,847,774
Financial assets at fair value through other comprehensive income	**66,501,483**	76,596,937
Total	**100,580,147**	108,914,954
Financial liabilities:		
At amortised cost:		
Due to banks	**1,930,923**	4,019,970
Accounts payable and other liabilities	**13,671,885**	7,049,378
Term loans	**17,974,500**	17,880,000
Murabaha payables	**12,128,670**	4,469,119
Provision for employees' end of service benefits	**1,481,816**	1,369,578
Total	**47,187,794**	34,788,045

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

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.

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
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**
	23,012,046	**687,426**	**57,306,870**	**81,006,342**
31 December 2018				
Financial assets at fair value through profit or loss:				
Local quoted shares	929,905	-	-	929,905
Foreign quoted shares	221,427	-	-	221,427
Investment in managed portfolios	6,698,246	-	-	6,698,246
Foreign unquoted shares	-	-	1,998,196	1,998,196
Financial assets at fair value through other comprehensive income:				
Local quoted shares	5,146,295	-	-	5,146,295
Local unquoted shares	-	-	13,325,654	13,325,654
Foreign unquoted shares	-	-	28,981,411	28,981,411
Investment in managed portfolios	11,061,990	-	11,214,000	22,275,990
Debt instruments	-	-	6,618,848	6,618,848
Investment funds	-	248,739	-	248,739
	24,057,863	248,739	62,138,109	86,444,711

There have been no transfers between levels during the reporting period.

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.

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31 December 2019

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.

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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. 2019	31 Dec. 2018
	KD	KD
Opening balance	**62,138,109**	48,959,664
Change in fair value	**819,191**	(976,440)
Sales	**(31,403,471)**	(2,893,542)
Purchases	**27,601,345**	17,048,427
Impairment of financial assets at FVTOCI	**(1,848,304)**	-
Closing balance	**57,306,870**	62,138,109

Non-financial instruments
Investment properties were fair valued at 31 December 2019 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 valuators 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.

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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:

	31 Dec. 2019	31 Dec. 2018
	KD	KD
Due to banks (note 22)	**1,930,923**	4,019,970
Term loans (note 24)	**17,974,500**	17,880,000
Murabaha payables (note 25)	**12,128,670**	4,469,119
Less:		
Cash and cash equivalents (note 12.1)	**(7,898,924)**	(10,374,053)
Restricted cash and cash equivalents (note 12.2)	**(2,577,267)**	-
Net debt	**21,557,902**	15,995,036
Equity	**108,480,119**	119,090,805
Net debt to equity ratio	**19.87%**	13.43%

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37 Capital commitments

At the date of the consolidated statement of financial position, the Group had capital commitments amounting to KD282,396 for real estate under development.

38 Division of the Parent Company

During the year, 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 have been 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.

Subsequent to the reporting date, 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 the rules.

As of the reporting date, no effect of the above has been recognised in these consolidated financial statements.

39 Subsequent events

Subsequent to reporting date on 11 March 2020, the World Health Organization characterised Virus Covid-19 as a pandemic, negatively impacting global markets, including Kuwait Stock Market (Boursa) which declined over 24% upto end of March 2020 disrupting supply chains, and changing social behaviour. It is uncertain if Covid-19 will continue disrupting global markets and what impact it will have on the Group's operation. As the situation is fluid and rapidly evolving, the Group do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.