

**Osoul Investment Company – K.S.C.P
And its Subsidiaries
State of Kuwait**



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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Osoul Investment Company K.S.C.P State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Osoul Investment Company K.S.C.P. (the Parent Company) and its subsidiaries, (together referred to as "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 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 other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 30.3 of the financial statements, which describes the uncertainty related to the outcome of a deemed basis tax assessment against the Group.

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 period. 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. The following is the key audit matter identified and how we addressed it in our audit.

Net realisable value of properties held for trading

The Group's investment in properties held for trading is carried at KD 2,259,712, which comprise residential buildings located in the United States of America and Jordan. These properties represents 10.1% of Group's total assets as disclosed in notes 8 to the consolidated financial statements and are stated at the lower of cost and net realizable value. An assessment of the net realizable value of properties is carried out at each reporting date based on the market value of each property. In determining the market value of properties, the Group applies significant judgement and makes various estimates. The Group's policy on properties held for trading is disclosed in note 2.9 to the consolidated financial statements.

We have identified this to be a key audit matter because of the existence of significant estimation uncertainty and Judgements. A small change in the estimates applied could result in a material change to the value of these properties. The valuation of these properties is inherently subjective due to, among other factors, the individual nature of each property and its location. The valuations are carried out by independent third party valuers appointed by the Group management, who are licensed from the relevant regulatory bodies at respective locations. In determining a property's valuation the valuers take into account property specific current information such as comparable market transactions.

Auditor procedures:

Our audit procedures included, but were not limited to, the following:

We assessed the design and implementation of relevant controls related to the determination of the net realizable value of properties held for trading. We engaged internal valuation specialists to review the valuation methodologies used and challenged the key assumptions including the inputs used to evaluate the real estate properties, by

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (CONTINUED)

Osoul Investment Company K.S.C.P State of Kuwait

comparing these against industry benchmarks and our understanding of the property market in respective location. We assessed the skills, competence, objectivity and qualifications of the external valuers. We compared the results of the valuation against the carrying amount of the properties to determine if any of the properties were carried at an amount exceeding their net realizable value. We assessed the disclosure in the consolidated financial statements relating to this matter to determine if it was in accordance with IFRSs.

Other Information

Management is responsible for the other information. The other information comprises all information included in the annual report other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors' report prior to the date of auditor's report. We expect to receive the Parent Company's annual report of 2019, after the date of the auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (CONTINUED)

Osoul Investment Company K.S.C.P State of Kuwait

- 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.

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 Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained the information that we deemed necessary for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016 and its Executive regulations, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive regulations or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2019, that might have had a material effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations or of the provisions of Law No. 7 of 2010, concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2019, that might have had a material effect on the business of the Group or on its consolidated financial position.



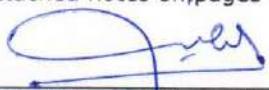
Talal Y. Al-Muzaini
License No. 209A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
24 March 2020

Consolidated Statement of Financial Position as at 31 December 2019

	Notes	Kuwaiti Dinars	
		2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	4	1,470,782	1,448,963
Investments in Murabaha, Wakala and deposits at financial institutions	5	-	1,250,000
Investments at fair value through profit or loss	6	5,054,262	2,278,997
Other receivables	7	155,825	197,806
Properties held for trading	8	2,259,712	2,257,775
Total current assets		8,940,581	7,433,541
Non-current assets			
Investment in associates	9	3,789,463	3,289,170
Investment at Fair value through other comprehensive income	10	1,698,862	3,510,495
Investment properties	11	6,950,000	6,950,000
Intangible assets	12	649,993	711,857
Right of use assets	13	320,957	-
Other Assets		20,382	9,202
Total non-current assets		13,429,657	14,470,724
Total assets		22,370,238	21,904,265
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Payables	14	1,438,183	586,185
Lease liabilities	15	91,538	-
Total current liabilities		1,529,721	586,185
Non-current assets			
End of service indemnity	16	159,805	386,740
Lease liabilities	15	239,022	-
Total non-current liabilities		398,827	386,740
Total liabilities		1,928,548	972,925
Equity			
Share capital	17	15,710,050	18,870,504
Treasury shares	18	(183,041)	(775,510)
Treasury share reserve		621,197	-
Statutory reserve	19	468,409	274,181
Foreign currency translation reserve		3,835	13,314
Change in fair value reserve		474,433	1,433,307
Retained earnings		3,346,807	1,115,544
Total equity		20,441,690	20,931,340
Total liabilities and equity		22,370,238	21,904,265

The attached notes on pages 9 to 36 form an integral part of these consolidated financial statements.


Abdulla Musaed AL-Dakheel
Chairman


Sulaiman Ahmed Al-Ameeri
Vice Chairman

Consolidated Statement of profit or loss for the year ended 31 December 2019

	Notes	Kuwaiti Dinars	
		2019	2018
Revenues			
Net gain from investments	20	1,719,769	493,967
Gain from investment properties	21	644,965	507,525
Gain from properties held for trading	22	1,755	48,196
Rental income from intangible assets		79,954	99,292
Portfolio and funds management fees		101,423	52,819
Profit from Murabaha and deposits at financial institutions		26,034	11,203
Share of results from associates		399,604	304,215
		<u>2,973,504</u>	<u>1,517,217</u>
Other income	23	185,611	280,445
Net (charge)/reversal of provisions		(133,245)	20,524
		<u>3,025,870</u>	<u>1,818,186</u>
Expenses and other charges			
Staff costs		(520,479)	(617,633)
Other expenses	24	(382,562)	(484,030)
Amortisation of right of use of assets	13	(166,701)	-
		<u>(1,069,742)</u>	<u>(1,101,661)</u>
Operating profit		<u>1,956,128</u>	<u>716,523</u>
Finance cost on lease liabilities	15	(13,839)	-
Net profit for the year before contributions		<u>1,942,289</u>	<u>716,523</u>
Provision for contribution to KFAS		(14,545)	(3,407)
Provision for NLST		(41,558)	(7,686)
Provision for Zakat		(16,623)	(2,764)
Provision for Director's remuneration		(37,000)	-
Net Profit for the year		<u>1,832,563</u>	<u>702,666</u>
Earnings per share attributable to shareholders of Parent Company (fils)	25	<u>10.79</u>	<u>3.88</u>

The attached notes on pages 9 to 36 form an integral part of these consolidated financial statements.

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

	Kuwaiti Dinars	
	2019	2018
Net Profit for the year	1,832,563	702,666
Other comprehensive income items:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
<i>Investment at fair value through other comprehensive income:</i>		
Change in fair value	(279,367)	718,939
<i>Investment in associates</i>		
Group's share in other comprehensive income of associate	(86,579)	26,544
	<u>(365,946)</u>	<u>745,483</u>
<i>Items that may be reclassified subsequently to statement of income:</i>		
<i>Foreign currency translation:</i>		
Exchange differences on translation of foreign operations	(961)	28,034
<i>Investment in associates</i>		
Group's share in other comprehensive income items of associates	(8,518)	(3,250)
	<u>(9,479)</u>	<u>24,784</u>
Total Other comprehensive income for the year	(375,425)	770,267
Total comprehensive income for the year	<u>1,457,138</u>	<u>1,472,933</u>

The attached notes on pages 9 to 36 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

	Kuwaiti Dinars							
	Equity attributable to the shareholders of the Parent Company							
	Share capital	Treasury shares	Treasury shares reserve	Statutory reserve	Foreign currency translation reserve	Change in fair value reserve	Retained earnings	Total
Balance at 1 January 2018	18,870,504	(2,663)	-	202,529	(11,470)	776,711	1,507,148	21,342,759
Impact of adopting IFRS 9 on 1 January 2018	-	-	-	-	-	5,633	(5,633)	-
Balance at 1 January 2018 <i>as restated</i>	18,870,504	(2,663)	-	202,529	(11,470)	782,344	1,501,515	21,342,759
Net Profit for the year	-	-	-	-	-	-	702,666	702,666
Purchase of treasury shares	-	(772,847)	-	-	-	-	-	(772,847)
Other comprehensive income	-	-	-	-	24,784	745,483	-	770,267
Total comprehensive income for the year	-	(772,847)	-	-	24,784	745,483	702,666	700,086
Dividend paid	-	-	-	-	-	-	(1,111,505)	(1,111,505)
Transfer to retained earnings on disposal of FVOCI Investment	-	-	-	-	-	(94,520)	94,520	-
Transfer to statutory reserves	-	-	-	71,652	-	-	(71,652)	-
Balance at 31 December 2018	18,870,504	(775,510)	-	274,181	13,314	1,433,307	1,115,544	20,931,340
Balance at 1 January 2019	18,870,504	(775,510)	-	274,181	13,314	1,433,307	1,115,544	20,931,340
Net Profit for the year	-	-	-	-	-	-	1,832,563	1,832,563
Purchase of treasury shares	-	(234,461)	-	-	-	-	-	(234,461)
Cancellation of treasury shares (note 17)	(1,414,893)	826,930	621,197	-	-	-	-	33,234
Reduction of share capital (note 17)	(1,745,561)	-	-	-	-	-	-	(1,745,561)
Other comprehensive income	-	-	-	-	(9,479)	(365,946)	-	(375,425)
Total comprehensive income for the year	(3,160,454)	592,469	621,197	-	(9,479)	(365,946)	1,832,563	(489,650)
Transfer to retained earnings on disposal of FVOCI Investment	-	-	-	-	-	(592,928)	592,928	-
Transfer to statutory reserves (note 19)	-	-	-	194,228	-	-	(194,228)	-
Balance at 31 December 2019	15,710,050	(183,041)	621,197	468,409	3,835	474,433	3,346,807	20,441,690

The attached notes on pages 9 to 36 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2019

	Notes	Kuwaiti Dinars	
		2019	2018
Cash flows from operating activities			
Net Profit for the year		1,832,563	702,666
<i>Adjustments for:</i>			
Net unrealised (gain)/ loss from investments	20	(544,656)	10,668
Amortisation of right of use assets	13	166,701	-
Finance cost on lease liabilities	15	13,839	-
Gain on acquisition of additional shares of associate	23	(88,227)	(108,098)
Reversal of advance received from customer		-	(94,401)
Dividend income	20	(293,849)	(249,803)
Change in fair value of investment properties	21	-	120,000
Share of results from associates		(399,604)	(304,215)
Depreciation and amortization		67,512	68,828
Profit on retirement of lease contract	23	(31,690)	-
Charge/ (Reversal) of provision		133,245	(20,524)
End of service indemnity	16	31,357	65,474
<i>Operating cash flow before changes in working capital</i>		<u>887,191</u>	<u>190,595</u>
<i>Movements in working capital:</i>			
Investments at fair value through profit or loss		(2,230,608)	(1,146,835)
Other receivables		(91,264)	42,331
Properties held for trading		-	1,491,173
Payables		484,381	101,068
Paid for end of service indemnity	16	(258,292)	(48,600)
Net cash (used)/ generated from operating activities		<u>(1,208,592)</u>	<u>629,732</u>
Cash flows from investing activities			
Paid for acquisition of Investments at fair value through other comprehensive income		(90,520)	(993,697)
Proceeds from sale of Investments at fair value through other comprehensive income		1,622,789	2,443,842
Dividend received from associate		265,022	237,976
Paid for acquisition of investment in associates	9	(373,591)	(304,215)
Paid for acquisition of other assets		(18,893)	(2,645)
Cash dividends received	20	293,849	249,803
Murabaha, Wakala and deposits placed at financial institutions	5	1,250,000	(750,000)
Net cash generated from investing activities		<u>2,948,656</u>	<u>881,064</u>
Cash flows from financing activities			
Paid for purchase of treasury shares		(234,461)	(772,847)
Payment for capital reduction	17	(1,344,708)	-
Payment of lease liabilities	15	(139,076)	-
Dividend paid		-	(1,111,505)
Net cash used in financing activities		<u>(1,718,245)</u>	<u>(1,884,352)</u>
Net change in cash and cash equivalents		21,819	(373,556)
Cash and cash equivalents at the beginning of the year		1,448,963	1,822,519
Cash and cash equivalents at the end of the year	4	<u>1,470,782</u>	<u>1,448,963</u>

The attached notes on pages 9 to 36 form an integral part of these consolidated financial statements.

1. Incorporation of the Group

Osoul Investment Company K.S.C.P ("the Parent Company") is a Shareholding Company incorporated in Kuwait in 1999 and is listed on the Kuwait Stock Exchange. Osoul Investment Company is regulated by the Central Bank of Kuwait (CBK) and Capital Market Authority (CMA).

The registered office of the company is at Al-Raya complex – Sharq, 27th floor P.O. Box 3880, Safat 13039.

The consolidated financial statements, include the financial statements of the Parent Company and its subsidiaries (referred together as "Group") as mentioned in (note 28).

The Parent Company is undertaking its activities in accordance with Nobel Islamic Shariaa principles.

The main activities of the Parent Company are:

- Investment in real estate, industrial, agricultural and economic sectors by incorporating specialized companies or purchase of the securities in different sectors
- Manage the funds of public and private institutions and invest such funds in various economic sectors including management of financial and real estate portfolio.
- Providing and preparing the technical, economic and advisory services, as well as studying the projects related to investment and preparing the necessary studies for companies and firms (provided that the necessary conditions should be met).
- Finance Brokerage and carrying out underwriters/lead managers tasks for bonds issues manager, which are issued by companies and investment trustees' functions.
- Finance and Brokerage of the international and local trading operations.
- Providing finance for others taking into account the financial soundness principles set by the CBK in accordance with Islamic Sharia Laws.
- Purchasing and development of real estate properties for sale in its original form, or renting it to governmental, local and international establishments.
- Purchasing, and selling securities and bonds of companies and government authorities inside and outside Kuwait.
- Dealing and trading in the foreign exchange market and precious metals market inside and outside Kuwait for the Parent company's benefit only.
- Establishment and management of investment funds of all types as per the Law.
- Mobilize the resources for financing under leasing "Ijara" and arrange pooled funding operations for leasing, particularly for small and medium firms. The Parent company is not permitted to accept deposits.
- Owning industrial property rights, patents, commercial and industrial trademarks, commercial designs, literary and intellectual property rights related to programs and writings or utilize and rent thereof to other entities.
- Establishing investment funds for its own account or third parties, offering its units, performing the job of a custodian or an investment manager of investment funds inside and outside Kuwait as per applicable laws and regulations, or management of international portfolios as well as investment in leasing transactions for its own account or third parties as per rules and regulations applicable in the State of Kuwait.

The Parent Company may carry out the above business in the state of Kuwait or outside by itself or through agency. Also, the Parent Company may have an interest or be involved in any other way with the entities that are engaged in similar activities or that may assist the Parent Company in achieving its objectives in Kuwait and abroad. The Parent Company may also buy these entities or merge with them.

These consolidated financial statements were authorized for issue by the Board of Directors on 24 March 2020 and are subject to the approval of the Annual General Assembly of the shareholders.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use in the State of Kuwait for financial institution regulated by the Central Bank of Kuwait ("CBK"). CBK regulations require expected credit loss ("ECL") on credit facilities to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instruction; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared based on the historical cost basis except for investment properties and financial instruments that are measured at fair values, as explained in the accounting policies below.

2.2 New and revised IFRSs issued and effective

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the adoption of the following new and amended standards effective on or after 01 January 2019.

Adoption of IFRS 16 - Leases

In the current year, the group, has adopted IFRS 16 Leases (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor. Details of these new requirements are described in Note 2.18.

The date of initial application of IFRS 16 for the Group is January 1, 2019.

The Group has elected to apply the modified retrospective approach as permitted under the specific transitional provisions in the standard. Accordingly, comparative information has not been restated. Instead, the Group has recognised the right of use asset based on the lease liability as at 1 January 2019, accordingly no adjustment were made to the opening balance of retained earnings as at 1 January 2019.

On adoption of IFRS 16 Leases, the Group has recognized the following right of use assets and lease liabilities:

	On 1 January 2019
Right of use assets	361,785
Lease liabilities	361,785

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

	2019
Operating lease commitments as at 31 December 2018	367,396
Discounted using the lessee's incremental borrowing rate at the date of initial application	361,785

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%

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

Impact of adoption of IFRS 16 - Transition

(a) The following table summarizes the impact on consolidated statement of financial position as at 31 December 2019:

	Kuwaiti Dinars		
	As reported	IFRS 16 adjustments	Amounts without adoption of IFRS 16
ASSETS			
Current assets			
Cash and cash equivalents	1,470,782	-	1,470,782
Investments at fair value through profit or loss	5,054,262	-	5,054,262
Other receivables	155,825	-	155,825
Properties held for trading	2,259,712	-	2,259,712
Total current assets	8,940,581	-	8,940,581
Non-current assets			
Investment in associates	3,789,463	-	3,789,463
Investment at Fair value through other comprehensive income	1,698,862	-	1,698,862
Investment properties	6,950,000	-	6,950,000
Intangible assets	649,993	-	649,993
Right of use assets	320,957	(320,957)	-
Other Assets	20,382	-	20,382
Total non-current assets	13,429,657	(320,957)	13,108,700
Total assets	22,370,238	(320,957)	22,049,281
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Payables	1,438,183	-	1,438,183
Lease liabilities	91,538	(91,538)	-
Total current liabilities	1,529,721	(91,538)	1,438,183
Non-current assets			
End of service indemnity	159,805	-	159,805
Lease liabilities	239,022	(239,022)	-
Total non-current liabilities	398,827	(239,022)	159,805
Total liabilities	1,928,548	(330,560)	1,597,988
Equity			
Share capital	15,710,050	-	15,710,050
Treasury shares	(183,041)	-	(183,041)
Treasury share reserve	621,197	-	621,197
Statutory reserve	468,409	-	468,409
Foreign currency translation reserve	3,835	-	3,835
Change in fair value reserve	474,433	-	474,433
Retained earnings	3,346,807	9,603	3,356,410
Total equity	20,441,690	9,603	20,451,293
Total liabilities and equity	22,370,238	9,603	22,049,281

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

(b) The following table summarizes the impact on consolidated statement of profit or loss for the year ended 31 December 2019:

	Kuwaiti Dinars		
	As reported	IFRS 16 adjustments	Amounts without adoption of IFRS 16
Revenues			
Net gain from investments	1,719,769	-	1,719,769
Gain from investment properties	644,965	-	644,965
Gain from properties held for trading	1,755	-	1,755
Rental income from intangible assets	79,954	-	79,954
Portfolio and funds management fees	101,423	-	101,423
Profit from Murabaha and deposits at financial institutions	26,034	-	26,034
Share of results from associates	399,604	-	399,604
Other income	185,611	(31,690)	153,921
Net (charge)/reversal of provisions	(133,245)	-	(133,245)
	<u>3,025,870</u>	<u>(31,690)</u>	<u>2,994,180</u>
Expenses and other charges			
Staff costs	(520,479)	-	(520,479)
Other expenses	(382,562)	(139,669)	(522,231)
Amortisation of right of use of assets	(166,701)	166,701	-
	<u>(1,069,742)</u>	<u>27,032</u>	<u>(1,042,710)</u>
Operating profit	<u>1,956,128</u>	<u>(4,658)</u>	<u>1,951,470</u>
Finance cost on lease liabilities	(13,839)	13,839	-
Net profit for the year before contributions	<u>1,942,289</u>	<u>9,181</u>	<u>1,951,470</u>
Provision for contribution to KFAS	(14,545)	-	(14,545)
Provision for NLST	(41,558)	-	(41,558)
Provision for Zakat	(16,623)	-	(16,623)
Provision for Director's remuneration	(37,000)	-	(37,000)
Net Profit for the year	<u>1,832,563</u>	<u>9,181</u>	<u>1,841,744</u>

2.3 **New and revised IFRSs issued and effective with no material effect on the financial statements**

At the date of authorization of these financial statements, the Group has applied the following new and revised IFRS Standards that have been issued and effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing costs</i> .	1 January 2019
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments in IFRS 9 <i>Financial Instruments</i> relating to prepayment features with negative compensation.	1 January 2019
Amendment to IAS 19 <i>Employee Benefits</i> relating to amendment, curtailment or settlement of a defined benefit plan	1 January 2019
Amendments in IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures.	1 January 2019

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years.

2.4 Standards and revisions issued but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective.

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
<p>The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'</p>	
Definition of a Business – Amendments to IFRS 3 <i>Business Combinations</i>	1 January 2020
<p>The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.</p>	
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
<p>Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.</p>	
IFRS 7 Financial Instruments: Disclosures and IFRS 9 – Financial Instruments	1 January 2020
<p>Amendments regarding pre-replacement issues in the context of the IBOR reform</p>	
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

2.5 Basis of Consolidation

Subsidiaries

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

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

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

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

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

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

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

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

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments, when applicable or the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

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

Goodwill

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

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

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

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

2.6 Taxation

Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the Group 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.

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 after deducting directors' fees for the year. 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.

Zakat

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

2.7 Financial instruments

Classification and Measurement of Financial assets

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

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

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

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

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group classifies its financial assets upon initial recognition as financial assets carried at amortised cost.

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income.

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

- *Investments in Murabaha, Wakala and deposits at financial institutions*

Investments in Murabaha, Wakala and deposits at financial institutions are measured at amortised cost using the effective interest method.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances, together with time deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Other receivables

Other receivables are stated at original invoice amount less allowance for any uncollectible amounts.

- *Credit facilities (loans to customer)*

Credit facilities are carried at amortised cost less an amounts written off and provision for impairment. The provision for credit losses on loans is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition.

Impairment of financial assets

The Group recognizes loss allowance for 'expected credit loss' (ECL) on bank balances, and other receivables. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money and reasonable and supportive information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group applies three-stage approach to measuring expected credit losses (ECL) under general approach as follows:

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

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

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default and write-off policy

The Group categorize receivables as default when the amount is >90 days past due or there is evidence indicating the asset is credit-impaired. The amount is written off when there is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.

Measurement of ECLs

The Group recognizes ECL for cash and bank balances and other receivables using the general approach described above.

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc.

Financial liabilities

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

Financial liabilities measured subsequently at amortised cost

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

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

De-recognition of financial assets and liabilities

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.9 Properties held for trading

Properties held for trading (including property under development for that purpose) are stated at cost when acquired. Cost is determined on an individual basis for such land or real estate properties, Cost represents the fair value of the consideration given, plus ownership transfer fee and brokerage expenses. Land and real estate properties held for trading are classified under current assets and are valued at the lower of cost or net realisable value whichever is low on an individual basis. Realisable value is determined on the basis of estimated sale value, less the estimated expenses necessary to complete the sale. Gains and losses from the sale of land and property held for trading are reported in the consolidated statement of income as the difference between sale value and its book value.

2.10 Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

The results of business, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except for any investment classified as investment held for sale, as it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and any other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate, (including any long-term interests represent a part of the Group's net investment in an associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Upon acquisition of an 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 an associate, recognised at the date of acquisition, is recognised as goodwill. Goodwill is included within the carrying amount of the investment in an associate. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized in the consolidated statement of income.

The requirements of IAS 36: Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associates are recognised in the Group financial statement only to the extent of interests in the associate that are not related to the Group.

2.11 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition are measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in consolidated statement of income when the asset is derecognised.

2.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Impairment losses are recognised in the income statement for the period in which they arise. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.13 Provisions

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

2.14 End of service indemnity

The Group is liable under Kuwait Labour Law to make payments under defined benefit plans to employees at termination of employment, regarding the labour law in other countries; the indemnity is calculated based on law identified in these countries. Such payment is made on a lump sum basis at the end of an employee service. Defined benefit plan is un-funded and is based on the liability that would arise on involuntary termination of all employees on the consolidated financial statements date. This basis is considered to be a reliable approximation of the present value of the Group's liability.

2.15 Dividends

The dividends attributable to shareholders of the Parent Company are recognized as liabilities in the consolidated financial statements in the period in which the dividends are approved by the Parent Company's board of directors.

2.16 Foreign currencies

The Parent Company's functional currency is the Kuwaiti Dinar.

Foreign currency transactions are recorded in Kuwaiti Dinars at the rates of exchange prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Kuwaiti Dinars at the rates of exchange prevailing at the statement of financial position date. Resultant gains or losses are recognized in the statement of profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Translation difference on non-monetary items classified as at fair value through statement of income are reported as part of the fair value gain or loss in the statement of profit or loss whereas the translation difference on non-monetary items classified as investment at fair value through other comprehensive income are included in investment valuation reserve in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

2.17 Revenue recognition

The Group recognise revenue from the following major sources:

- Murabaha and Wakala income are recognized on an effective yield method.
- Rental income from investment properties is recognized on a straight line basis over the term of contract.
- Revenues from sale investment properties and properties held for trading and gain or loss on disposal is recorded in the statement of income when risks and associated benefits of the sold asset's ownership have been transferred to the acquirer.
- Dividend income is recognized when the Group's right to receive dividends is established.
- Interest income from deposits is recognized on effective interest method.
- Portfolio and fund management fees is recognised over the period of time when the service is provided.

2.18 Accounting for leases

Policy applicable from 1 January 2019

The Group as a lessee

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

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

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

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

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

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

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

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

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

Subsequent Measurement

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

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in note 2.12.

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

Where the Group is the lessor

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

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

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

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

Policy applicable before 1 January 2019

The Group as lessor

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

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

The Group as lessee

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

2.19 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 the consolidated financial position and are disclosed separately in the consolidated financial statements.

2.20 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3. Critical accounting estimates and assumptions

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

Judgements:

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

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. Monitoring is part of the Group's continuous assessment of whether the business model for which the 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. No such changes were required during the periods presented.

Classification of real estate investments

Management decides on acquisition of real estate whether it should be classified as held for trading or investment property. The Group classifies property as held for trading if this is acquired principally for sale in the ordinary course of the business. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation.

Significant influence over associate

The Group follows the guidance in IAS 28 in deciding whether it has significant influence over investees by virtue of voting rights.

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. These terms are used to maximise operational flexibility in terms of managing contracts. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of lease

Sources of estimation uncertainty

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

Fair value measurements and valuation techniques

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

Contingent liabilities/ liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when an event is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment (note 30).

4. Cash and cash equivalents

	Kuwaiti Dinars	
	2019	2018
Cash at bank	1,470,782	1,448,963
	<u>1,470,782</u>	<u>1,448,963</u>

5. Investments in Murabaha, Wakala and deposits at financial institutions

	Kuwaiti Dinars	
	2019	2018
Murabaha & Wakala	2,535,215	2,578,603
Deposits at financial institutions	-	1,250,000
	<u>2,535,215</u>	<u>3,828,603</u>
Provision for impairment	(2,535,215)	(2,578,603)
	<u>-</u>	<u>1,250,000</u>

5.1 All Murabaha & Wakala receivable balances are past due and impaired. The Group filed lawsuits to recover these amounts.

5.2 All the Deposits matured in 2019.

6. Investments at fair value through profit or loss

Investments at fair value through profit or loss represent investment in local quoted equity securities.

7. Other receivables

	Kuwaiti Dinars	
	2019	2018
Rent receivable	-	4,500
Prepaid expenses	29,271	29,225
Refundable Deposit	82,822	95,224
Other	43,732	68,857
	<u>155,825</u>	<u>197,806</u>

8. Properties held for trading

	Kuwaiti Dinars	
	2019	2018
Balance at the beginning of the year	2,257,775	3,720,915
Sales	-	(1,491,173)
Foreign currencies translation adjustments	1,937	28,033
Balance at the end of the year	<u>2,259,712</u>	<u>2,257,775</u>

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

Properties held for trading include properties in the Kingdom of Jordan with carrying value of KD 1,072,201 (31 December 2018: KD 1,069,284) and properties located in the USA with carrying value of KD 1,187,511 (31 December 2018: KD 1,188,491). Fair value of these properties held for trading assessed for the purpose of identification of impairment indicators, amounted to KD 1,290,732 and 1,250,081 respectively as at 31 December 2019 and was determined based on valuations using the market comparable approach under level 2 hierarchy as carried out by an independent valuer.

9. Investments in associates

This represents the Group's share of investments in the following associate;

	Country of incorporation	Principal activity	Ownership Percentage	
			2019	2018
Osos Holding Group Company K.P.S.C.(Osos)	Kuwait	Investment	28.70%	25.03%

Gain on acquisition of additional shares of associates is calculated as follows:

	Kuwaiti Dinars
	2019
Consideration transferred	(373,591)
Fair value of identifiable net asset acquired	461,818
Gain on acquisition of additional shares	88,227

The summarised financial information of associate based on audited financial statements is as follows:

	Kuwaiti Dinars	
	2019	2018
Total assets	20,007,222	19,708,647
Total liabilities	6,806,876	6,568,392
Revenue & other income	2,329,157	1,967,118
Profit for the period	1,391,995	1,215,339
Other comprehensive income	(293,289)	(33,966)
Dividend received	(265,022)	(237,976)
Net assets of the associate	13,200,346	13,140,255
Carrying amount of Group's interest in the associate (net)	3,789,463	3,289,170

As at 31 Dec 2019, the fair value of the Group's investment in Osos, based on quoted market share price on the Kuwait Stock Exchange, was KD 3,014,267.

10. Investment at fair value through other comprehensive income

	Kuwaiti Dinars	
	31 December 2019	31 December 2018
Local equity investment – quoted	268,314	2,022,478
Local equity investment – unquoted	864,223	921,223
Foreign equity investment – unquoted	566,325	566,794
	1,698,862	3,510,495

The Group management has elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

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

11. Investment properties

Investment properties are residential buildings and real estates located in the state of Kuwait.

The fair value of the Group's investment properties as at 31 December 2019 has been arrived at on the basis of a valuation carried out on the respective dates by independent valuer. The independent valuers are registered at the related Governmental Bodies, and they have appropriate and recent experience in the valuation of properties in the relevant locations. The Fair value is determined as follows:

- Level two: The fair value determined based on the market comparable approach that reflects recent transaction prices for similar properties and lands.
- Level three: The capitalization rate adopted based on the yield rates.

Details of investment properties and information about the fair value hierarchy as at 31 December are as follow:

	Level two	Level three	Fair value 31 December 2019	Fair value 31 December 2018
Freehold properties	-	4,500,000	4,500,000	4,500,000
Leasehold properties	2,450,000	-	2,450,000	2,450,000
	<u>2,450,000</u>	<u>4,500,000</u>	<u>6,950,000</u>	<u>6,950,000</u>

For investment properties categorised into level three of the fair value hierarchy, the following information is relevant:

	Valuation technique	Significant unobservable input	Sensitivity
Freehold properties	Income Capitalization Approach	Capitalization rate of 7.48% to 7.67%, taking into account the capitalization of rental income potential, nature of the property and prevailing market conditions.	A slight increase in the capitalization rate used would result in a slight decrease in fair value and vice versa.

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

There has been no change to the valuation technique during the year.

12. Intangible assets

Intangible assets represent cost of right to use some units in a tower located in Makkah, KSA. These rights will expire in year 2030.

	Kuwaiti Dinars	
	2019	2018
Cost		
As at 1 st January	1,836,022	1,836,022
Accumulated amortization		
At 1 January	1,124,165	1,062,301
Charged during the year	61,864	61,864
	<u>1,186,029</u>	<u>1,124,165</u>
As at 31 st December	649,993	711,857

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

13. Right of use assets

Leasehold Buildings

	Kuwaiti Dinars	
	2019	2018
1 January 2019	361,785	-
Additions	275,945	-
Amortisation expense	(166,701)	-
Retirement	(150,072)	-
31 December 2019	320,957	-

14. Payables

	Kuwaiti Dinars	
	2019	2018
Provisions for tax claims	311,893	153,078
Staff accruals	100,157	23,282
Statutory contribution	72,726	13,857
Payable to shareholders	367,619	-
Other	585,788	395,968
	1,438,183	586,185

15. Lease liabilities

	Kuwaiti Dinars	
	2019	2018
Balance as at 1 January 2019	361,785	-
Additions	275,945	-
Accretion of interest	13,839	-
Payments	(139,076)	-
Retirements	(181,933)	-
	330,560	-
Current	91,538	-
Non-current	239,022	-
	330,560	-
<u>Maturity analysis</u>		
Not later than 1 year	91,538	-
Later than 1 year and not later than 5 years	239,022	-
	330,560	-

16. End of service indemnity

Reconciliation of provision for post-employment benefits:

	Kuwaiti Dinars	
	2019	2018
At 1 January	386,740	369,866
Provisions during the year	31,357	65,474
Paid during the year	(258,292)	(48,600)
At 31 December	159,805	386,740

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

17. Share capital

The Extraordinary General meeting of the Parent Company's shareholders held on 30 September 2019 resolved to reduce the authorised, issued and paid up share capital by 31,604,541 shares of 100 fils per share amounting to KD 3,160,454 representing 14,148,930 treasury shares amounting to KD 1,414,893 and 17,455,611 shares from existing shareholders amounting to KD 1,745,561 with a par value of 100 fils per share. The reduced issued and fully paid up share capital of the Parent Company will be KD 15,710,049.900 comprising of 157,100,499 shares.

This was registered in the commercial registry issued by Ministry of Commerce and Industry on 14th October 2019.

The payment of cash on capital reduction amounting to KD 1,344,708 was made to the shareholders as at 31 December 2019.

18. Treasury shares

	2019	2018
No. of shares (share)	3,141,465	14,148,930
Market value	235,610	848,935
Percentage to issued shares (%)	1.999	7.498

The Parent Company is committed to retain reserves and retained earnings equivalent to the treasury shares throughout the period, in which they are held by the Parent Company, pursuant to the relevant instructions of the Regulatory Authorities. These shares are not pledged.

19. Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the net profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Board remuneration, national labour support tax and zakat has been transferred to the statutory reserve. The shareholders may resolve to discontinue such annual transfers when the legal reserve reaches half of the share capital of the Parent Company. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when retained earnings of the Parent Company are not sufficient for the payment of a dividend of that amount.

20. Net gain from investments

	Kuwaiti Dinars	
	2019	2018
Investment at fair value through profit or loss		
Realized gains on sale	881,264	254,832
Change in fair value	544,656	(10,668)
Cash dividends	193,980	12,368
	<u>1,619,900</u>	<u>256,532</u>
Investment at fair value through other comprehensive income		
Cash dividends	99,869	237,435
	<u>1,719,769</u>	<u>493,967</u>

21. Gain from investment properties

	Kuwaiti Dinars	
	2019	2018
Gross Rental income	644,965	627,525
Change in fair value	-	(120,000)
	<u>644,965</u>	<u>507,525</u>

22. Gain from properties held for trading

This represents gain from selling properties, recognized point in time when the ownership of the properties transferred to the acquirer.

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

23. Other Income

Other income includes gain on retirement of lease contract amounting to KD 31,690 (2018: KD NIL) and gain on acquisition of additional shares of associate (note 9) amounting to KD 88,227 (2018: KD 108,098) during the year.

24. Other expenses

	Kuwaiti Dinars	
	2019	2018
Subscription fees	76,457	59,737
Depreciation & Amortisation	69,021	68,828
Professional fees	39,181	29,066
Rent	20,600	144,404
Legal expenses	10,545	16,138
Remuneration of Sharia committee	1,375	2,750
Miscellaneous expenses	165,383	163,107
	<u>382,562</u>	<u>484,030</u>

25. Earnings per share

Earnings per share is calculated on the basis of the net profit attributable to the shareholders of the Parent Company and the weighted average number of ordinary shares outstanding during the year which is determined based on the outstanding shares of the issued capital during the year as follows:

	Kuwaiti Dinars	
	2019	2018
Net profit for the year attributable to the shareholders of the Parent Company	1,832,563	702,666
Issued shares	157,100,499	188,705,040
Treasury shares	3,141,465	14,148,930
Weighted average number of shares	169,847,365	181,203,387
Earnings per share attributable to the Parent Company shareholders (fils)	<u>10.79</u>	<u>3.88</u>

26. Dividends

On 24 March 2020, the Board of Directors proposed to distribute cash dividends amounting to 12 fils per share for 2019. This proposal is subject to the approval of the shareholders in the general assembly.

27. Related party transactions

In the normal course of business, the Group enters into related party transactions (Principal shareholders, members of the Board of Directors, senior executive management and companies that are owned by major shareholders). Followings are the significant balances and transactions with related parties other than what is disclosed in the other notes:

	Kuwaiti Dinars	
	2019	2018
Statement of income		
Remuneration of key management personnel	153,771	292,201
Revenue generated from management of portfolios	10,497	33,573
Statement of financial position		
Key management benefits payable	85,508	280,500

The Group manages portfolios on behalf of related parties, the net assets of those portfolios amounted to KD Nil as at 31 December 2019 (KD 5,377,870 as at 31 December 2018). As these assets are held in a fiduciary capacity, these assets are not included in the consolidated statement of financial position.

All transactions are subject to the approval of the shareholders in the Annual General Assembly.

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

28. Subsidiaries

Following are the subsidiaries included in these consolidated financial statements:

<u>Company name</u>	<u>Ownership percentage (%)</u>		<u>Activity</u>	<u>Country of corporation</u>
	<u>2019</u>	<u>2018</u>		
Osoul House for Real Estate Co. (W.L.L)	99	99	Investments properties	Kuwait
Petro Q8 Co. (W.L.L)	99	99	General trading	Kuwait
Osoul Leasing and Finance (Private Sharing Co.)	100	100	Investments properties	Jordan
Osoul Holding DE II, Inc	-	100	Investments properties	USA
Osoul Holding DE III, Inc	100	100	Investments properties	USA

There were no assets or liabilities in Osoul Holding DE II, Inc. The Parent Company has liquidated wholly owned subsidiary, Osoul Holding DE II, Inc. during the 2019.

29. Segment distribution

The Group carries out its main activities in the State of Kuwait through three major segments:

- Finance segment- Investment in Murabaha, Wakala and deposit at financial institutions
- Investment segment- Investments in securities and portfolio management
- Real-estate segment- Investments in real estate

All activities are mentioned in note (1).

The analysis of segment information is as follows:-

	<u>Kuwaiti Dinars</u>			
	31 December 2019			
	<u>Finance segment</u>	<u>Investment segment</u>	<u>Real-estate segment</u>	<u>Total</u>
Segments revenues	26,034	2,220,796	726,674	2,973,504
Total segments' results	3,027	1,720,704	218,558	1,942,289
Net Profit for the year				1,832,563
Segments assets	537,855	11,508,130	10,324,253	22,370,238
Segment liabilities	148,513	1,363,422	416,613	1,928,548

The analysis of segment information is as follows:-

	<u>Kuwaiti Dinars</u>			
	31 December 2018			
	<u>Finance segment</u>	<u>Investment segment</u>	<u>Real-estate segment</u>	<u>Total</u>
Segments revenues	11,203	851,001	655,013	1,517,217
Total segments' results	(30,641)	421,513	325,651	716,523
Net Profit for the year				702,666
Segment assets	1,478,270	10,413,800	10,012,195	21,904,265
Segment liabilities	136,751	780,112	56,062	972,925

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

For the purposes of monitoring segment performance and allocating resources between segments:

- There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable.

Geographical distribution of assets and revenues

	Kuwaiti Dinars			
	2019		2018	
	Assets	Revenues	Assets	Revenues
State of Kuwait	18,878,030	2,944,161	18,335,062	1,611,488
Gulf Co-operation council	1,216,319	81,709	1,278,652	230,970
Other Arabian Countries	1,088,378	-	1,102,060	(24,272)
U.S.A.	1,187,511	-	1,188,491	-
	<u>22,370,238</u>	<u>3,025,870</u>	<u>21,904,265</u>	<u>1,818,186</u>

30. Contingent liabilities

The Group has the following contingent liabilities:

30.1 Contingent liabilities under letters of guarantee;

	Kuwaiti Dinars	
	31 December 2019	31 December 2018
Letters of guarantee	18,380	18,380

30.2 A former related party has filed a lawsuit against the Group to oblige it to settle management fees of finance receivables portfolio. The case has been transferred to the Expert Department. The Group is in the process of finalizing this case according to the settlement agreement signed with that party.

30.3 During 2016, the Group has received a tax claim amounting to Saudi Riyal 56.3 Million (equivalent to KD 4.52 Million) from the General Authority of Zakat and Tax (GAZT)- Kingdom of Saudi Arabia ("KSA") for the fiscal years from 2006 to 2014. The claim includes corporate income tax, withholding tax and other penalties in respect of the Group's income realized from leased units on a tower located in Mecca - KSA. The Group's management believes that the figures used in computing the tax claim are significantly different from the actual income. Therefore, the Group's management has appointed a Tax Advisor in KSA to review the tax claim. Further, the Group has duly submitted an objection memo to the Authority, and has applied for opening a tax file with them.

Based on the tax Advisor's opinion and his correspondences with the Operator, the Group has assessed the financial impact of the above-mentioned tax claim to be KD 250 thousand and has made a full provision for this purpose. Out of this provision, an amount of KD 97 thousand was paid against the withholding tax for the years from 2008 to 31st December 2016. Group has paid all the tax dues and submitted tax declaration return.

The preliminary objection committee resolved to reject the objection filed by the Group against the tax assessment for the financial year from 2006 to 2014. On 15th August 2017, the Group submitted an objection letter to the tax appeal committee against the objection committee's resolution.

On 11th November 2018, the Group received a notice from General Secretariat of Tax Committees ("GSTC"), which has been assigned to be responsible for all tax disputes. GSTC requested Group to provide them with all the documents of dispute that was submitted before to GAZT. Consequently, GSTC has been provided with the documents required in the scheduled time by the Group.

The Group received three tax claims on 19th April 2019, 8th July 2019 and 22nd July 2019 respectively requesting Parent Company to pay total amount of Saudi Riyal 664 thousand (equivalent to KD 53 thousand) concerning the tax due in respect of disputed period.

During 2019, the Group has provided additional provision of Saudi Riyal 2 million (equivalent to KD 160K) related to tax claim from 2006 to 2014.

31. Fair value estimation

Fair value is 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, i.e. an exit price. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial assets	Fair value as at 31 December		Fair value hierarchy	Valuation technique (s) and Key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2019	2018				
Investments at fair value through profit or loss:						
- Local quoted securities	5,054,262	2,278,997	Level 1	Bid prices	N/A	N/A
Investments at fair value through other comprehensive income:						
- Local quoted Securities	268,314	2,022,478	Level 1	Bid prices	N/A	N/A
- Local unquoted Securities	864,223	921,223	Level 3	Adjusted Net Assets Value	Discount rate	The higher the discount factor and illiquidity discount factor, the lower the fair value. The higher the discount factor and illiquidity discount factor, the lower the fair value.
- Foreign Unquoted Securities	566,325	566,794	Level 3	Adjusted Net Assets Value	Discount rate	The higher the discount factor and illiquidity discount factor, the lower the fair value.

The fair values of the financial assets and financial liabilities included in the level 3 category above have been determined in accordance with generally accepted pricing models. There are no transfers between fair value levels during the year.

The carrying amount of financial assets and financial liabilities carried at amortised cost is approximately equal to their fair value.

32. Financial risk management

32.1 Financial risk

The Group's activities expose it to a variety of financial risks: market risks (including currency risks, fair value profit rates risk, cash flows profit rates risk and equity price risk) in addition to credit risk and liquidity risks.

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

The Group manages these financial risks by continuously evaluating market conditions and trends and assessment of long and short-term market factors.

Market risk

Market risk, comprising of foreign currency risk, interest rate risk and equity price risk arises due to movements in foreign currency rates, interest rates and equity prices respectively.

Foreign exchange risk

The foreign exchange risk arises from future transactions on financial instruments in foreign currency classified in the consolidated financial statements of the Group in foreign currencies.

The Group develops policies to manage the risks of foreign currency by monitoring changes in the currency rate as well as the impact on the Group's financial situation throughout the year.

The Group had the following significant exposures on assets and liabilities denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate at year end:

	Kuwaiti Dinars	
	31 December 2019	31 December 2018
US Dollar	1,224,629	1,208,706
Others	2,350,488	2,449,897

Foreign currency sensitivity is determined based on 5% (31 December 2018: 5%) increase or decrease in exchange rate. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the sensitivity given in the table below, following could be the impact on the profit for the year and the equity:

	Kuwaiti Dinars			
	31 December 2019		31 December 2018	
	+ 5%	- 5%	+ 5%	- 5%
Profit for the year	150,440	(150,440)	154,590	(154,590)
Equity	28,316	(28,316)	28,340	(28,340)

The Group's exposure to currency risk arises mainly from investment in FVOCI investment.

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

Equity Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated financial statements as investments at fair value through profit or loss and investment at fair value through other comprehensive income. The Group has established its policies to study and evaluate investment opportunities, diversifying the portfolios in order to manage the impact from long term change in fair value. The following table demonstrates the sensitivity of the changes in Kuwait index by 5% on Group's net profit with other factors held constant.

	Kuwaiti Dinars			
	Effect on net profit		Effect on equity	
	2019	2018	2019	2018
Kuwait Stock Exchange	229,725	87,951	3,893	77,225

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

Interest rate risk

The Group is not exposed to interest rate risk as the Group operate in accordance with Islamic Shariaa principles.

Credit risk

The credit risk is the risk that the Group will incur a loss due to the Group's inability to collect the debt when counter parties fail to discharge their contractual obligations against the Group.

The credit risk arises from balances and deposits at banks and financial institutions including Wakala and Murabaha receivables and other receivables.

The Group manages the credit risk related to deposits, Wakala and Murabaha through dealing with local financial institutions with a good reputation in the market. The Group manages the credit risk relating to other receivables by setting credit policies in order to reduce the concentration of credit risk via diversifying the finance portfolio. The Group is not exposed to any significant credit risk exposure to any single counterparty.

The below schedule sets out the assets exposed to credit risk in the consolidated statement of financial position, without taking into consideration the guaranties:

	Kuwaiti Dinars	
	2019	2018
Bank balances	1,470,782	1,448,963
Investment in Murabaha, Wakala and Deposits at financial institutions	-	1,250,000
Other receivables	126,554	168,581
	<u>1,597,336</u>	<u>2,867,544</u>

Credit facilities amounting to KD 2,537,327 are credit impaired and fully provided for.

The credit risk for cash and bank balance and short term deposits is considered negligible, since the counterparties are reputable financial institutions with high credit quality.

The Group recognizes ECL for cash and bank balances and other receivables using the general approach.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due.

The Group manages this risk by maintaining sufficient cash and cash equivalents as well as providing the necessary funding sources by agreeing on credit facilities that provide liquidity to the Group.

The table below analysis the Group's liabilities during the expected maturity periods from the consolidated financial statements date.

	Kuwaiti Dinars			
	2019			
	Within 3 months	From 3 months to 1 year	After 1 year	Total
Payables	269,208	607,874	-	877,082
Lease liabilities	54,838	36,700	239,022	330,560
	<u>324,046</u>	<u>644,574</u>	<u>239,022</u>	<u>1,207,642</u>
	2018			
	Within 3 months	From 3 months to 1 year	After 1 year	Total
	Payables	186,780	246,327	-
	<u>186,780</u>	<u>246,327</u>	<u>-</u>	<u>433,107</u>

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

The table below analysis the Group's assets and liabilities during the expected maturity periods from the consolidated financial statements date.

	Kuwaiti Dinars			
	2019			
	Within 3 months	From 3 months to 1 year	After 1 year	Total
Assets				
Cash and cash equivalents	1,470,782	-	-	1,470,782
Investments at fair value through profit or loss	5,054,262	-	-	5,054,262
Right of use assets	-	-	320,957	320,957
Other receivables	76,765	40,560	38,500	155,825
Investments at fair value through other comprehensive income	-	-	1,698,862	1,698,862
	<u>6,601,809</u>	<u>40,560</u>	<u>2,058,319</u>	<u>8,700,688</u>
Liabilities				
Payables	269,208	607,874	-	877,082
Lease liabilities	54,838	36,700	239,022	330,560
	<u>324,046</u>	<u>644,574</u>	<u>239,022</u>	<u>1,207,642</u>
	Kuwaiti Dinars			
	2018			
	Within 3 months	From 3 months to 1 year	After 1 year	Total
Assets				
Cash and cash equivalents	1,448,963	-	-	1,448,963
Investments in Murabaha, Wakala and deposits at financial institutions	-	1,250,000	-	1,250,000
Investments at fair value through profit or loss	2,278,997	-	-	2,278,997
Other receivables	73,575	73,653	50,578	197,806
Investments at fair value through other comprehensive income	-	-	3,510,495	3,510,495
	<u>3,801,535</u>	<u>1,323,653</u>	<u>3,561,073</u>	<u>8,686,261</u>
Liabilities				
Payables	186,780	246,327	-	433,107

32.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There were no changes in the Group's approach to capital management during the year and the Group is not subject to externally imposed capital requirements.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders and issue new shares. Capital includes equity attributable to the equity holders of the Parent Company less cumulative changes in fair values.

32.3 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, system failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of the overall risk management.

33. Fiduciary assets

The Group manages portfolios on behalf of others with net assets of KD 2,919 as at 31 December 2019 (KD 7,108,409 as at 31 December 2018). These balances are not included in the consolidated financial position.

34. Comparatives

Certain prior period amounts have been regrouped to confirm with current period presentation

35. Subsequent events

The existence of Novel Coronavirus (Covid-19) was confirmed in January 2020 in mainland China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to business, with a consequential negative impact on economic activity. The Group considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The outcome of this event is unknown and therefore the impact on the Group cannot be reasonably quantified at the date of issuance of these financial statements, except for "Investments at fair value through profit or loss" of which the fair value has decreased by KD 1,686,004 based on traded prices as of 17 March 2020. The effect of Covid-19 on the Group will be incorporated into the determination of the Group's estimates in 2020. The following estimates are likely to be impacted as a result of this matter:

- Fair value of investment properties
- Fair value of financial instruments
- Net realizable value of properties held for trading
- Impairment of Investment in associates
- Impairment of intangible assets
- Impairment of right of use assets
- Going concern