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Independent Auditors' Report to the Shareholders of Commercial Facilities Company S.A.K.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Facilities Company S.A.K.P. (the "Parent Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International' Code of Ethics for Professional Accountants *(including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Credit losses on finance receivables

The recognition of credit losses on finance receivables ("Financing facilities") is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision ("the CBK rules").

Recognition of ECL under IFRS 9, according to CBK guidelines, is a new and complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of financing facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures. Recognition of specific provisions on impaired facilities under the CBK instructions is based on the rules prescribed by the CBK on the minimum provisions to be recognised together with any additional provisions to be recognised based on management's estimate of expected cash flows related to those credit facilities.

The accounting policies related to credit losses and the management estimates have been disclosed in notes 2.3.2, 4 and 6 to the consolidated financial statements.

Due to the significance of credit facilities and the impact related to estimation uncertainty and judgement on the impairment calculation, this was considered as a key audit matter.

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Independent Auditors' Report to the Shareholders of Commercial Facilities Company S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on finance receivables (continued)

Our audit procedures included assessing the design and implementation of controls over, inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, determined in accordance with CBK guidelines, we have selected samples from financing facilities outstanding as at the reporting date and evaluated the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. For a sample of credit facilities, we have assessed the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD"). We have also assessed the consistency of various inputs and assumptions used by the Group's management to determine ECL.

Further, for CBK provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management, and checked the resultant provision calculations.

Other information included in the Group's 2019 Annual Report

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

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

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

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. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the state of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Independent Auditors' Report to the Shareholders of Commercial Facilities Company S.A.K.P. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 year and are therefore the key audit matters. We describe these matters in our auditors' 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.

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Independent Auditors' Report to the Shareholders of Commercial Facilities Company S.A.K.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all 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, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the financial year ended 31 December 2019, that might have had a material effect on the business of the Group or on its consolidated financial position.

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

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License No. 62A
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Al-Wazzan & Co.

Ali A. Al Hasawi
License No. 30 - (A)
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Kuwait, 19 February 2020

شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. s.a.k

Commercial Facilities Company - S.A.K.P.
and Subsidiaries
State of Kuwait

Consolidated Financial Statements and
Independent Auditors' Report
Year Ended 31 December 2019

شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. s.a.k

Commercial Facilities Company - S.A.K.P.
and Subsidiaries
State of Kuwait

Consolidated Financial Statements and
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شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. s.a.k

Consolidated Statement of Financial Position as at 31 December 2019

(All amounts are in Kuwaiti Dinar Thousand)

	Notes	2019	2018
ASSETS			
Cash and bank balances	5	24,221	29,557
Other receivables and prepayments		1,646	1,729
Finance Receivables	6	216,609	227,923
Investments in securities	7	52,692	45,695
Investments in associates	8	14,057	13,485
Investment properties	9	4,244	4,206
Property and equipment	10	2,705	2,633
Total assets		316,174	325,228
LIABILITIES AND EQUITY			
Liabilities			
Trade creditors and accrued liabilities	11	5,676	5,536
Term loans	12	141,949	156,959
Provision for staff indemnity		4,559	4,173
Total liabilities		152,184	166,668
Equity			
Share capital	13	53,676	53,676
Share premium		1,433	1,433
Legal reserve	14	50,788	49,394
Voluntary reserve	15	48,093	48,093
Fair value reserve		2,779	2,164
Foreign currency translation reserve		720	657
Land revaluation reserve		965	915
Treasury shares	16	(11,271)	(11,232)
Gain on sale of treasury shares		14	14
Retained earnings		16,761	13,423
Equity attributable to shareholders of the Parent Company		163,958	158,537
Non-controlling interests		32	23
Total equity		163,990	158,560
Total liabilities and equity		316,174	325,228

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

COMMERCIAL FACILITIES CO. 1 (S.A.K.)

Ali Ibrahim Marafi
Chairman

Abdallah Saud Abdulaziz Al-Humaidhi
Vice Chairman and Chief Executive Officer

Consolidated Statement of Profit or Loss for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar Thousand)

	Notes	2019	2018
Financing income		18,024	17,387
Share of results of associates	8	744	755
Other income		1,018	1,613
Rental income from investment in property		235	227
Net gains from investments	17	5,129	3,031
Change in fair value of investment properties	9	38	(33)
Gain on sale of investment property		153	-
Total income		7,317	5,593
Borrowing costs		(5,729)	(6,307)
Staff costs and related expenses		(3,073)	(2,924)
General and administrative expenses		(1,015)	(937)
Net foreign exchange loss		(28)	(208)
Total expenses		(9,845)	(10,376)
Profit before provision for credit losses		15,496	12,604
Provision for expected credit loss		(1,543)	(2,106)
Profit before taxes and Directors' remuneration		13,953	10,498
KFAS		(140)	(105)
NLST		(347)	(246)
Zakat		(132)	(92)
Directors' remuneration		(144)	(120)
Profit for the year		13,190	9,935
Attributable to:			
Shareholders of the Parent Company		13,181	9,934
Non-controlling interests		9	1
		13,190	9,935
Earnings per share – fils	18	26	20

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

شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. s.a.k

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2019

(All amounts are in Kuwaiti Dinar Thousand)

	2019	2018
Profit for the year	13,190	9,935
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Change in fair value of investments at FVOCI	802	(1,295)
Revaluation gain on land	50	-
Items that may be reclassified subsequently to profit or loss		
Foreign exchange translation adjustments	63	(97)
Other comprehensive income/ (loss) for the year	915	(1,392)
Total comprehensive income for the year	14,105	8,543
Attributable to:		
Shareholders of the Parent Company	14,096	8,542
Non-controlling interests	9	1
	14,105	8,543

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

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

(All amounts are in Kuwaiti Dinar Thousand)

	Equity attributable to shareholders of the Parent Company											Non Controlling interests	Total
	Share capital	**Share premium**	**Legal reserve**	**Voluntary reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Land revaluation reserve**	**Treasury shares**	**Gain/ (loss) on sale of treasury shares**	**Retained earnings**	**Total**		
Balance at 31 December 2017	53,676	1,433	48,344	48,093	3,837	754	915	(11,209)	14	22,809	168,666	22	168,688
Impact of adopting IFRS9 at 1 January 2018	-	-	-	-	-					(10,517)	(10,517)	-	(10,517)
Restated balance at 1 January 2018	53,676	1,433	48,344	48,093	3,837	754	915	(11,209)	14	12,292	158,149	22	158,171
Profit for the year	-	-	-	-	-	-	-	-	-	9,934	9,934	1	9,935
Foreign exchange translation losses	-	-	-	-	-	(97)	-	-	-	-	(97)	-	(97)
Change in fair value	-	-	-	-	(1,295)	-	-	-	-	-	(1,295)	-	(1,295)
Profit on sale of investments	-	-	-	-	(378)	-	-	-	-	378	-	-	-
Total comprehensive income for the year	-	-	-	-	(1,673)	(97)	-	-	-	10,312	8,542	1	8,543
Dividends (Note 20)	-	-	-	-	-	-	-	-	-	(8,131)	(8,131)	-	(8,131)
Purchase of treasury shares	-	-	-	-	-	-	-	(23)	-	-	(23)	-	(23)
Transfer to reserves	-	-	1,050	-	-	-	-	-	-	(1,050)	-	-	-
Balance at 31 December 2018	53,676	1,433	49,394	48,093	2,164	657	915	(11,232)	14	13,423	158,537	23	158,560
Balance at 1 January 2019	53,676	1,433	49,394	48,093	2,164	657	915	(11,232)	14	13,423	158,537	23	158,560
Profit for the year	-	-	-	-	-	-	-	-	-	13,181	13,181	9	13,190
Foreign exchange translation profit	-	-	-	-	-	63	-	-	-	-	63	-	63
Revaluation gain on land	-	-	-	-	-		50	-	-	-	50	-	50
Change in fair value	-	-	-	-	802	-	-	-	-	-	802	-	802
Profit on sale of investments	-	-	-	-	(187)	-	-	-	-	187	-	-	-
Total comprehensive income for the year	-	-	-	-	615	63	50	-	-	13,368	14,096	9	14,105
Dividends (Note 20)	-	-	-	-	-	-	-	-	-	(8,636)	(8,636)	-	(8,636)
Purchase of treasury shares	-	-	-	-	-	-	-	(39)	-	-	(39)	-	(39)
Transfer to reserves	-	-	1,394	-	-	-	-	-	-	(1,394)	-	-	-
Balance at 31 December 2019	53,676	1,433	50,788	48,093	2,779	720	965	(11,271)	14	16,761	163,958	32	163,990

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

شركة التسهيلات التجارية ش.م.ك
COMMERCIAL FACILITIES CO. s.a.k

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

(All amounts are in Kuwaiti Dinar Thousand)

	Notes	2019	2018
OPERATING ACTIVITIES			
Profit before taxes and Directors' remuneration		13,953	10,498
Adjustments for:			
Interest income		(969)	(1,572)
Provision for expected credit losses		1,543	2,106
Increase in fair value of financial assets at fair value through profit or loss		(3,363)	(1,239)
Loss/ (Gain) on sale of financial assets at fair value through profit or loss		541	(25)
Foreign currency exchange gain on investment securities		-	(6)
Dividend income		(2,307)	(1,767)
Share of results of associates		(744)	(755)
Change in fair value of investment properties		(38)	33
Depreciation		143	70
Loss from sale of PPE		20	-
Borrowing costs		5,729	6,307
Provision for staff indemnity		481	246
		14,989	13,896
Other receivables and prepayments		83	(178)
Instalment debtors		10,806	8,087
Trade creditors and accrued liabilities		(626)	(824)
Cash from operations		25,252	20,981
Interest received		969	1,572
Dividends received		2,307	1,680
Staff indemnity paid		(95)	(477)
Net cash from operating activities		28,433	23,756
INVESTING ACTIVITIES			
Term deposits		4,512	2,171
Purchase of financial assets at fair value through profit or loss		(279)	(183)
Proceeds from sale of financial assets at fair value through profit or loss		627	263
Purchase of financial assets at fair value through other comprehensive income		(6,498)	(8,307)
Proceeds from sale of financial assets at fair value through other comprehensive income		2,780	3,325
Additional purchase of associate		(318)	(152)
Dividends from associates		490	517
Purchase of property and equipment		(185)	(440)
Net cash generated from/ (used in) investing activities		1,129	(2,806)
FINANCING ACTIVITIES			
Net proceeds from term loans		(15,010)	(2,547)
Dividends paid		(8,543)	(8,131)
Borrowing costs - paid		(5,819)	(6,307)
Purchase of treasury shares		(39)	(23)
Net cash used in financing activities		(29,411)	(17,008)
Net increase in cash and cash equivalents		151	3,942
Cash and cash equivalents at beginning of the year		14,027	10,085
Cash and cash equivalents at end of the year	5	14,178	14,027

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

1. Incorporation and principal activities

Commercial Facilities Company – S.A.K.P. ("the Parent Company") was incorporated on 16 January 1977 in accordance with the Commercial Companies Law in the State of Kuwait. The Company's shares were listed on the Kuwait Stock Exchange on 29 September 1984.

The Parent Company is regulated by the Central Bank of Kuwait ("CBK") and the Kuwait Capital Market Authority ("CMA").

The Parent Company and its subsidiaries (collectively "the Group") have been established to perform the following objectives within and outside the State of Kuwait:

- Providing short and medium term loans to individuals and entities with the aim of financing purchase of vehicles, equipment and home appliances.
- Financing consumer products of raw materials, manufactured or semi-manufactured.
- Providing short, medium and long term loans to individuals to finance the purchase of land and properties.
- Providing operating or financing lease for vehicles and equipment.
- Providing necessary guarantees related to the Parent Company objectives.
- Establishing companies, associated with the original company, specialised in marketing to collaborate with products' agents and insurance companies in return for commission or discount that correlate with the volume of sales and insurance achieved with the agent.
- Investing in real estate, industrial, agricultural and other economic sectors through participation in the establishment of specialised companies or the purchase of their shares.
- Purchasing and selling of financial securities such as shares and bonds for the Parent Company's account being a part of the Parent Company's investment portfolio.
- Acting as intermediary in managing loans and syndicated loans on commission basis.
- Managing investment portfolios on behalf others on commission basis.

The Parent Company cannot open current or saving accounts for others, accept deposits, open letters of credit or represent foreign banks. However, without violating this restriction, the Parent Company can have an interest in or collaborate, by all means, with organisations dealing and involved in similar businesses or those that can support and help achieve its objectives within or outside the State of Kuwait and also has the right to purchase these organisations or make them affiliated entities.

The address of the Parent Company's registered office is P.O. Box 24284, Safat 13103, State of Kuwait.

These consolidated financial statements were authorized for issue by the Board of Directors on 19 February 2020.

2. Basis of preparation and significant accounting policies

2.1. Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost basis except for measurement of financial assets at fair value through other comprehensive income, financial assets through profit or loss and the investment properties.

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

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

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

IFRS 16 "Leases"

General impact

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

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

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

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

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

Impact on accounting policy:

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

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

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

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

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors 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.'	January 1, 2020
Definition of a Business – Amendments to IFRS 3 *Business Combinations* The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.	January 1, 2020
Amendments to references to the Conceptual Framework in IFRS Standards. Amendments to references to the Conceptual Framework in IFRS Standards related to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	January 1, 2020
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

2.3. Significant Accounting Policies

2.3.1 Basis of Consolidation

Subsidiaries

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

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

Consolidation of a subsidiary begins when the 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 Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the 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 polices.

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

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

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

Business combinations

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

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

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

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated other comprehensive income are reclassified to consolidated statement of income 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 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 consolidated statement of income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. 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 other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate (which includes any long-term interests that, in substance, form part of the Group’s net investment in the 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.

On acquisition of the investment in an associate, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group’s consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

2.3.2 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through consolidated statement of income) are added to or deducted from the fair value of the financial assets or financial liabilities, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through statement of income are recognised immediately in statement of income.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification and measurement of financial assets

The Group classifies its financial assets as follows

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

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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; and
- 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 profit (SPPP test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPP 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. Profit 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 profit, 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 considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of profit rates.

Contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and profit. In such cases, the financial asset is measured at fair value through profit or loss.

Amortised cost and effective interest method

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Company recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in statement of income.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Equity instruments designated as at FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or

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

Investments in equity instruments designated as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to statement of income on disposal of these investments, instead, they will be transferred to retained earnings.

The Company has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'investment income' line item in statement of income.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically,

For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

Impairment of financial assets other than credit facilities

The Group applies the general approach to the creation of provisions against expected credit losses in accordance with IFRS 9 related to the financial instruments other than credit facilities such as cash and cash equivalents and other receivables. The Group uses credit rating by external rating agencies to assess the credit risk exposure to these financial assets. These ratings are continuously monitored and updated.

Credit facilties

The CBK regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 according to the CBK guidelines or the provisions as required by CBK instructions

Provisions for credit losses in accordance with CBK instructions

accordance with Central Bank of Kuwait instructions, a minimum general provision of 1% of all receivables net of certain restricted categories of collateral and not subject to specific provision. The specific provisions are recorded based on the duration of the past due of the Credit Facility as below, net of eligible collaterals:

Category	Criteria	Specific provisions
Substandard	Irregular for a period of 90- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

ECL provision under IFRS 9 according to the CBK guideline

The ECL provision is based on the credit losses expected to arise over the life of the asset (the Life Time Expected Credit Loss or LT ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' Expected Credit Loss (12m ECL).

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument.

The 12m ECL is the portion of LT ECLs that represent the ECLs that result from default events on a Credit Facilities that are possible within the 12 months after the reporting date.

Both LT ECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of Credit Facilities.

The Group has established policy to perform an assessment, at the end of each reporting period, of whether a Credit Facilities' credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the Credit Facility.

The Group classifies its Credit Facilities into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1: 12-month ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

Significant increase in credit risk

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk except where the Group has reasonable and supportable information that demonstrates that the credit risk has not increased significantly even though the contractual payments are more than 30 days past due.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be 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. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Calculation of ECLs

The Group calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Profit Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Company uses point in time PD (PITPD) for each customer to calculate the ECL. The minimum PD is 1.34% for any credit facility granted by the Group. None of the customers of te Group is rated by external rating companies.
- The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Company applies 100% Credit Conversion Factor (CCF) on utilized cash.
- The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Other than the above LGD estimation mechanics, the Company also complies with the guidelines mentioned in the CBK Instruction, as follows:

- The Company applies minimum 50% LGD on unsecured Credit Facility.
- The Company applies a minimum haircut to the collateral values as per CBK instructions.

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

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

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in statement of income.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

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

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

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

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'other gains and losses' line item in statement of income for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, is recognized in statement of income.

2.4. 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. Subsequently, investment properties are measured at fair value determined by independent registered valuers. Gains and losses arising from changes in the fair value of investment properties are included in conolsidated statement of 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 the consolidated statement of income in the period in which the property is derecognised.

2.5. Property and equipment

Property and equipment (except land) are carried at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment (except land) are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

	Years
Building	20
Furniture, equipment and others	3-5
Motor vehicles	4

Depreciation commences when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with effect of any changes in estimate accounted for on prospective basis.

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of profit or loss. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Land is stated at revalued amount as determined by independent valuations undertaken every year. Any revaluation increase arising on the revaluation of land is credited to the land revaluation reserve, except to the extent that it reverses a revaluation decrease for the land previously recognised as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land is charged as an expense to the extent that it exceeds the balance, if any, held in the land revaluation reserve relating to a previous revaluation of the land. The land revaluation reserve will be directly transferred to retained earnings when asset is disposed.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

2.6. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.7. Post-employment benefits

The Group provides post-employment benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

2.8. Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the cost of the shares reacquired is charged to equity. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.9. 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).

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

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and

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

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

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

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

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

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

Subsequent Measurement

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

Sale and leaseback

The Group enters into sale and leaseback transactions whereby it sells certain assets to a third-party and immediately leases them back. Where sale proceeds received are judged to reflect the fair value, any gain or loss arising on disposal is recognised in the statement of income, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognised at commencement of the lease. Where sale proceeds received are not at the fair value, any below market terms are recognised as a prepayment of lease payments, and above market terms are recognised as additional financing provided by the lessor.

Where the Group is the lessor

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

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

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

Policy applicable before 1 January 2019

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

The Group as lessor

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

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

The Group as lessee

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

2.10. Revenue recognition

Interest income from instalment credit

Interest rate from instalment credit is included at the outset in the lending agreement with the customer. The customer repays the debt in equal instalments over the period of the agreement. Interest income from instalment credit is recognised over the period of the agreement using the effective interest method. Fees which are considered an integral part of the effective yield of a financial asset are recognised using effective yield method. Once an instalment credit has been written down as a result of an impairment loss, the related interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission income

Commission income is recognised equally over the period of the contract to which the commission relates. Income relating to future periods is treated as deferred income and is included in the consolidated statement of financial position as a deduction from the gross value of the instalment debtors. Fee income earned from services provided over a period of time is recognised over the period of service.

Dividend income

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

Other interest income

Other interest income is recognized on effective yield basis. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows and on the amount net of impairment for the purpose of measuring the impairment loss.

2.11. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market rates and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount and is limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognized immediately in the consolidated statement of profit or loss.

2.12. Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Kuwaiti Dinars' (KD), which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Kuwaiti Dinars using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are resulted from the settlement of such transactions and from the translation at year-end in the consolidated statement of income.

2.13. Contingent liabilities and contingent assets

Contingent assets are not recognised as an asset till realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

2.14. 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 products or 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 products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

3. Financial risk management

3.1. Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk (including currency risk, fair value risk arising from changes in interest rates, fluctuations in cash flows arising from changes in interest rates and market price risks), credit risk and liquidity risk.

The Group's management monitors these risks by continuously assesssing the market conditions and trends as well as the management's assessment of long and short-term changes in market factors.

(a) Market risk

Currency risk

Currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities such as deposits, ginancial assets at fair value through other comprehensive income, investment properties and term loans. The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the US Dollar, Bahraini Dinar and Saudi Riyal.

The analysis below shows the effect of a 1% strengthening in the foreign currency rates against KD, with all other variables held constant on the profit for the year. A positive amount in the table reflects a net potential increase in the profit for the year, while a negative amount reflects a net potential decrease.

There have been no changes in the method and the assumptions used in the preparation of the sensitivity analysis as compared to the prior year.

	2019	2018
US Dollar	212	56
Bahraini Dinar	41	40
Saudi Riyal	19	20
Others	50	46

A 1% weakening of the above currencies against the KD would have had an equal, but opposite, effect of the amounts shown above, with all other variables held constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from term deposits, bank overdrafts and term loans. Bank overdrafts and term loans taken at variable rates and term deposits placed at variable rates expose the Company to cash flow interest rate risk.

The Group manages interest rate risk by borrowing funds at market linked floating interest rates and placing term deposits at the best available rates. At 31 December 2019,, if interest rates at that date had been 25 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 327 thousand (KD 353 thousand - 2018).

Price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. The Group manages the risk through diversification of investments in terms of geographic and monitor the fair value of the Group investments on regular basis in order to take the necessary action on timely basis.

The effect on profit (as a result of a change in the fair value of equity instruments held as at fair value through profit or loss) at the year end due to an assumed 5% change in market indices, with all other variables held constant, is as follows:

	2019	2018

	Effect on profit	Effect on profit
Kuwait Stock Exchange	± 250	± 514

(b) Credit risk

The credit risk is the risk that the Group will have losses due to its inability to collect the debt as a result of the other party's financial obligations to the Group.

Credit risk is managed at the group level. Assets exposed to credit risk are cash and cash equivalents, finance receivables, and investment agencies.

An analysis of the Group's financial assets before taking into account other credit enhancements, is as follows:

	Net exposure	
	2019	**2018**
Cash and bank balances (excluding cash on hand)	24,216	29,557
Other receivables	1,539	1,594
Finance receivales	216,609	227,923
Investment securities	10,040	9,646
	252,404	268,720

Note 6 shows the analysis of the aging of credit facilities and movement of provision.

(i) Risk concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk may also arise from large concentrations of the Group's assets in a single counterparty. These risks are managed through diversification of portfolios. The Group's financial assets are concentrated in the Middle East and North Africa region.

The Group does not obtain any collateral on its financial assets other than personal guarantees. The Group's concentration on financial assets can be analysed by the following industry sectors:

	2019	**2018**
Industry sector		
Banks and other financial institutions	34,256	39,203
Retail	216,609	227,923
Others	1,539	1,594
	252,404	268,720

Credit risk measurement

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The main activity of the group that generates revenue is lending to customers. Credit risk is therefore a significant risk. Credit risk arises mainly from financing receivables. The Group considers all elements of credit risk exposure, such as default risk, geographic risk and sector risk for risk management.

The Group manages the credit risk related to cash, through dealing with financial institutions with a good reputation in the market. Also the Group manages the credit risk by setting credit policies in order to avoid the concentration of credit limit via diversifying the finance portfolio over a large number of customers in addition to the identification of the necessary guarantees received from the customers as well as setting a credit approval limit.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures require that all credit proposals be subjected to detailed screening by the relevant division prior to approval. In accordance with the instructions of the Central Bank of Kuwait setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising of competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group.

This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of these customers, in order to determine whether further provisions are required.

Assessment of expected credit losses

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes.

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

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

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

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12months ECL or life time ECL. the Group assess whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds.

All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria's do not indicate a significant increase in credit risk.

The potential for default is that the obligor may fail to meet its obligations in the future. IFRS 9 requires the use of probability of default separately for a period of 12 months or over the life of the instruments based on the stage distribution for the obligor. The probability of default used in IFRS 9 should reflect the Group's estimate of the quality of the asset in the future.

The calculation process is based on statistical models. These statistical models are based on market data (as available) as well as internal data consisting of both quantitative and qualitative factors. The probability of default is estimated in view of the contractual maturities of exposures and expected repayment rates. The estimate is based on current circumstances and is adjusted to take account of future circumstances that will affect the likelihood of default.

Exposure at default

Exposure at default ("EAD") represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

Loss given default

Loss given default ("LGD") is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For all unsecured credit facilities, the Group considers a minimum of 50% LGD.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models (GCorr macro model) to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Undiscounted			
	Up to 3 months	**3 to 12 months**	**1 to 5 years**	**Total**
31 December 2019				
Financial liabilities				
Trade creditors and accrued liabilities	5,189	487	-	5,676
Term loans	22,464	42,386	86,406	151,256
	27,653	42,873	86,406	156,932
Commitments				
Commitments for purchase of investments	1,193	-	-	1,193

	Undiscounted			
	Up to 3 months	**3 to 12 months**	**1 to 5 years**	**Total**
31 December 2018				
Financial liabilities				
Trade creditors and accrued liabilities	5,093	443	-	5,536
Term loans	33,145	49,167	84,654	166,966
	38,238	49,610	84,654	172,502
Commitments				
Commitments for purchase of investments	2,136	-	-	2,136

(d) Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. 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 in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the compliance and risk management function, which ensures compliance with policies and procedures and monitors operational risk as part of overall risk management activities.

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from previous year.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity (as shown in the consolidated statement of financial position) plus net debt.

Gearing ratio

The gearing ratio at the year end was as follows:

	2019	2018
Total Borrowings	141,949	156,959
Less: Cash and cash equivalents	(14,178)	(14,027)
Net debts	127,771	142,932
Total Equity	163,990	158,560
Total Capital	291,761	301,492
Net debt to total capital %	44	47

Debt include term loans as disclosed in note 12.

3.3. Fair value of financial instruments

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss	12,018	1,167	-	13,185
Finnancial assets at fair value through OCI				
Debt securities	-	9,585	455	10,040
Equity participation	-	5,634	23,833	29,467
	12,018	16,386	24,288	52,692

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Financial assets at fair value through profit or loss	9,559	1,152	-	10,711

Financial assets at fair value through OCI				
Debt securities	-	9,646	-	9,646
Managed funds	-	-	61	61
Equity participation	-	5,434	19,843	25,277
	9,559	16,232	19,904	45,695

Financial assets	**Fair value as at**		**Fair value Hierarchy**	**Sector**
	2019	**2018**		
Financial assets at FVTPL - *Quoted securities*	12,018	9,069	Level 1	Financial Institutions
	-	490	Level 1	Real estate
	12,018	9,559		
Financial assets at FVTPL – *Unquoted debt*	1,167	1,152	Level 2	Financial Institutions
Financial assets at FVOCI – *Unquoted debt*	11,469	12,080	Level 2	Financial Institutions
	3,750	3,000	Level 2	Real estate
	16,386	16,232		
Financial assets at FVOCI - *Unquoted funds*	-	11	Level 3	Manufacturing
	-	49	Level 3	Real estate
Financial assets at FVOCI - *Unquoted securities*	19,946	16,761	Level 3	Real estate
	1,379	2,148	Level 3	Financial Institutions
	725	773	Level 3	Service
	1,783	162	Level 3	Media & technology
Financial assets at FVOCI - *Unquoted debt*	455	-	Level 3	Financial Institutions
	24,288	19,904		
	52,692	45,695		

The most significant unobservable inputs used is the illiquidity discount in the level 3 hierarchy.

Movement in level 3 Unquoted securities is as follows:

	2019	**2018**
Opening balance	19,904	24,005
Change in fair value	604	(3,704)
Purchases/ transfers	6,499	2,227
Sales	(2,719)	(2,624)
Closing balance	24,288	19,904

The fair values of equity investments are obtained from quoted market prices and other models as appropriate.

Valuation techniques include observable market information of comparable companies and net asset values. Significant unobservable inputs used in valuation techniques mainly include market multiples such as price to book and price to earnings. The most significant unobservable inputs used is the illiquidity discount in the level 3 hierarchy.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values.

A sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impact on the consolidated statement of financial position or consolidated statement of profit or loss.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Management is required to make judgements, estimates and assumptions 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 recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements:

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

Classification of investments in equity instruments - IFRS 9

On acquisition of an investment, the Group decides whether it should be classified as "FVTPL” or "FVTOCI". The Group follows the guidance of IFRS 9 on classifying its investments.

Classification of real estate

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

The Group classifies it as “trading property” if it is acquired principally for sale in the ordinary course of business. The Group classifies it as “investment property” if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

Key sources of estimation uncertainty

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

Fair value measurements and valuation techniques

Certain assets and liabilities of the Group are measured at fair value for the purposes of preparing the financial statements. The Group’s management determines the main appropriate techniques and inputs required for measuring the fair value.In determining the fair value of assets and liabilities, management uses observable market data as appropriate, in case no observable market data is available the Group uses an external valuer qualified to do the valuation. Information regarding the required valuation techniques and inputs used to determine the fair value of financial assets and liabilities is disclosed in note (3.3 & 9).

Impairment of financial assets

The Group estimates ECL for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Probability of default: The probability of default is a key initiation point for measuring expected credit losses. The probability of default is an estimate of the likelihood of a default over a specific period of time based on several factors including data, assumptions and expectations about future circumstances.

Loss given default: The loss given default rate is an estimate of loss due to default. This is accounted for by the difference between the contractual cash flows due and the cash flows expected to be received by the lender, taking into account the cash flows from the integrated and collateralized credit enhancements. Note 6 shows the impact on the consolidated financial statements.

5. Cash and bank balances

	2019	2018
Cash on hand	5	-

Bank balances	14,173	14,027
Term deposits	10,043	15,530
	24,221	29,557
Less: Deposits with original maturity over three months	(10,043)	(15,530)
Cash and cash equivalents as per consolidated statement of cash flows	14,178	14,027

The Group's deposits dominated in USD and Lebanese Pound with foreign banks based in the Middle East amount to KD 10,043 thousand equivalent (KD 15,530 thousand equivalent - 2018). These deposits yield interest ranging from 8% to 9.50% (6.10% to 8% - 2018) per annum. The Expected credit losses related to term deposits is KD 1,296 thounsads (KD 321 thousads - 2018).

6. Finance receivables

	2019	2018
Commercial loans	24,754	20,558
Personal loans	256,328	272,688
	281,082	293,246
Less: deferred income	(25,444)	(26,639)
	255,638	266,607
Less: provision for expected credit losses – ECL	(39,029)	(38,684)
	216,609	227,923

6.1. As at 31 December 2019, provisions for credit losses in accordance with the requirements of the Central Bank of Kuwait amounted to KD 28,852 thousand (KD 28,804 thousand – 2018), less than the expected credit losses for credit facilities which were calculated in accordance with the requirements of IFRS 9 in accordance with the Central Bank of Kuwait guidelines.

6.2. The movement in total credit facilities during the year is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018	218,749	23,852	32,097	274,698
Net financing/ collection	3,246	(5,940)	(5,397)	(8,091)
Transfer from/ to Stage 1	-	5,741	4,670	10,411
Transfer from/ to Stage 2	(5,741)	-	3,645	(2,096)
Transfer from/ to Stage 3	(4,670)	(3,645)	-	(8,315)
Balance at 31 December 2018	211,584	20,008	35,015	266,607
Balance at 1 January 2019	211,584	20,008	35,015	266,607
Net financing/ collection	3,651	(5,341)	(9,279)	(10,969)
Transfer from/ to Stage 1	-	7,539	6,062	13,601
Transfer from/ to Stage 2	(7,539)	-	3,866	(3,673)
Transfer from/ to Stage 3	(6,062)	(3,866)	-	(9,928)
Balance at 31 December 2019	201,634	18,340	35,664	255,638

6.3. The movement in the provisions for credit losses during the year is as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018 as stated earlier	2,187	239	23,964	26,390
Impact of adopting of IFRS 9	(1,220)	2,529	8,840	10,149
Restated balance at 1 January 2018	967	2,768	32,804	36,539
Credit losses charged during the year	5	(71)	2,216	2,150
Write off	-	-	(5)	(5)
Balance at 31 December 2018	972	2,697	35,015	38,684
Balance at 1 January 2019	972	2,697	35,015	38,684
Credit losses charged during the year	(72)	(232)	812	508

Write off	-	-	(163)	(163)
Balance at 31 December 2019	900	2,465	35,664	39,029

6.4. The average interest rate on finance receivables for the year 31 December 2019 is 4.85% (4.60% - 2018) per annum.

6.5. The Group has pledged customer contracts with a carrying amount of KD 182,240 thousand (KD 205,623 thousand - 2018) as collaterals against borrowings (Note 12).

7. Investment securities

Financial assets at fair value through profit or loss ("FVTPL")

	2019	2018
Investment in quoted equity securities	12,018	9,559
Investment in unquoted debt securities	1,167	1,152
	13,185	10,711

Financial assets at fair value through other comprehensive income

	2019	2018
Investment in unquoted equity securities	29,467	25,277
Investment in unquoted debt securities	10,040	9,646
Investment in managed funds	-	61
	39,507	34,984
	52,692	45,695

The geographical concentration of investment securites at the reporting date is as follows:

	2019	2018
Outside Kuwait	28,281	24,240
Kuwait	24,411	21,455
	52,692	45,695

8. Investments in associates

Details of the investment in associated companies at 31 December are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest 2019	Proportion of ownership interest 2018	Principal activity
Real Estate Facilities Investment Company K.S.C. (Closed)	Kuwait	30.21%	27.44%	Investment in real estate
Priority Automobile Company K.S.C. (Closed)	Kuwait	44.56%	44.56%	Renting and leasing of luxury cars

Summarised financial information in respect of each of the Group's associates is set out below:

	2019		2018	
	Real Estate Facilities Company K.S.C. (Closed)	Priority Automobile Company K.S.C. (Closed)	Real Estate Facilities Company K.S.C. (Closed)	Priority Automobile Company K.S.C. (Closed)
Revenues	2,350	9,563	2,325	8,867
Profit for the period	1,289	755	1,832	608

Group's share of results of associates	408	336	484	271
Total assets	46,400	19,287	41,110	18,272
Total liabilities	(14,380)	(10,625)	(9,530)	(10,066)
Total equity	32,020	8,662	31,580	8,206
Group's share of associates' net assets	9,176	4,881	8,806	4,679

9. Investment properties

The movement in the investment properties is as follows:

	2019	**2018**
Balance at the beginning of the year	4,206	4,239
Change in fair value of investment properties	38	(33)
Balance at the ending of the year	4,244	4,206

The fair value of the Group's investment properties has been arrived at on the basis of valuations carried out on the respective dates by independent appraisers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on income capitalisation approach. In estimating the fair values of the properties, the highest and the best use of the property is its current use. The Group's investment properties is included in Level 3 of fair value hierarchy as at 31 December 2019 and 31 December 2018 and is located in Saudi Arabia and Kuwait.

10. Property and equipment

	Land at fair value	**Building**	**Furniture, Equipment and Others**	**Motor vehicles**	**Right of use assets**	**Total**
Cost or fair value						
Balance at 31 December 2017	2,200	499	2,582	9	-	5,290
Additions	-	-	440	-	-	440
Balance at 31 December 2018	2,200	499	3,022	9	-	5,730
Additions	-	-	3	-	182	185
Diposal	-	-	(20)	-	-	(20)
Revaluation	50	-	-	-	-	50
Balance at 31 December 2019	2,250	499	3,005	9	182	5,945
Accumulated depreciation						
Balance at 31 December 2017	-	499	2,519	9	-	3,027
Charge for the year	-	-	70	-	-	70
Balance at 31 December 2018	-	499	2,589	9	-	3,097
Charge for the year	-	-	76	-	67	143
Balance at 31 December 2019	-	499	2,665	9	67	3,240
Carrying amount						
As at 31 December 2019	2,250	-	340	-	115	2,705
As at 31 December 2018	2,200	-	433	-	-	2,633

The fair value of the Group's land has been arrived at on the basis of valuations carried out yearly by independent appraisers who have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values were determined based on income capitalisation approach. In estimating the fair values of the land, the highest and the best use of the land is its current use. There has been no change to the valuation techniques during the year. The Group's land is included in Level 3 of fair value hierarchy as at 31 December 2019 and 31 December 2018.

11. Trade creditors and accrued liabilities

	2019	**2018**
Trade creditors	1,025	1,095
KFAS payable	140	105
National Labour Support Tax payable	347	246
Zakat payable	132	92
Other accrued liabilities	4,032	3,998
	5,676	5,536

12. Term loans

	2019	**2018**

Loans denominated in KD	135,636	130,420
Loans denominated in USD	6,313	26,539
	141,949	156,959

The repayment of term loans are due as follows:	**2019**	**2018**
Due within one year	81,274	77,637
Due after one year	60,675	79,322
	141,949	156,959

12.1. During the year, the Group obtained new KD loans amounting to KD 69 million (KD 53 million - 2018) and USD loan amounting to USD NIL (USD 50 million - 2018).

12.2. The weighted average interest rate on KD loans outstanding at 31 December 2019 was 3.91% per annum and on USD loans was 4.13% per annum (3.92% per annum and 3.55% per annum - 31 December 2018).

12.3. The Group's outstanding term loans at 31 December 2019 are borrowed under floating rate agreements. The Group has pledged customer contracts amounting to KD 182,240 thousand (KD 205,623 thousand - 2018) as security over 18 term loans (18 term loans - 2018) with balances outstanding of KD 141,949 thousand
(KD 156,959 thousand - 2018).

13. Share capital

Share capital comprises of 536,763,720 authorised and issued shares of 100 fils (2018: 536,763,720 authorised and issued shares of 100 fils) each fully paid in cash.

14. Legal reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

15. Voluntary reserve

In accordance with the Parent Company's Articles of Association, 10% of the profit before KFAS, NLST Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer. There are no restrictions on distributions from the voluntary reserve. The shareholders' annual general assembly held on 22 April 2014 approved to discontinue any further transfers to the voluntary reserve from 2014.

16. Treasury shares

	2019	**2018**
Number of shares purchased (000's)	203	131
Cost of shares purchased (KD'000)	40	23
Market value of total treasury shares (KD'000)	6,223	5,029
Percentage of issued shares %	5.39	5.35
Total number of shares (000's)	28,942	28,739

The Parent Company's retained earnings, equivalent to the cost of treasury shares on the date of the consolidated financial statements, are not available for distribution as long as these treasury shares are held by the Parent Company. The treasury shares are not mortgaged.

17. Net gains from investments

	2019	**2018**
Realised gain on sale of financial assets at FVTPL	135	25
Increase in fair value of financial assets at FVTPL	2,687	1,239
Dividend income	2,307	1,767
	5,129	3,031

18. Earning per share

Earnings per share is computed by dividing profit for the year by the weighted average number of shares outstanding during the year as follows:

	2019	2018
Profit for the year	13,181	9,934
Weighted average number of the Parent Company's issued and paid-up shares (000's)	536,764	536,764
Weighted average number of the Parent Company's treasury shares (000's)	(28,816)	(28,620)
Weighted average number of the Parent Company's outstanding shares (000's)	507,948	508,144
Earnings per share – fils	26	20

19. Subsidiaries

The subsidiaries of the Group as at 31 December are as follows:

Name of subsidiary	% of ownership and voting power 2019	% of ownership and voting power 2018	Country of incorporation	Principal activity
First Real Estate Facilities Company W.L.L.	99%	99%	Kuwait	Real Estate
Tas-hilat Rating and Collection Company K.S.C.C.	97%	97%	Kuwait	Collection
Farwa Real-Estate Company W.L.L.	98%	98%	Kuwait	Real Estate

20. Dividends

On 19 February 2020, the Board of Directors of the Parent Company proposed a cash dividend of 18% and a Board of Directors Remuneration of KD 144 thousand for the year ended 31 December 2019. These proposals are subject to the approval of the shareholders' annual general assembly.

On 13 May 2019, the general assembly held and approved the consolidated financial statements for the year ended 31 December 2018 and approved cash dividends of 17% (17 fils).

21. Related party transactions

Related parties comprise associated companies, major shareholders, directors and key management personnel of the Group, their families and companies of which they are the principal owners. The Group enters into transactions with related parties. Pricing policies and terms are approved by the Group's management.

The related party transactions and balances included in these consolidated financial statements are as follows:

a) Compensation of key management personnel of the Parent Company

The remuneration of directors and other members of key management during the year exclusive of remuneration to the directors was as follows:

	2019	2018
Salaries and other short-term benefits	474	453
Post-employment benefits	217	74
	691	527

b) Finance receivables

	2019	2018
Balance at 1 January	26	37
Loans advanced	10	22
Instalment repayments	(6)	(37)
Interest charged	2	4
Balance at 31 December	32	26

22. Revenue and segmental analysis

In accordance with IFRS 8, operating segments are identified based on internal management reporting information that is regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance and is reconciled to Group profit or loss.

The Group operates in one principal area of activity, the granting of credit facilities. Its consumer credit operations are carried out entirely in the domestic market in Kuwait. The Group has investments both inside and outside the State of Kuwait.

The measurement policies that the Group uses for segment reporting under IFRS 8 are the same as those used in its annual audited consolidated financial statements.

A segmental analysis of profit from ordinary activities, total assets, total liabilities and net assets employed by geographical location is as follows:

	Kuwait	International	Total
At 31 December 2019			
Total income	23,009	2,332	25,341
Profit before taxes and Directors' remuneration	11,621	2,332	13,953
Total assets	273,255	42,919	316,174
Total liabilities	(145,871)	(6,313)	(152,184)
Net assets employed	127,384	36,606	163,990
Other information			
Increase in fair value of financial assets at FVTPL	2,687	-	2,687
Share of results of associates	744	-	744
Provision for expected credit losses	(1,543)	-	(1,543)
Provision for end of service indemnity	(481)	-	(481)
Depreciation	(143)	-	(143)

	Kuwait	International	Total
At 31 December 2018			
Total income	20,646	2,334	22,980
Profit before taxes and Directors' remuneration	8,164	2,334	10,498
Total assets	281,257	43,971	325,228
Total liabilities	(140,129)	(26,539)	(166,668)
Net assets employed	141,128	17,432	158,560
Other information			
Increase in fair value of financial assets at FVTPL	1,239	-	1,239
Share of results of associates	755	-	755
Provision for expected credit losses	(2,106)	-	(2,106)
Provision for end of service indemnity	(246)	-	(246)
Depreciation	(70)	-	(70)

23. Commitments

	2019	2018
Capital commitments	1,193	2,136