

**KUWAIT AND MIDDLE EAST FINANCIAL  
INVESTMENT COMPANY K.S.C.P. AND ITS  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2022**





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## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P.**

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

#### ***Opinion***

We have audited the consolidated financial statements of Kuwait and Middle East Financial Investment Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, 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 by Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

#### ***Basis for Opinion***

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our reports, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying consolidated financial statements.

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF  
KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P.  
(continued)**

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

**Key Audit Matters (continued)**

<i>Valuation of investment properties</i>	
<b>Key audit matter</b>	<b>How the key audit matter was addressed in the audit</b>
<p>The Group’s investment properties represent 29.3% of the Group’s total assets and are measured at fair value for an amount of KD 22,710,000 as at 31 December 2022 as disclosed in Note 9 to the consolidated financial statements.</p> <p>The management of the Group engages professionally qualified external valuers to assess the fair value of its investment properties on an annual basis.</p> <p>The valuation of investment properties is highly dependent on estimates and assumptions, such as rental value, occupancy rates, discount rates, maintenance status, and financial stability of tenants, market knowledge and historical transactions. Given the size of investment properties and the complexity of valuation and the importance of disclosures relating to assumptions used in the valuation, we considered the valuation of investment properties as a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>▶ We assessed the competence, independence and integrity of the external valuers.</li> <li>▶ We assessed for valuation reports obtained whether the valuation methods as applied by the external valuers are acceptable for the purpose of the valuation of the underlying investment properties.</li> <li>▶ We assessed the appropriateness of the property related data, including key estimates and assumptions as used by the external valuers by comparing amongst others prevailing market rents, market yields and evidence of comparable market transactions and other publicly available information of the property industry.</li> <li>▶ We performed audit procedures on a sample of the investment properties, to test whether property specific standing data supplied to the external valuers by management reflected the underlying property records held by the Group.</li> <li>▶ We assessed the adequacy and the appropriateness of the Group’s disclosures concerning investment properties in Note 9 and Note 26 to the consolidated financial statements.</li> </ul>

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF  
KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P.  
(continued)**

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

*Key Audit Matters (continued)*

<i>Legal claim contingencies</i>	
<b>Key audit matter</b>	<b>How the key audit matter was addressed in the audit</b>
<p>The Parent Company is involved in various litigations as disclosed in Notes 3.1, 28.2 and 28.3 to the consolidated financial statements. Since the ultimate outcome of asserted claims and proceedings cannot be predicted with a reasonable degree of certainty, an adverse or a favorable outcome could have a material effect on the Group’s consolidated financial position, results from operations and cash flows.</p> <p>We focused on this area because of the potential significance of the ongoing litigations. The determination of whether to recognise a liability or not, or make disclosure in the consolidated financial statements, for claims received or recognise an asset for potential recoveries, requires the management to exercise considerable judgement. Given the uncertainty and judgement involved in this area, we determined this as a key audit matter.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>▶ We assessed the Group’s process for identifying and monitoring significant developments arising from the legal cases.</li> <li>▶ We assessed the progress of all significant legal cases, including reviewing the Group’s relevant correspondences and minutes of the meetings of Board of Directors.</li> <li>▶ We held regular meetings with the management and the Group’s in-house legal counsel to update our understanding of the status of ongoing legal proceedings, made inquiries to the external legal counsel, evaluated the external legal confirmation letters obtained and compared these with management's information and position.</li> <li>▶ We also assessed the appropriateness and adequacy of the disclosure regarding the legal cases as disclosed in Notes 3.1, 28.2 and 28.3 of the consolidated financial statements.</li> </ul>

**INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF  
KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P.**

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

*Key Audit Matters (continued)*

<i>Impairment of intangible asset</i>	
<b>Key audit matter</b>	<b>How the key audit matter was addressed in the audit</b>
<p>The Group has intangible asset amounted to KD 8.6 million as at 31 December 2022 representing a brokerage license for which management assessed as having an indefinite useful life as detailed in Note 10 to the consolidated financial statements. Intangible asset with an indefinite useful life shall be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is an indication of impairment.</p> <p>The annual impairment testing of intangible asset is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment and estimates applied by the management that are required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the intangible asset, which is based on the higher of the value in use or fair value less cost to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future trading volumes and values, revenue growth rates, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate).</p> <p>The Group engaged an external management expert to assist with the impairment testing.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>▶ We involved our internal valuation specialists to assist us in challenging the methodology used in the impairment assessment and evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the CGUs operate.</li> <li>▶ We evaluated whether the external management expert has the necessary competency, capabilities and objectivity for audit purposes.</li> <li>▶ We assessed the appropriateness of the assumptions applied to key inputs such as trade volumes and values, operating costs, inflation and long-term growth rates, which included comparing these inputs with externally derived data as well as our own assessments based on knowledge of the client and the industry.</li> <li>▶ We evaluated the adequacy of the Group's disclosures concerning intangible assets in Note 10 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.</li> </ul>

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P. (continued)**

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

#### ***Other information included in the Group's 2022 Annual Report***

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

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

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

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

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

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

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P. (continued)**

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

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

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

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

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

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, actions taken to eliminate threats or safeguards applied.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT AND MIDDLE EAST FINANCIAL INVESTMENT COMPANY K.S.C.P. (continued)**

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

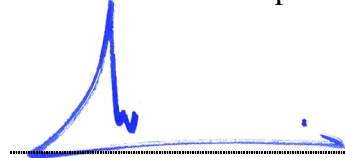
#### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)***

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

#### **Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, 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, as amended and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its 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 Markets Authority and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Parent Company or on its financial position except for the Parent Company's violation of the provisions of Article (3-1) of Module 17 "*Capital Adequacy Regulations for Licensed Persons*" of the Executive Bylaws of Law No. (7) of 2010 and amendments thereto, whereby the Parent Company, as a Licensed Person, did not maintain an actual Eligible Regulatory Capital in excess of the Risk Based Capital Requirement.



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BADER A. AL-ABDULJADER  
LICENCE NO. 207 A  
EY  
AL-AIBAN, AL-OSAIMI & PARTNERS

30 March 2023  
Kuwait



Kuwait and Middle East Financial Investment Company K.S.C.P. and its  
Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 KD	2021 KD
<b>ASSETS</b>			
Cash and short-term deposits	4	5,463,273	5,766,678
Other assets	5	6,282,132	6,452,373
Restricted cash	6	526,915	1,115,303
Loans and advances	7	2,729,611	2,539,837
Investment securities	8	29,205,383	6,982,568
Investment properties	9	22,710,000	2,500,000
Intangible asset	10	8,600,000	8,600,000
Right-of-use assets	11	310,125	468,327
Furniture and equipment	12	1,559,334	764,596
<b>TOTAL ASSETS</b>		<b>77,386,773</b>	<b>35,189,682</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Accounts payable and other liabilities	13	7,002,519	3,929,020
Lease liabilities	11	305,846	464,775
Loans and borrowings	14	43,378,892	4,597,291
<b>Total liabilities</b>		<b>50,687,257</b>	<b>8,991,086</b>
<b>Equity</b>			
Share capital	15	22,000,000	22,000,000
Statutory reserve	17	443,464	327,413
Voluntary reserve	18	443,464	327,413
Fair value reserve		97,995	16,104
Other reserve		737,078	737,078
Retained earnings		1,927,215	2,655,321
<b>Equity attributable to equity holders of the Parent Company</b>		<b>25,649,216</b>	<b>26,063,329</b>
Non-controlling interests		1,050,300	135,267
<b>Total equity</b>		<b>26,699,516</b>	<b>26,198,596</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>77,386,773</b>	<b>35,189,682</b>

  
Hamad Saleh Hamad Al Thekair  
Chairman

  
Asser Atef Fahmi Abouheba  
Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements.

Kuwait and Middle East Financial Investment Company K.S.C.P. and its  
Subsidiaries

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Notes</i>	<b>2022</b> <b>KD</b>	<b>2021</b> <b>KD</b>
<b>Income</b>			
Management fees		<b>2,149,736</b>	1,668,201
Commission income		<b>3,109,775</b>	3,336,302
Net (loss) gain on investments at FVTPL		<b>(3,505,281)</b>	758,596
Rental income derived from investment properties		<b>381,663</b>	244,603
Vehicles lease income		<b>346,999</b>	106,277
Fair value adjustment to investment properties	9	<b>3,938,598</b>	-
Dividend income		<b>49,042</b>	20,058
Net foreign exchange differences		<b>(165,423)</b>	262,627
Interest income		<b>251,857</b>	128,797
Other income		<b>18,993</b>	4,633
<b>Net operating income</b>		<b>6,575,959</b>	6,530,094
<b>Expenses</b>			
General and administrative expenses	19	<b>(3,731,340)</b>	(3,163,163)
Provisions and expected credit losses	20	<b>(732,953)</b>	(25,655)
Finance costs		<b>(991,932)</b>	(50,566)
<b>Total operating expenses</b>		<b>(5,456,225)</b>	(3,239,384)
<b>Profit before tax and directors' remuneration</b>		<b>1,119,734</b>	3,290,710
National Labour Support Tax ("NLST")		<b>(49,628)</b>	(85,704)
Zakat		<b>(17,034)</b>	(19,311)
Contribution to Kuwait Foundation for Advancement of Sciences ("KFAS")		<b>(19,851)</b>	(31,939)
Directors' remuneration		<b>(30,000)</b>	(36,000)
<b>PROFIT FOR THE YEAR</b>		<b>1,003,221</b>	3,117,756
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>1,043,996</b>	3,101,173
Non-controlling interests		<b>(40,775)</b>	16,583
		<b>1,003,221</b>	3,117,756
<b>BASIC AND DILUTED EARNINGS PER SHARE (EPS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>			
	21	<b>4.7 Fils</b>	13.5 Fils

The attached notes 1 to 29 form part of these consolidated financial statements.

Kuwait and Middle East Financial Investment Company K.S.C.P. and its  
Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022 KD	2021 KD
<b>PROFIT FOR THE YEAR</b>	<b>1,003,221</b>	3,117,756
<b>Other comprehensive income</b>		
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Net gain on investment securities at FVOCI	<b>81,891</b>	94,582
<b>Other comprehensive income for the year</b>	<b>81,891</b>	94,582
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,085,112</b>	3,212,338
<b>Attributable to:</b>		
Equity of holders of the Parent Company	<b>1,125,887</b>	3,195,755
Non-controlling interests	<b>(40,775)</b>	16,583
	<b>1,085,112</b>	3,212,338

The attached notes 1 to 29 form part of these consolidated financial statements.

Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	<i>Attributable to equity holders of the Parent Company</i>										
	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Treasury shares</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Other reserve</i>	<i>Retained earnings (Accumulated losses)</i>	<i>Sub-total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>As at 1 January 2022</b>	<b>22,000,000</b>	<b>327,413</b>	<b>327,413</b>	-	-	<b>16,104</b>	<b>737,078</b>	<b>2,655,321</b>	<b>26,063,329</b>	<b>135,267</b>	<b>26,198,596</b>
Profit (loss) for the year	-	-	-	-	-	-	-	1,043,996	1,043,996	(40,775)	1,003,221
Other comprehensive income for the year	-	-	-	-	-	81,891	-	-	81,891	-	81,891
Total comprehensive income (loss) for the year	-	-	-	-	-	81,891	-	1,043,996	1,125,887	(40,775)	1,085,112
Cash dividends (Note 16)	-	-	-	-	-	-	-	(1,540,000)	(1,540,000)	-	(1,540,000)
Changes in ownership interest in a subsidiary without a change in control (Note 1.2)	-	-	-	-	-	-	-	-	-	955,808	955,808
Transfer to reserves	-	116,051	116,051	-	-	-	-	(232,102)	-	-	-
<b>As at 31 December 2022</b>	<b>22,000,000</b>	<b>443,464</b>	<b>443,464</b>	-	-	<b>97,995</b>	<b>737,078</b>	<b>1,927,215</b>	<b>25,649,216</b>	<b>1,050,300</b>	<b>26,699,516</b>
As at 1 January 2021	26,381,499	-	-	(541,759)	1,576,307	(64,026)	737,078	(3,559,787)	24,529,312	118,684	24,647,996
Profit for the year	-	-	-	-	-	-	-	3,101,173	3,101,173	16,583	3,117,756
Other comprehensive income for the year	-	-	-	-	-	94,582	-	-	94,582	-	94,582
Total comprehensive income for the year	-	-	-	-	-	94,582	-	3,101,173	3,195,755	16,583	3,212,338
Transfer of fair value reserve on derecognition of equity instruments designated at FVOCI	-	-	-	-	-	(14,452)	-	14,452	-	-	-
Capital reduction (Note 15)	(4,381,499)	-	-	541,759	(1,576,307)	-	-	3,754,309	(1,661,738)	-	(1,661,738)
Transfer to reserves	-	327,413	327,413	-	-	-	-	(654,826)	-	-	-
At 31 December 2021	22,000,000	327,413	327,413	-	-	16,104	737,078	2,655,321	26,063,329	135,267	26,198,596

The attached notes 1 to 29 form part of these consolidated financial statements.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## CONSOLIDATED FINANCIAL STATEMENT OF CASH FLOW

For the year ended 31 December 2022

	Notes	2022 KD	2021 KD
<b>OPERATING ACTIVITIES</b>			
Profit before tax and after directors' remuneration		1,089,734	3,254,710
<i>Adjustments to reconcile profit for the year to net cash flows:</i>			
Depreciation of furniture and equipment	12	392,003	163,296
Depreciation on right-of-use assets	19	247,706	54,249
Interest income		(251,857)	(128,797)
Fair value adjustment to investment properties	9	(3,938,598)	-
Unrealised loss (gain) on investments at FVTPL		3,677,475	(270,308)
Realised gain from sale of investments at FVTPL		(172,194)	(488,288)
Dividend income from investment securities at FVOCI		(12,889)	-
Finance costs on loans and borrowings		977,777	46,174
Interest expense on lease liabilities	11	14,155	4,392
Provisions and expected credit losses	20	732,953	25,655
Provision for employees' end of service benefits		137,837	116,700
Rent concession	11	(17,846)	-
		<u>2,876,256</u>	<u>2,777,783</u>
<i>Changes in operating assets and liabilities:</i>			
Investments securities at FVTPL		(25,782,248)	1,520,656
Other assets		(396,500)	(615,163)
Loans and advances		(191,691)	(2,565,492)
Accounts payable and other liabilities		2,039,425	(1,264,184)
		<u>(21,454,758)</u>	<u>(146,400)</u>
Cash flows used in operations		(21,454,758)	(146,400)
Interest income received		87,562	77,066
Taxes paid		(92,954)	(287,674)
Employees' end of service benefits paid		(51,892)	(153,636)
		<u>(21,512,042)</u>	<u>(510,644)</u>
<b>Net cash flows used in operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Term deposits		1,380,186	(2,001,936)
Purchase of furniture and equipment		(1,087,934)	(576,408)
Purchase of investment properties	9	(16,271,402)	-
Advances paid to acquire investment properties	5	-	(2,240,000)
Advances received from sale of investment properties	13	400,000	-
Purchase of investments securities at FVOCI		(30,467)	-
Proceeds from sale of investments securities at FVOCI		-	20,365
Dividend income received from investments securities at FVOCI		12,889	-
Release (block) of restricted cash		588,388	(583,709)
		<u>(15,008,340)</u>	<u>(5,381,688)</u>
<b>Net cash flows used in investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans and borrowings		40,112,818	4,730,000
Repayment of loans and borrowings		(1,331,217)	(132,709)
Finance costs paid		(364,928)	(36,006)
Distribution to shareholders on reduction of capital		-	(1,639,609)
Payment of lease liabilities	11	(244,742)	(62,193)
Cash dividends paid		(1,530,576)	-
Net movement in non-controlling interests		955,808	-
		<u>37,597,163</u>	<u>2,859,483</u>
<b>Net cash flows from financing activities</b>			
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at 1 January		2,854,992	5,887,841
		<u>3,931,773</u>	<u>2,854,992</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>			
<b>Non-cash items excluded from the consolidated statement of cash flows:</b>			
Additions to right-of-use assets	11	(89,504)	(522,576)
Additions to lease liabilities	11	89,504	522,576

The attached notes 1 to 29 form part of these consolidated financial statements.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 1. CORPORATE AND GROUP INFORMATION

#### 1.1 CORPORATE INFORMATION

The consolidated financial statements of Kuwait and Middle East Financial Investment Company K.S.C.P. (the “Parent Company”) and its subsidiaries (collectively, the “Group”) for the financial year ended 31 December 2022 were authorised for issue in accordance with a resolution of the board of directors on 30 March 2023, and the shareholders have the power to amend these consolidated financial statements at the annual general assembly meeting (AGM).

The shareholders of the Parent Company at the annual general assembly meeting (“AGM”) held on 26 May 2022 approved the consolidated financial statements for the year ended 31 December 2021. Distributions proposed and made for the year then ended are provided in Note 16.

The Parent Company is a public shareholding company incorporated on 1 January 1984 and domiciled in Kuwait and whose shares are publicly traded on Boursa Kuwait. The Parent Company is regulated by the Capital Markets Authority (CMA) and Central Bank of Kuwait (CBK) as an investment and finance company.

In accordance with the Parent Company’s Memorandum and Articles of Associations the principal activities of the Parent Company comprise the following:

- ▶ Carrying out financial investment activities in various economic sectors inside and outside the State of Kuwait directly or by contributing to the existing companies in the same activities through establishing subsidiaries or by participating with others in the establishment of specialised companies or by buying shares of these companies;
- ▶ Managing portfolios, investing and developing funds for its own account or for clients locally and internationally, trading of securities, issuance and managing securities, issuance of various types of bonds to third parties or otherwise, to exercise all types of brokerage activities, to do financing locally and internationally, acceptance and management of credit contracts;
- ▶ Conducting studies, research and providing financial advices;
- ▶ Providing market maker services.

The Parent Company is a subsidiary of Evian Company for Selling and Buying Shares and Bonds for Company’s Account only (referred to therein as the “major shareholder” or the “Ultimate Parent Company”).

The head office of the Parent Company is located at Al-Qibla, Block 1, Arabian Gulf Street, Khalid Tower, Floor 5 and its registered postal address is P.O. Box 819, Safat 13009, Kuwait City, Kuwait.

#### 1.2 GROUP INFORMATION

The consolidated financial statements of the Group include the following:

Name	Country of incorporation	% equity interest		Principal activities
		2022	2021	
Al Awsat Aloula Holding Company K.S.C. (Closed) (“Al-Awsat”)	Kuwait	<b>99.9%</b>	99.9%	Investment
Gulf Gate Fund (the “Fund”) **	Kuwait	<b>66.6%</b>	94.2%	Managed fund
Middle East Financial Brokerage Company K.S.C. (Closed) (“MEFBC”)	Kuwait	<b>100%</b>	100%	Brokerage
KMEFIC for Renting and Leasing Cars W.L.L.	Kuwait	<b>99%</b>	99%	Vehicle leasing
<i>Indirect subsidiaries held through Al-Awsat</i>				
KMEFIC REIT Company W.L.L.	Kuwait	<b>99%</b>	99%	Real estate

\* Residual interests in the subsidiary are held by nominees on behalf of the Group, and there are letters of renunciation in favour of the Group confirming that the Group is the beneficial owner of such shares.

\*\* During the current year, subscriptions were made by other unit holders in the Fund amounting to KD 955,808. The deemed disposal resulted in a dilution in the Group’s effective interest.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 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 issued by the Central Bank of Kuwait (“CBK”) for financial services institutions in the State of Kuwait. These regulations require the expected credit loss (“ECL”) on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted by CBK for use by the State of Kuwait).

The consolidated financial statements have been prepared on a historical cost basis except for investment securities and investment properties that have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars (“KD”), which is also the functional currency of the Parent Company.

The Group presents its statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 25.

The Group has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern.

The consolidated financial statements provide comparative information in respect of the previous year. Certain comparative information has been reclassified and represented to conform to classification in the current year. Such reclassification has been made to improve the quality of information presented.

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

##### **New standards, interpretations and amendments adopted by the Group**

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

##### **Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Group applied the amendments to the contracts for which it had not fulfilled all of its obligations at the beginning of the reporting period.

These amendments had no impact on the consolidated financial statements as the Group had not identified any contracts as being onerous as the unavoidable costs under the contracts, which were the costs of fulfilling them, comprised only incremental costs directly related to the contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**New standards, interpretations and amendments adopted by the Group (continued)**

**Reference to the Conceptual Framework – Amendments to IFRS 3**

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases**

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

**IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

**IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the year.

**IAS 41 Agriculture – Taxation in fair value measurements**

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.



# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 STANDARDS ISSUED BUT NOT EFFECTIVE

A number of new and amended standards and interpretations are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group consolidated financial statements.

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### 2.4.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

##### 2.4.2 Business combinations and acquisition of non-controlling interests

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.2 Business combinations and acquisition of non-controlling interests (continued)**

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

**2.4.3 Revenue recognition**

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. The Group has generally concluded that it is the principal in its revenue arrangements.

*Sale of goods*

Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery.

*Revenue from sale of real estate*

Income from the sale of real estates is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the asset.

The sale of completed property constitutes a single performance obligation and the Group has determined that this is satisfied at the point in time when control transfers. For unconditional exchange of contracts, this generally occurs when legal title transfers to the customer. For conditional exchanges, this generally occurs when all significant conditions are satisfied. Payments are received when legal title transfers which is usually within six months from the date when contracts are signed.

*Commission income*

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.3 Revenue recognition (continued)

###### *Management fees*

These fees are earned for the provision of asset management services. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

###### *Brokerage fees*

The Group buys and sells securities on behalf of its customers and receives a fixed commission for each transaction. The Group's performance obligation is to execute the trade on behalf of the customer and revenue is recognised once each trade has been executed (i.e., on the trade date). Payment of the commission is typically due on the trade date.

###### *Revenue from sales of vehicles, spare parts and maintenance services*

Revenue from sales of vehicles, spare parts and maintenance services are recognised when earned upon completion of performance obligation as per the sale and service agreements with customers.

###### *Rental income*

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. In addition, the Group leases motor vehicles.

Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in the consolidated statement of profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

##### 2.4.4 Leases

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

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

###### *i) Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (2.4.11) Impairment of non-financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Leases (continued)**

*Group as a lessee (continued)*

*ii) Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*iii) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

*Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**2.4.5 Cash and short-term deposits**

Cash and short-term deposits in the statement of financial position comprise cash on hand, cash at banks, and term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, cash at banks, and term deposits with original maturity of three months or less, as they are considered an integral part of the Group's cash management.

**2.4.6 Term deposits**

Term deposits represent deposits with banks due within three months or more from the placement date and earn interest.

**2.4.7 Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets*

**Initial recognition and initial measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of other assets that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Other assets that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the settlement date, i.e., the date that the Group receives or delivers the asset.

**Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

*a) Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include cash and short-term deposits and certain other assets.

*b) Financial assets at fair value through OCI (debt instruments)*

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group's investments do not include any debt instruments at fair value through OCI.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)

###### i) *Financial assets (continued)*

###### Subsequent measurement (continued)

###### c) *Financial assets designated at fair value through OCI (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably certain equity investments under this category.

###### d) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes certain equity investments which the Group had not irrevocably elected to classify at fair value through OCI and investment in funds. Net gains and losses, including any dividend income, are recognised in profit or loss.

### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss as follows:

- ▶ Other assets
- ▶ Other financial assets measured at amortised cost (credit facilities)

Equity investments are not subject to ECLs. Further, the Group has no debt investments measured at FVOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)**

*i) Financial assets (continued)*

**Impairment of financial assets (continued)**

*i) Impairment of financial assets other than credit facilities*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

*ii) Impairment of credit facilities*

Credit facilities granted by the Group consist of loans and advances. Impairment on credit facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

**Provisions for credit losses in accordance with the CBK instructions**

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the CBK instructions with respect to credit facilities and the calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

<b>Category</b>	<b>Criteria</b>	<b>Specific provision</b>
Watch list	Irregular for a period up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances. Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

*ii) Financial liabilities*

**Initial recognition and measurement**

The Group's financial liabilities include term loans and trade and other payables.

All financial liabilities are recognised initially at fair value and, in the case of accounts payable, net of directly attributable transaction costs. Refer to the accounting policy on leases for the initial recognition and measurement of lease liabilities, as this is not in the scope of IFRS 9.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.7 Financial instruments – initial recognition and subsequent measurement (continued)

###### ii) *Financial liabilities (continued)*

###### **Subsequent measurement**

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- ▶ Financial liabilities at fair value through profit or loss
- ▶ Financial liabilities at amortised cost (including loans and borrowings)

The Group has not designated any financial liability as at fair value through profit or loss and financial liabilities at amortised cost is more relevant to the Group.

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

###### *Loans and borrowings*

After initial recognition, interest-bearing term loan are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

###### *Accounts payables and other liabilities*

Accounts payable and accruals are recognised for amounts to be paid in the future for services received, whether billed by the supplier or not.

###### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

###### iii) ***Offsetting of financial instruments***

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

#### **2.4.8 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying appropriate valuation models

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. The amount of consideration to be included in the gain or loss arising from the derecognition of investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.



# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.8 Investment properties (continued)

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

##### 2.4.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss.

##### 2.4.10 Furniture and equipment

Furniture and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the furniture and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives, as follows:

▶ Furniture and equipment	4 - 5 years
▶ Computer devices	4 years
▶ Computer software	7 - 10 years
▶ Motor vehicles	4 years

An item of furniture and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Depreciation of these assets commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.11 Impairment of non-financials assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

**2.4.12 Employees end of service benefits**

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

In addition, with respect to its Kuwaiti national employees, the Group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. These contributions are expensed when due.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.13 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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

##### 2.4.14 Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", 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 the voluntary reserve and statutory reserve. 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 treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

##### 2.4.15 Taxes

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

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

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

NLST is calculated at 2.5% of the profit for the year attributable to the Parent Company in accordance with Law No. 19 of 2000 and the Ministry of Finance resolutions No. 24 of 2006.

###### *Zakat*

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

##### 2.4.16 Dividend income

Dividend income is recognised on the date when the Group's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the consolidated statement of profit or loss.

##### 2.4.17 Dividend distribution

The Group recognises a liability to pay a dividend when the distribution is no longer at the discretion of the Group. As per the company's law, a distribution is authorised when it is approved by the shareholders at the annual general assembly meeting ("AGM"). A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

##### 2.4.18 Interest income and expense

Interest income and expense are recognised in the consolidated statement of profit or loss for all interest-bearing financial instruments using the effective interest method.

##### 2.4.19 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the consolidated financial statements, as they are not assets of the Group.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4.20 Contingencies

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

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

##### 2.4.21 Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

##### 2.4.22 Foreign currencies

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

##### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

##### *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.23 Events after the reporting date**

If the Group receives information after the reporting period, but prior to the date of authorisation for issue, about conditions that existed at the end of the reporting period, the Group will assess if the information affects the amounts that it recognises in the Group's consolidated financial statements. The Group will adjust the amounts recognised in its consolidated financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information. For non-adjusting events after the reporting period, the Group will not change the amounts recognised in its consolidated financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**3.1 Significant judgments**

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

*Classification of financial assets*

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

*Classification of real estate properties*

Determining the classification of a property depends on particular circumstances and management's intentions. Property that is held for resale in the ordinary course of business or that in the process of development for such sale is classified as inventory. Property held to earn rental income or for capital appreciation, or both is classified as investment property. Property held for use in the production or supply of goods and services or for administrative purposes is classified as property and equipment.

*Legal cases*

In accordance with IFRSs, outcome of legal cases may result in disclosure of contingent assets, contingent liabilities or recognition of a provision. Contingent asset are possible assets that arise from past events and whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control and are disclosed if the inflow of economic benefits is probable.

The Group may also recognise a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements.

Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the consolidated financial statements, could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for disclosures and provision in its consolidated financial statements. Among the factors considered in making decisions on disclosure or provisions are the nature of litigation, claim or assessment, the legal process and potential outcome in the jurisdiction in which the litigation has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**3.1 Significant judgments (continued)**

*Revenue from contracts with customers*

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

▶ *Determination of performance obligations*

With respect to the sale of property, the Group concluded the goods and services transferred in each contract constitute a single performance obligation. In particular, the promised goods and services in contracts for the sale of property under development mainly include design work, procurement of materials and development of the property. Generally, the Group is responsible for all of these goods and services and the overall management of the project. Although these goods and services are capable of being distinct, the Group accounts for them as a single performance obligation because they are not distinct in the context of the contract. The Group uses those goods and services as inputs and provides a significant service of integrating them into a combined output, i.e., the completed property for which the customer has contracted.

In relation to the services provided to tenants of investment property (such as cleaning, security, and maintenance) as part of the lease agreements into which the Group enters as a lessor, the Group has determined that the promise is the overall property management service and that the service performed each day is distinct and substantially the same. Although the individual activities that comprise the performance obligation vary significantly throughout the day and from day to day, the nature of the overall promise to provide management service is the same from day to day. Therefore, the Group has concluded that the services to tenants represent a series of daily services that are individually satisfied over time, using a time-elapsed measure of progress, because tenants simultaneously receive and consumes the benefits provided by the Group.

▶ *Determining the timing of revenue recognition on the sale of property*

The Group has evaluated the timing of revenue recognition on the sale of property based on a careful analysis of the rights and obligations under the terms of the contract and legal advice from the Group's external counsels.

The Group has generally concluded that contracts relating to the sale of property are recognised at a point in time when control transfers. For unconditional exchanges of contracts, control is generally expected to transfer to the customer together with the legal title. For conditional exchanges, this is expected to take place when all the significant conditions are satisfied.

*Significant judgement in determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operations if a replacement is not readily available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS  
(continued)**

**3.2 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related consolidated financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Useful lives of depreciable assets***

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

***Impairment of intangible assets with indefinite useful lives***

The Group tests whether an intangible asset with an indefinite useful life (brokerage licence) has suffered any impairment on an annual basis. For the 2022 reporting period, the recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates (Note 10). These growth rates are consistent with forecasts specific to the industry in which each CGU operates.

***Impairment of non-financial assets other than goodwill and other indefinite life intangible assets***

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

***Fair value measurement***

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

***Valuation of investment properties***

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*.

Investment properties are measured based on estimates prepared by independent real estate valuation experts. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 9.

As at the reporting date, the Group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the Group's investment properties and the unobservable inputs are developed using the best available information about the assumptions that market participants would make in pricing these assets at the reporting date. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### 3.2 Estimates and assumptions (continued)

##### *Impairment losses on financing receivables – as per CBK guidelines*

The Group reviews its loans and advances on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

##### *Impairment of other financial assets at amortised cost*

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost. For trade receivables, the Group applies a simplified approach in calculating ECL. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Actual results may differ from these estimates.

##### *Leases - Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available.

### 4. CASH AND SHORT-TERM DEPOSITS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2022 KD	2021 KD
Cash in hand	1,500	1,500
Cash at banks	2,866,273	2,753,492
Short-term deposits maturing within 3 months	1,064,000	100,000
<b>Cash and cash equivalents in consolidated statement of cash flows</b>	<b>3,931,773</b>	<b>2,854,992</b>
Short-term deposit with original maturity period exceeding 3 months but not more than 12 months	1,531,500	2,911,686
<b>Cash and short-term deposits as per consolidated statement of financial position</b>	<b>5,463,273</b>	<b>5,766,678</b>

Term deposits represent placements with local banks with a maturity of more than three months from the date of placement and earn interest at an average effective interest rate ranging from 3.25% to 4.5% (2021: 0.55% to 8.50%) per annum.



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5. OTHER ASSETS

	2022 KD	2021 KD
Management fees receivable	404,605	446,205
Commission income receivables	261,504	560,601
Prepayments	212,672	184,594
Amounts due from unsettled trades and brokers	321,951	1,309,987
Advance payment towards purchase of an investment properties *	2,290,000	2,290,000
Other receivables	2,791,400	1,660,986
	<u>6,282,132</u>	<u>6,452,373</u>

\* During the prior year, the Group entered into two preliminary contracts (the “Contracts”) to acquire certain investment properties in the State of Kuwait and paid advances of KD 2,290,000. The Contracts specify the terms of sale and the contractual obligations of each party. The legal proceeding to transfer the properties to the Group are still in progress as at the authorisation date of these consolidated financial statements.

Set out below is the movement in the allowance for expected credit losses of other assets at amortised cost:

	2022 KD	2021 KD
Other assets (gross)	7,013,168	6,452,373
Provision for expected credit losses (Note 20)	(731,036)	-
	<u>6,282,132</u>	<u>6,452,373</u>

As at the reporting date, management has recorded expected credit losses on other assets amounting to KD 731,036 based on an internal management assessment performed by the Group as of 31 December 2022.

6. RESTRICTED CASH

Restricted cash represents bank balances of KD 526,915 (2021: KD 1,115,303) which are restricted for use by the Kuwait Clearing Company (“KCC”) to fulfil the Company's obligations against any shortfall in trading activities.

7. LOANS AND ADVANCES

	2022 KD	2021 KD
Loans to customers*	10,257,183	10,065,492
Less: General provision	(27,572)	(25,655)
Less: Specific provision	(7,500,000)	(7,500,000)
	<u>2,729,611</u>	<u>2,539,837</u>

\* Loans and advances include a loan granted to a customer amounting to KD 7,500,000 (2021: KD 7,500,000) in lieu of a wakala investment backed up by a debt admission authenticated by the Ministry of Justice - Department of Authentication and registered under no. 3427/2011 (Volume 6); and for which an enforcement action has commenced under no. 14179653. No recoveries from collections were made due to the significant financial difficulties encountered by the debtor. Accordingly, the debt is considered credit impaired and has been fully provided for in previous years.

Expected credit loss on loans and advances computed under IFRS 9 in accordance with the CBK guidelines amounted to KD 7,507,741 (2021: KD 7,501,488) which is lower than the provision of KD 7,527,572 (2021: KD 7,525,655) computed under CBK instructions.

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7. LOANS AND ADVANCES (continued)

The below analysis shows the provision for loans and advances as per CBK instructions:

	<i>General</i>		<i>Specific</i>		<i>Total</i>	
	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
As at the beginning of the year	<b>(25,655)</b>	-	<b>(7,500,000)</b>	(7,500,000)	<b>(7,525,655)</b>	(7,500,000)
Charge during the year	<b>(1,917)</b>	(25,655)	-	-	<b>(1,917)</b>	(25,655)
As at the end of the year	<b>(27,572)</b>	(25,655)	<b>(7,500,000)</b>	(7,500,000)	<b>(7,527,572)</b>	(7,525,655)

An analysis of changes in the gross carrying amount of loans and advances and the corresponding expected credit losses in relation to loan and advances are as follows:

	<i>31 December 2022</i>			
	<i>Stage 1</i> <i>KD</i>	<i>Stage 2</i> <i>KD</i>	<i>Stage 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Carrying value as at 1 January 2022	<b>2,565,492</b>	-	<b>7,500,000</b>	<b>10,065,492</b>
New assets originated net of repayments during the year	<b>191,691</b>	-	-	<b>191,691</b>
<b>At 31 December 2022</b>	<b>2,757,183</b>	-	<b>7,500,000</b>	<b>10,257,183</b>

	<i>31 December 2022</i>			
	<i>Stage 1</i> <i>KD</i>	<i>Stage 2</i> <i>KD</i>	<i>Stage 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Expected credit losses as at 1 January 2022	<b>(1,488)</b>	-	<b>(7,500,000)</b>	<b>(7,501,488)</b>
Charge during the year	<b>(6,253)</b>	-	-	<b>(6,253)</b>
<b>At 31 December 2022</b>	<b>(7,741)</b>	-	<b>(7,500,000)</b>	<b>(7,507,741)</b>

	<i>31 December 2021</i>			
	<i>Stage 1</i> <i>KD</i>	<i>Stage 2</i> <i>KD</i>	<i>Stage 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Carrying value as at 1 January 2021	-	-	7,500,000	7,500,000
New assets originated net of repayments during the year	2,565,492	-	-	2,565,492
<b>At 31 December 2021</b>	<b>2,565,492</b>	-	<b>7,500,000</b>	<b>10,065,492</b>

	<i>31 December 2021</i>			
	<i>Stage 1</i> <i>KD</i>	<i>Stage 2</i> <i>KD</i>	<i>Stage 3</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Expected credit losses as at 1 January 2021	-	-	(7,500,000)	(7,500,000)
Charge during the year	(1,488)	-	-	(1,488)
<b>At 31 December 2021</b>	<b>(1,488)</b>	-	<b>(7,500,000)</b>	<b>(7,501,488)</b>

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### 8. INVESTMENT SECURITIES

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
<b>Investments at FVTPL</b>		
Quoted equity securities	<b>24,713,515</b>	2,867,226
Funds	<b>4,208,208</b>	3,944,040
	<b>28,921,723</b>	6,811,266
<b>Investments at FVOCI</b>		
Unquoted equity securities	<b>283,660</b>	171,302
	<b>283,660</b>	171,302
	<b>29,205,383</b>	6,982,568

Quoted equity securities amounting to KD 22,166,609 are subject to a first charge to secure the Group's Islamic financing payables (Note 14).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 26.

### 9. INVESTMENT PROPERTIES

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
<b>As at 1 January</b>	<b>2,500,000</b>	2,500,000
Additions	<b>16,271,402</b>	-
Fair value adjustment to investment properties	<b>3,938,598</b>	-
<b>As at 31 December</b>	<b>22,710,000</b>	2,500,000

Investment properties represent commercial and residential properties in the State of Kuwait with a carrying value of KD 22,710,000 (2021: KD 2,500,000) are pledged as security in order to fulfil collateral requirements of certain loans and borrowings (Note 14).

During the current year, the Parent Company entered into a preliminary contract (the "Contract") to sell an investment property in the State of Kuwait with a carrying value of KD 6,800,000 for a total cash consideration of KD 6,905,000. The Contract specifies the terms of sale and the contractual obligations of each party. The Contract requires the buyer to pay the full amount before the transfer of ownership, therefore, substantially eliminating the Group's credit risk in this respect. The Group has evaluated the timing of revenue recognition on the sale of property based on a careful analysis of the rights and obligations under the terms of the Contract and legal advice from the Group's external counsels and concluded that the sale shall only be recognised at a point in time when control transfers (i.e this generally occurs when all significant conditions in the contract are satisfied and the legal title transfers to the customer). As at the authorisation date of these consolidated financial statements, the legal proceedings with respect to the legal title transfer are still in progress and therefore the sale is not recognised as a as at 31 December.

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The fair value of the investment properties is determined based on valuations carried out by two independent registered real estate appraisers who are an industry specialised in valuing these types of properties in which one of these valuers is a local bank. The valuers used the income capitalisation method to value the investment property. The unit fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate.

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### 9. INVESTMENT PROPERTIES (continued)

For valuation purpose, the Group has selected the lower of these two valuations (2021: the lower of two valuations) carried out within the time range which is one month before or after the reporting date as required by the Capital Markets Authority (CMA). Based on these valuations, the Group has recognised gain from change in fair value of KD 3,938,598 (2021: Nil) in the consolidated statement of profit or loss.

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy are disclosed in Note 26.

### 10. INTANGIBLE ASSET

Intangible asset represents a brokerage license in Kuwait acquired for KD 12,500,000 stated net of impairment loss of KD 3,900,000 (2021: KD 3,900,000). The brokerage license is determined to have an indefinite useful life.

The Group performed its annual impairment test in December 2022 and 2021.

The recoverable amount has been determined based on value-in-use calculations using cash flow projections from financial budget approved by management covering a five-year period based on the historical pattern of trade volumes, revenue growth and market share. The discount rate applied to cash flow projections is 13.09% (2021: 9.28%) and cash flows beyond the five-year period are extrapolated using growth rate of 2% (2021: 1%) per annum, which does not exceed the long-term average growth rate of the State of Kuwait.

#### Key assumptions used in value in use calculations and sensitivity to changes in assumptions

- ▶ Discount rate
- ▶ Market share during the forecast period
- ▶ Long-term growth rate (terminal value) used to extrapolate cash flows beyond the forecast period

#### Sensitivity to changes in assumptions

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the intangible asset to exceed its recoverable amount. These are summarised below:

- A rise in the discount rate to 15.09% (i.e. +2%) would not result in an impairment.
- A reduction in the long-term growth rate to 1.50% (i.e. 150 bps) would not result in an impairment.

The above sensitivity analyses is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

### 11. LEASES

#### Group as a lessee

The Group has several lease contracts for office premises used in its operations. Leases of office premises generally have lease terms between 1 and 3 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	2022 KD	2021 KD
As at 1 January	468,327	-
Additions	89,504	522,576
Depreciation expense (Note 19)	(247,706)	(54,249)
As at 31 December	<u>310,125</u>	<u>468,327</u>

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**11. LEASES (continued)**

*Group as a lessee (continued)*

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
<b>As at 1 January</b>	<b>464,775</b>	-
Additions	<b>89,504</b>	522,576
Accretion of interest	<b>14,155</b>	4,392
Payments	<b>(244,742)</b>	(62,193)
Rent concessions	<b>(17,846)</b>	-
<b>As at 31 December</b>	<b>305,846</b>	464,775
Non-current	<b>62,294</b>	258,724
Current	<b>243,552</b>	206,051
	<b>305,846</b>	464,775

The weighted average incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position is between 3.5% and 5.5%.

The maturity analysis of lease liabilities is disclosed in Note 24.3.

The following are the amounts recognised in profit or loss:

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Depreciation expense of right-of-use assets (included in general and administrative)	<b>(247,706)</b>	(54,249)
Interest on lease liabilities (included in finance costs)	<b>(14,155)</b>	(4,392)
Rent concession income (included under other income)	<b>17,846</b>	-
<b>Total amount recognised in profit or loss</b>	<b>(244,015)</b>	(58,641)

The Group had total cash outflows for leases of KD 244,742 in 2022 (2021: KD 62,193). The Group also had non-cash additions to right-of-use assets and lease liabilities of KD 89,504 in 2022 (2021: KD 522,576).

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12. FURNITURE AND EQUIPMENT

	<i>Furniture and equipment KD</i>	<i>Vehicles KD</i>	<i>Computers KD</i>	<i>Software KD</i>	<i>Capital work in progress KD</i>	<i>Total KD</i>
<b>Cost:</b>						
At 1 January 2021	1,570,729	62,506	1,091,310	2,095,568	32,281	4,852,394
Additions	9,018	556,978	10,000	-	115,003	690,999
Disposals	(2,668)	-	-	-	-	(2,668)
At 31 December 2021	1,577,079	619,484	1,101,310	2,095,568	147,284	5,540,725
Additions	22,618	920,553	9,193	61,980	172,402	1,186,746
Disposals	(5,029)	-	-	-	-	(5,029)
<b>At 31 December 2022</b>	<b>1,594,668</b>	<b>1,540,037</b>	<b>1,110,503</b>	<b>2,157,548</b>	<b>319,686</b>	<b>6,722,442</b>
<b>Depreciation:</b>						
At 1 January 2021	1,558,893	2,250	1,055,749	1,973,905	24,701	4,615,498
Charge for the year	6,498	97,289	20,726	38,783	-	163,296
Disposals	(2,665)	-	-	-	-	(2,665)
At 31 December 2021	1,562,726	99,539	1,076,475	2,012,688	24,701	4,776,129
Charge for the year	6,528	334,066	19,126	32,283	-	392,003
Disposals	(5,024)	-	-	-	-	(5,024)
<b>At 31 December 2022</b>	<b>1,564,230</b>	<b>433,605</b>	<b>1,095,601</b>	<b>2,044,971</b>	<b>24,701</b>	<b>5,163,108</b>
<b>Net book value:</b>						
At 31 December 2021	14,353	519,945	24,835	82,880	122,583	764,596
<b>At 31 December 2022</b>	<b>30,438</b>	<b>1,106,432</b>	<b>14,902</b>	<b>112,577</b>	<b>294,985</b>	<b>1,559,334</b>

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**13. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

	2022 KD	2021 KD
Provision for employees' end of service benefits	1,101,765	1,015,820
Other staff payables	314,305	442,349
Taxes payables	184,184	147,989
Advance received towards sale of an investment property *	400,000	-
Accrued interest payable	623,017	10,168
Other payables	4,379,248	2,312,694
	<u>7,002,519</u>	<u>3,929,020</u>

\* During the current year, the Group entered into a preliminary contract to sell certain investment properties in the State of Kuwait and received an advance of KD 400,000 (Note 9).

**14. LOANS AND BORROWINGS**

	2022 KD	2021 KD
Islamic finance payables		
- Tawarruq facilities *	4,016,074	4,597,291
- Murabaha facilities *	25,000,000	-
	<u>29,016,074</u>	<u>4,597,291</u>
Revolving loan **	14,250,000	-
Short-term bank borrowings ***	112,818	-
	<u>43,378,892</u>	<u>4,597,291</u>
Current	39,964,048	581,217
Non-current	3,414,844	4,016,074

\* Murabaha and Tawarruq agreements and are carried at their principal amount net of deferred finance cost.

2022	Murabaha (a) KD	Tawarruq (b) KD	Total KD
Gross amount	25,271,233	4,577,874	29,849,107
Less: deferred finance cost	(271,233)	(561,800)	(833,033)
	<u>25,000,000</u>	<u>4,016,074</u>	<u>29,016,074</u>
2021	Murabaha (a) KD	Tawarruq (b) KD	Total KD
Gross amount	-	5,311,136	5,311,136
Less: deferred finance cost	-	(713,845)	(713,845)
	<u>-</u>	<u>4,597,291</u>	<u>4,597,291</u>

(a) During the current year, the Group obtained a murabaha facility from a local financial institution amounting to KD 25,000,000 with a tenor of 1 year and a profit rate of 1.75% per annum above CBK discount rate. The revolving facility was obtained to facilitate certain investing activities. This facility is pledged against quoted equity securities amounting to KD 22,166,609 (Note 8).

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### 14 LOANS AND BORROWINGS (continued)

(b) The tawarruq facility is granted by a local bank, denominated in Kuwaiti Dinars and carries an average profit rate of 2% over the CBK discount rate (2021: 2% over the CBK discount rate) per annum.

\*\* Revolving loan is granted by a local bank, denominated in Kuwaiti Dinars and carries an average interest rate of 2% (2021: Nil) per annum over the CBK discount rate and are repayable in full within 1 year.

\*\*\* Short-term bank borrowings granted by a local bank in Kuwaiti Dinars. Short-term bank borrowings are unsecured and carry with interest thereon of 1.75% (2021: Nil) per annum over the CBK discount rate and are repayable in full within 1 year.

The tawarruq facility and revolving loan are secured over investment properties amounting to KD 22,710,000 as at 31 December 2022 (2021: KD 2,500,000) and advance payments towards purchase of investment properties amounting to KD 2,290,000 as at 31 December 2022 (2021: KD 2,290,000).

At 31 December 2022, the Group had available KD 7,157,182 of undrawn committed borrowing facilities.

Banking covenants vary according to each loan agreement. A future breach of covenant may require the Group to repay the loan on demand. During the year, the Group did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

#### Changes in liabilities arising from financing activities:

2022	1 January 2022 KD	Cash in flows KD	Cash out flows KD	31 December 2022 KD
Loans and borrowings	<u>4,597,291</u>	<u>40,112,818</u>	<u>(1,331,217)</u>	<u>43,378,892</u>
2021	1 January 2021 KD	Cash in flows KD	Cash out flows KD	31 December 2021 KD
Loans and borrowings	<u>-</u>	<u>4,730,000</u>	<u>(132,709)</u>	<u>4,597,291</u>

### 15. SHARE CAPITAL AND OTHER CAPITAL RESERVES

#### 15.1 Share capital

	Number of shares		Authorised, issued and paid	
	2022	2021	2022	2021
			KD	KD
Shares of 100 fils each (paid in cash)	<u>220,000,001</u>	<u>220,000,001</u>	<u>22,000,000</u>	<u>22,000,000</u>

The Board of Directors of the Parent Company in their meeting held on 13 December 2020 proposed a capital reduction of KD 4,381,499 by various means. This proposal has been approved by the CMA on 24 January 2021 and approved by the shareholders of the Parent Company at the extraordinary general assembly meeting held on 25 March 2021 and approved the following:

- ▶ Reduction of authorised, issued and paid-up share capital of the Parent Company from KD 26,381,499 to KD 23,661,738 including cancellation of treasury shares as at 30 September 2020 to extinguish the full balance of accumulated losses as of that date amounting to KD 3,754,309.
- ▶ Reduction of authorised, issued and paid-up share capital of the Parent Company from KD 23,661,738 to KD 22,000,000 by way of cash distribution to the shareholders pro-rated to their shareholding in the Parent Company at the end of the record date scheduled at 27 June 2021.

The capital reduction was authenticated in the commercial register in June 2021 under registration number 36914.



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### 16 DISTRIBUTIONS MADE AND PROPOSED

	2022 KD	2021 KD
<b>Cash dividends on ordinary shares declared and paid:</b>		
Final cash dividend for 2021: 7 fils per share (2020: Nil)	<u>1,540,000</u>	<u>-</u>
<b>Proposed cash dividends on ordinary shares:</b>		
Proposed cash dividend for the 2022: Nil (2021: 7 fils per share)	<u>-</u>	<u>1,540,000</u>

The proposed cash dividends for the year ended 31 December 2021 were approved by the shareholders of the Parent Company at the annual general meeting (“AGM”) on 26 May 2022. Dividends payable as at 31 December 2022 amounted to KD 15,530 (2021: KD Nil) and recorded within “accounts payable and other liabilities” in the consolidated statement of financial position.

The Board of Directors in their meeting held on 30 March 2023 proposed not to distribute any cash dividends for the year ended 31 December 2022. This proposal is subject to the approval of the shareholders at the AGM.

### 17. STATUTORY RESERVE

In accordance with the Companies’ Law, and the Parent Company’s Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year attributable to the equity holders of Parent Company before tax and directors’ remuneration shall be transferred to the statutory reserve based on the recommendation of the Parent Company’s board of directors. The annual general assembly of the Parent Company may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

An amount of KD 116,051 was transferred to the statutory reserve during the year ended 31 December 2022 (2021: KD 327,413).

### 18. VOLUNTARY RESERVE

In accordance with the Companies’ Law, and the Parent Company’s Memorandum of Incorporation and Articles of Association, a maximum of 10% of the profit for the year attributable to the equity holders of Parent Company before tax and directors’ remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders’ general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

An amount of KD 116,051 was transferred to the voluntary reserve during the year ended 31 December 2022 (2021: KD 327,413).

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**19. GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Staff costs	<b>2,036,255</b>	2,004,856
Depreciation of furniture and equipment	<b>392,003</b>	163,296
Depreciation of right-of-use assets	<b>247,706</b>	54,249
Other expenses	<b>1,055,376</b>	940,762
	<b><u>3,731,340</u></b>	<u>3,163,163</u>

**20. PROVISIONS AND EXPECTED CREDIT LOSSES**

	<i>2022</i> <i>KD</i>	<i>2021</i> <i>KD</i>
Expected credit losses on other assets (Note 5)	<b>731,036</b>	-
Provision for loans and advances (Note 7)	<b>1,917</b>	25,655
	<b><u>732,953</u></b>	<u>25,655</u>

**21. EARNINGS PER SHARE (EPS)**

Basic EPS amounts is calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	<i>2022</i>	<i>2021</i>
Profit for the year attributable to equity holders of the Parent Company (KD)	<b><u>1,043,996</u></b>	<u>3,101,173</u>
Weighted average number of shares outstanding (shares) *	<b><u>220,000,001</u></b>	<u>229,721,994</u>
<b>Basic and diluted EPS (fils)</b>	<b><u>4.7</u></b>	<u>13.5</u>

\* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares and capital structure during the prior year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements which would require the restatement of EPS.

**22. FIDUCIARY ASSETS**

The Group manages investment portfolios and funds on behalf of clients and provides online trading facilities. The total carrying value of these portfolios as at 31 December 2022 amounted to KD 369 million (2021: KD 436 million) which are not reflected in the consolidated financial statements.

The portfolios have no recourse to the general assets of the Group. The Group makes investment decisions in line with the respective agreements.

Management fee earned from the above fiduciary assets amounted to KD 2,149,736 (2021: KD 1,668,201) and commission income earned amounted to KD 1,401,245 (2021: KD 1,625,501).

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 23. RELATED PARTY DISCLOSURES

The Group's related parties include its major shareholders, entities under common control, directors and executive officers of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Group's management.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>
<b>Consolidated statement of profit or loss</b>		
Unrealised (loss) gain from funds managed by the Parent Company	<b>(611,764)</b>	594,147
General and administrative expenses	<b>(127,560)</b>	(86,424)
	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>
<b>Consolidated statement of financial position</b>		
Investments in funds managed by the Parent Company	<b>3,398,361</b>	3,559,493
Purchase of furniture and equipment	<b>211,936</b>	556,948
Other payables	<b>(449,055)</b>	(136,463)

#### Key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The aggregate value of transactions related to key management personnel were as follows.

	<i>Transaction values for the year ended 31 December</i>		<i>Balances outstanding at 31 December</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and short-term benefits	<b>432,167</b>	342,638	<b>72,579</b>	55,617
Employees' end of service benefits	<b>28,124</b>	26,435	<b>193,609</b>	147,866
	<b>460,291</b>	369,073	<b>266,188</b>	203,483

### 24. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities include accounts payable and other liabilities and bank borrowings. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include cash and short-term deposits, other assets and investment securities that derive directly from its operations.

The Group is exposed to market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's senior management is supported by a risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The risk committee provides assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and those financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

#### 24.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk. Financial instruments affected by market risk include cash and short-term deposits and investment securities.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 24. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 24.1.1 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 exposure to the risk of changes in market interest rates relates primarily to the Group's floating interest-bearing loans and borrowings, and short-term deposits.

##### *Interest rate sensitivity*

The following table demonstrates the sensitivity on the profit for the year to a reasonably possible changes in interest rates, with all other variables held constant.

	<i>Increase (decrease) in basis points</i>	<i>Effect on profit for the year KD</i>
<b>2022</b>	<b>± 25</b>	<b>101,958</b>
2021	± 25	3,593

#### 24.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group incurs foreign currency risk on transactions denominated in a currency other than its functional currency i.e. KD. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency). The Group currently does not use financial derivatives to manage its exposure to currency risk. The Group manages its foreign currency risk based on continuous assessment of the Group's open positions, current and expected exchange rate movements. The Group ensures that its net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the KD.

The following tables set out the Group's net exposure to foreign currency on monetary financial assets and liabilities at the reporting date:

<b>Currency</b>	<b>2022 KD</b>	<b>2021 KD</b>
US Dollar (USD)	<b>2,202,194</b>	1,060,680
GCC currencies	<b>838,712</b>	823,660
Other currencies	<b>166,090</b>	1,298,158

##### *Foreign exchange rate sensitivity*

The following tables demonstrate the effect of a reasonably possible change in the aforementioned exchange rates, with all other variables held constant. The impact on the Group's profit due to changes in the fair value of monetary assets and liabilities is as follows:

<b>Currency</b>	<b>Change in exchange rate</b>	<b>2022 Effect on profit KD</b>	<b>2021 Effect on profit KD</b>
US Dollar (USD)	±5%	<b>(110,110)</b>	(53,034)
GCC currencies	±5%	<b>(41,936)</b>	(41,183)
Other currencies	±5%	<b>(8,305)</b>	(64,908)

There has been no change in the methods and the assumptions used in the preparation of the sensitivity analysis.

An equivalent decrease in each of the aforementioned currencies against the KD would have resulted in an equivalent but opposite impact.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 24. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 24.1.3 Equity price risk

The Group's exposure to equity securities price risk arises from investments held by the Group and classified as at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL) (Note 8). The Group's listed and non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. Diversification of the portfolio is based on the Group's policies and the legal requirements of State of Kuwait.

The majority of the Group's listed equity investments are publicly traded and are included either in Boursa Kuwait or US markets.

The table below summarises the impact of increases/decreases of the respective price indices in the relevant market on the Group's equity and profit for the year. The analysis is based on the assumption that the equity indexes had increased or decreased by 5% respectively, with all other variables held constant, and that all the Group's equity instruments moved in line with the indexes.

Market indices	% change	Effect on profit KD	Effect on equity KD	Total KD
<b>2022</b>				
Boursa Kuwait	± 5	1,348,926	14,182	1,363,108
US markets	± 5	46,771	-	46,771
<b>2021</b>				
Boursa Kuwait	± 5	285,249	8,565	293,814
US markets	± 5	2,441	-	2,441

#### 24.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities primarily cash and short-term deposits, other assets, and loans and advances.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as follows:

	2022 KD	2021 KD
Cash and short-term deposits (excluding cash on hand)	5,461,773	5,765,178
Restricted cash	526,915	1,115,303
Loans and advances	2,729,611	2,539,837
Other assets (excluding prepayments and advances)	3,779,460	3,977,779
	<b>12,497,759</b>	<b>13,398,097</b>

#### Cash and short-term deposits

Credit risk from balances with banks and financial institutions is limited because the counterparties are reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies. Further, the principal amounts of deposits in local banks (including saving accounts and current accounts) are guaranteed by the Central Bank of Kuwait in accordance with Law No. 30 of 2008 Concerning Guarantee of Deposits at Local Banks in the State of Kuwait which came into effect on 3 November 2008.

Impairment on cash and cash equivalents and term deposits has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

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As at and for the year ended 31 December 2022

**24. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES**  
(continued)

**24.2 Credit risk (continued)**

*Loans and advances*

As at 31 December 2022, loans and advances exposed to credit risk of KD 10,257,182 (2021: KD 10,065,492) of which KD 7,527,571 (2021: KD 7,525,655) were impaired (Note 7).

*Other receivables*

As at the reporting date, management has recorded Expected Credit Losses of KD 731,036 based on an internal management assessment performed as of 31 December 2022.

For the unimpaired other receivables, the majority of the Group's counterparty exposure has a low risk of default and does not include any past-due amounts. Accordingly, management identified impairment loss to be immaterial.

**Significant increase in credit risk**

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life-time ECL, the Group assess as 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 do not indicate a significant increase in credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

**Measurement of ECLs**

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

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

**PD estimation process**

The probability of default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The Group utilises the internal credit standings of its Islamic financing customers and other measures and techniques which seek to take account of all aspects of perceived risk in estimating the PD for IFRS 9. Furthermore, the Group also considers CBK's requirements on flooring of PD for credit facilities.

**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 EAD based on CBK's guidelines on credit conversion factors to be applied on utilised portions for cash facilities.

**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 CBK's guidelines on eligible collaterals with prescribed haircuts for determining LGD.

**24.3 Liquidity risk**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 24. FINANCIAL INSTRUMENTS RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 24.3 Liquidity risk (continued)

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Group on acceptable terms. To limit this risk, management has arranged for diversified funding sources and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on an ongoing basis.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December, based on contractual undiscounted payments.

	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
<b>2022</b>				
Lease liabilities	74,930	200,823	66,482	342,235
Accounts payable and other liabilities*	1,368,695	4,132,059	-	5,500,754
Loans and borrowings	14,651,331	27,052,954	3,853,128	45,557,413
	<u>16,094,956</u>	<u>31,385,836</u>	<u>3,919,610</u>	<u>51,400,402</u>
	<i>Less than 3 months KD</i>	<i>3 to 12 months KD</i>	<i>More than 12 months KD</i>	<i>Total KD</i>
<b>2021</b>				
Lease liabilities	47,505	196,052	264,931	508,488
Accounts payable and other liabilities*	476,409	2,436,791	-	2,913,200
Loans and borrowings	183,380	549,882	4,577,874	5,311,136
	<u>707,294</u>	<u>3,182,725</u>	<u>4,842,805</u>	<u>8,732,824</u>

\* Excluding provision for employees' end of service benefits and advances received towards sale of an investment property

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products.

	<i>2022</i>			<i>2021</i>		
	<i>Within 12 months</i>	<i>After 12 months</i>	<i>Total</i>	<i>Within 12 months</i>	<i>After 12 months</i>	<i>Total</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>ASSETS</b>						
Cash and short-term deposits	5,463,273	-	5,463,273	5,766,678	-	5,766,678
Other assets	6,243,289	38,843	6,282,132	6,405,408	46,965	6,452,373
Restricted cash	-	526,915	526,915	-	1,115,303	1,115,303
Loans and advances	2,729,611	-	2,729,611	2,539,837	-	2,539,837
Investment securities	27,307,808	1,897,575	29,205,383	5,652,326	1,330,242	6,982,568
Investment properties	-	22,710,000	22,710,000	-	2,500,000	2,500,000
Intangible asset	-	8,600,000	8,600,000	-	8,600,000	8,600,000
Right-of-use assets	-	310,125	310,125	-	468,327	468,327
Furniture and equipment	-	1,559,334	1,559,334	-	764,596	764,596
	<u>41,743,981</u>	<u>35,642,792</u>	<u>77,386,773</u>	<u>20,364,249</u>	<u>14,825,433</u>	<u>35,189,682</u>
<b>LIABILITIES</b>						
Accounts payable and other liabilities	5,900,754	1,101,765	7,002,519	2,913,200	1,015,820	3,929,020
Lease liabilities	243,550	62,296	305,846	206,051	258,724	464,775
Loans and borrowings	39,964,048	3,414,844	43,378,892	581,217	4,016,074	4,597,291
	<u>(4,364,371)</u>	<u>31,063,887</u>	<u>26,699,516</u>	<u>16,663,781</u>	<u>9,534,815</u>	<u>26,198,596</u>
<b>NET LIQUIDITY GAP</b>						



# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 26. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

- ▶ Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's senior management determines the policies and procedures for recurring fair value measurement, such as investment properties and unquoted equity investments.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted equity investments. Involvement of external valuers is decided upon annually by the senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The Group measures financial instruments such as investment in equity securities and mutual funds, and non-financial assets such as investment properties, at fair value at each reporting date. Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value, including the valuation methods, significant estimates and assumptions are disclosed below.

#### **Valuation methods and assumptions**

The following methods and assumptions were used to estimate the fair values:

##### *Listed investment in equity securities*

Fair values of publicly traded equity securities are based on quoted bid prices in an active market for identical assets without any adjustments. The Group classifies the fair value of these investments as Level 1 of the hierarchy.

##### *Unquoted equity investments*

The Group invests in private equity companies that are not quoted in an active market. Transactions in such investments do not occur on a regular basis. Unquoted equity securities are valued based on book value and price to book multiple method, multiples using latest financial statements available of the investee entities. The Group classifies the fair value of these investments as Level 3.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 26. FAIR VALUE MEASUREMENT (continued)

#### Valuation methods and assumptions

##### *Funds*

The Group invests in managed funds, including private equity funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods. The management considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investing, to ensure they are reasonable and appropriate. Therefore, the NAV of these investee funds may be used as an input into measuring their fair value. The Group classifies these funds as either Level 2 or Level 3.

##### *Investment properties*

The fair value of investment properties was assessed by accredited independent real estate experts with recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 'Fair Value Measurement' and fair value is determined using the income capitalisation method considering the nature and usage of each property. Fair value using the income capitalisation method is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. The fair value of investment property are classified as Level 3.

##### *Other financial assets and liabilities at amortised cost*

Fair value of other financial instruments is not materially different from their carrying values, at the reporting date, as most of these instruments are of short term maturity or re-priced immediately based on market movement in interest rates. The fair value of financial assets and financial liabilities with a demand feature is not less than its face value.

##### *Fair value hierarchy*

The following tables provide the fair value measurement hierarchy of the Group's financial instruments and non-financial assets measured at fair value:

	Fair value measurement using			Total KD
	Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD	
<b>2022</b>				
<b><i>Financial instruments</i></b>				
Investment securities at FVTPL:				
- Quoted equity securities	24,713,515	-	-	24,713,515
- Funds	-	3,314,965	893,243	4,208,208
	<u>24,713,515</u>	<u>3,314,965</u>	<u>893,243</u>	<u>28,921,723</u>
Investment securities at FVOCI				
- Unquoted equity securities	-	-	283,660	283,660
Investment securities (at fair value)	<u>24,713,515</u>	<u>3,314,965</u>	<u>1,176,903</u>	<u>29,205,383</u>
<b><i>Non-financial assets</i></b>				
Investment properties	-	-	22,710,000	22,710,000
	<u>-</u>	<u>-</u>	<u>22,710,000</u>	<u>22,710,000</u>

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**26. FAIR VALUE MEASUREMENT (continued)**

**Fair value hierarchy (continued)**

2021	Fair value measurement using			Total KD
	Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 2) KD	Significant unobservable inputs (Level 3) KD	
<i>Financial instruments</i>				
Investment securities at FVTPL:				
- Quoted equity securities	2,867,226	-	-	2,867,226
- Funds	-	2,785,100	1,158,940	3,944,040
	<u>2,867,226</u>	<u>2,785,100</u>	<u>1,158,940</u>	<u>6,811,266</u>
Investment securities at FVOCI				
- Unquoted equity securities	-	-	171,302	171,302
	<u>-</u>	<u>-</u>	<u>171,302</u>	<u>171,302</u>
Investment securities (at fair value)	<u>2,867,226</u>	<u>2,785,100</u>	<u>1,330,242</u>	<u>6,982,568</u>
<i>Non-financial assets</i>				
Investment properties	-	-	2,500,000	2,500,000
	<u>-</u>	<u>-</u>	<u>2,500,000</u>	<u>2,500,000</u>

There were no transfers between any levels of the fair value hierarchy during 2022 or 2021.

**26.1 Financial instruments**

The fair value of unquoted investment securities measured at fair value amounting to KD 1,176,903 at 31 December 2022 (2021: KD 1,330,242) is categorised within level 3 of the fair value hierarchy.

**Reconciliation of Level 3 fair values**

The following table shows a reconciliation of all movements in the fair value of items categorised within Level 3 between the beginning and the end of the reporting period:

	2022		2021	
	FVTPL KD	FVOCI KD	FVTPL KD	FVOCI KD
As at 1 January	1,158,940	171,302	1,894,676	97,085
Remeasurement recognised in profit or loss	(620,461)	-	(328,069)	-
Net purchases (disposals)	354,764	30,466	(407,667)	(20,365)
Remeasurement recorded in OCI	-	81,892	-	94,582
<b>As at 31 December</b>	<u>893,243</u>	<u>283,660</u>	<u>1,158,940</u>	<u>171,302</u>

**Description of significant unobservable inputs to valuation of financial assets:**

Unquoted equity securities are valued based on book value and price to book multiple method, multiples using latest financial statements available of the investee entities and available bid prices in OTC market. Funds and managed portfolio have been valued based on Net Asset Value (NAV) of the fund provided by the custodian of the fund or portfolio manager and management estimates and assumption.

A change in assumptions used for valuing the Level 3 financial instruments, by possible using an alternative  $\pm 5\%$  higher or lower liquidity and market discount could have resulted in immaterial effect on the consolidated statement of financial position.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 26. FAIR VALUE MEASUREMENT (continued)

#### 26.2 Non-financial assets

Valuation technique	Fair value		Key unobservable inputs	Range	
	2022 KD	2021 KD		2022	2021
Income capitalisation approach	<b>22,710,000</b>	2,500,000	<ul style="list-style-type: none"> <li>▶ Average rent (per sqm) (KD)</li> <li>▶ Yield rate</li> <li>▶ Price per sqm</li> </ul>	<b>164 – 505</b> <b>8% – 10%</b> <b>1,325 – 3,303</b>	392 8.3% 3,000

Significant increase (decrease) in average rent per sqm, yield rate and price per sqm in isolation would result in a significantly higher (lower) fair value of the properties.

#### A quantitative sensitivity analysis is, as shown below:

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment properties.

		Effect on fair value			
		2022 KD Increase	2022 KD Decrease	2021 KD Increase	2021 KD Decrease
Average rent	± 5%	<b>1,135,500</b>	<b>(1,135,500)</b>	125,200	(125,200)
Capitalisation rate	± 50 basis points	<b>(1,254,674)</b>	<b>1,411,944</b>	(142,578)	160,902
Price per square meter	+ 5%	<b>622,550</b>	<b>(622,550)</b>	79,350	(79,350)

### 27. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong and healthy capital ratios in order to support its business and to maximize shareholder value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Capital Markets Authority in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the years ended 31 December 2022 and 31 December 2021 are calculated in accordance with provisions of Module seventeen (Capital Adequacy Regulations for Licensed Persons) of the Executive Bylaws of Law No. (7) of 2010 and their amendments thereto.

	2022 KD	2021 KD
Available (eligible) regulatory Capital (KD)	<b>14,746,468</b>	15,923,329
Required regulatory capital (KD)	<b>20,081,563</b>	7,602,874
Capital adequacy ratio (%)	<b>73%</b>	209%

As at 31 December 2022, the Parent Company as a Licensed Person did not maintain its minimum Eligible Regulatory Capital in excess of its risk-based capital and therefore violated the provisions of the requirement set forth in Article (3-1) of Module seventeen (Capital Adequacy Regulations for Licensed Persons) of the Executive Bylaws of Law No. (7) of 2010 and their amendments thereto.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 28. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	2022 KD	2021 KD
<b>Commitments</b>		
Uncalled capital contributions relating to investments at FVTPL	<u>263,564</u>	<u>35,007</u>

#### 28.1 Bank guarantees

The Group provided corporate guarantee to an entity of KD 46.71 Million (2021: KD 46.13 Million) since this guarantee is backed by an irrevocable counter corporate guarantee of an equal amount issued in favour of the Group by a sovereign authority in Kuwait. The Parent Company is a shareholder in this entity, which is incorporated in the Kingdom of Bahrain, in a fiduciary capacity. This entity is neither consolidated nor equity accounted for as this entity represents a structured entity and the Parent Company has no control, joint control or significant influence over the entity.

Furthermore, as at 31 December 2022, the Group's bankers had outstanding letter of guarantees and credits amounting to KD 690,132 (2021: KD 834,701) from which it is anticipated that no material liabilities will arise.

#### 28.2 Legal claim contingency

In prior years certain unit holders ("unit holders") applied for redemption of their units in funds managed by the Parent Company ("the funds"). However the funds, due to liquidity issues, suspended redemptions temporarily and started an orderly liquidation in 2008. Accordingly, certain unit holders initiated legal actions against the funds and the Parent Company to redeem their units and requested for a compensation. Further, the Parent Company in its capacity as the liquidator of the funds have filed a counter claim against certain debtors of the funds to recover outstanding receivables to enable the orderly liquidation.

The legal actions commenced by the unit holders against the Parent Company and the funds are in various phases of litigation and no final court rulings have been issued by the Court of Cassation as of date.

As part of the Parent Company's regular review of ongoing litigations, and based on the legal opinion received from its external and in-house legal counsel and facts disclosed above, the management have determined that it is not possible to reach a reliable estimate for the most likely outcome. Accordingly, no provision for any liability has been made in these consolidated financial statements.

#### 28.3 Contingent asset

The Parent Company owns a real estate property by virtue of the title deed dated 7 May 2009. However, the repossessed property was not been recorded as an asset on the Group's consolidated financial statements as at 31 December 2019 due to the ongoing litigation with the customer. A favourable judgment from the First Instance Court was handed down on 19 January 2020 evidencing the ownership of the property and the management believes that this favorable outcome has granted all the right of ownership of the property to the Parent Company. As a result, during the year ended 31 December 2020, the land was recorded in the consolidated financial position of the Group at fair value amounting to KD 9,000,000 determined by an accredited independent valuer.

On 24 August 2020, the Board of Directors approved the decision to sell the investment property for a total consideration of KD 9,000,000. No gain or loss was recognised from this transaction. On 13 September 2020, the Group concluded the sale of the property to a related party.

During the prior year, a judgement from the Appeal Court was handed down on 13 January 2021 that contract between the Parent Company and its customer should only be considered as a collateral against wakala agreement and not a sale contract and the title deed dated 7 May 2009 is deemed void. On 28 March 2021, the Court of Cassation issued a verdict to suspend the Appeal Court judgement.

During the current year, the Court of Cassation issued a favorable judgment on 4 December 2022 by rejecting the Appeal Court judgement, and the judgement has not been executed to date.

The Parent Company has been advised by its legal counsel that it is only possible, but not probable, that the action against Parent Company will succeed. Accordingly, Parent Company has not recognised any provision for any liability in the consolidated financial statements in relation to this litigation.

# Kuwait and Middle East Financial Investment Company K.S.C.P. and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 29. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on its products and services and has four reportable segments, as follows:

- ▶ **Asset Management:** engaged in providing third party fund and portfolio management services on a fiduciary basis.
- ▶ **Brokerage and online trading:** engaged in on-line and brokerage services across Middle East and North Africa (MENA) and United States of America (USA) based stock exchanges.
- ▶ **Credit operations:** engaged in providing margin loans to the clients trading in Boursa Kuwait and commercial loans to the clients.
- ▶ **Investment, real estate and treasury:** engaged in money market placements, real estate activities and includes proprietary trading in equity stocks and funds across Gulf Cooperation Countries (GCC) and International markets.
- ▶ **Rental and leasing activities:** Rental and leasing activities in the State of Kuwait.

The Chief Operating Decision Maker (CODM) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

The following tables present revenue and profit information for the Group's operating segments for the year ended 31 December 2022 and 2021, respectively:

	<i>31 December 2022</i>					<i>Total KD</i>
	<i>Asset management KD</i>	<i>Brokerage &amp; online trading KD</i>	<i>Credit operations KD</i>	<i>Investment, real estate and treasury KD</i>	<i>Rental and leasing activities KD</i>	
Segment income	1,621,770	3,109,775	76,702	1,420,713	346,999	6,575,959
Segment expenses	(882,822)	(1,357,897)	(11,855)	(2,854,637)	(349,014)	(5,456,225)
Segment results	<u>738,948</u>	<u>1,751,878</u>	<u>64,847</u>	<u>(1,433,924)</u>	<u>(2,015)</u>	<u>1,119,734</u>
Provision for tax and directors' remuneration						<u>(116,513)</u>
Profit for the year						<u>1,003,221</u>
	<i>31 December 2021</i>					
	<i>Asset management KD</i>	<i>Brokerage &amp; online trading KD</i>	<i>Credit operations KD</i>	<i>Investment, real estate and treasury KD</i>	<i>Rental and leasing activities KD</i>	<i>Total KD</i>
Segment income	2,059,915	3,336,302	278	1,027,322	106,277	6,530,094
Segment expenses	(850,634)	(1,142,795)	(8,953)	(1,123,875)	(113,127)	(3,239,384)
Segment results	<u>1,209,281</u>	<u>2,193,507</u>	<u>(8,675)</u>	<u>(96,553)</u>	<u>(6,850)</u>	<u>3,290,710</u>
Provision for tax and directors' remuneration						<u>(172,954)</u>
Profit for the year						<u>3,117,756</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

**29. SEGMENT INFORMATION (continued)**

The following table presents assets and liabilities information for the Group's operating segments as at 31 December 2022 and 31 December 2021, respectively:

	<i>Asset management KD</i>	<i>Brokerage &amp; online trading KD</i>	<i>Credit operations KD</i>	<i>Investment, real estate and treasury KD</i>	<i>Rental and leasing activities KD</i>	<i>Total KD</i>
<b>ASSETS</b>						
<b>2022</b>	<b>3,696,331</b>	<b>9,250,387</b>	<b>2,937,664</b>	<b>60,353,789</b>	<b>1,148,602</b>	<b>77,386,773</b>
<b>2021</b>	<b>2,885,326</b>	<b>9,410,843</b>	<b>2,589,852</b>	<b>19,244,436</b>	<b>1,059,225</b>	<b>35,189,682</b>
<b>LIABILITIES</b>						
<b>2022</b>	<b>312,481</b>	<b>599,258</b>	<b>924,348</b>	<b>48,748,999</b>	<b>102,171</b>	<b>50,687,257</b>
<b>2021</b>	<b>304,265</b>	<b>559,577</b>	<b>914,076</b>	<b>7,085,255</b>	<b>127,913</b>	<b>8,991,086</b>

Geographically, Group's assets are located in GCC predominantly in Kuwait, as a result, no geographic segment information has been provided.

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