

**Credit One Kuwait Holding Company
K.S.C. (Closed) and its Subsidiaries
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CREDIT ONE KUWAIT HOLDING COMPANY K.S.C. (CLOSED)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Credit One Kuwait Holding Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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' *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.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CREDIT ONE KUWAIT HOLDING COMPANY K.S.C. (CLOSED)

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CREDIT ONE
KUWAIT HOLDING COMPANY K.S.C. (CLOSED)**

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



WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
(AL-AIBAN, AL-OSAIMI & PARTNERS)

16 March 2020
Kuwait

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
Revenue		19,260,134	17,233,896
Cost of revenue		(4,044,422)	(2,825,600)
Net income		15,215,712	14,408,296
Administrative expenses		(3,447,147)	(2,771,442)
Impairment of trading property	8	-	(1,017,900)
Provision for doubtful debts		(5,377,136)	(6,860,667)
Gain on bargain purchase	18	548,428	-
Recoveries from written off debts		1,456,652	3,692,212
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), ZAKAT AND DIRECTORS' FEES		8,396,509	7,450,499
Contribution to KFAS		(76,303)	(66,800)
Zakat		(189,454)	(75,723)
Directors' fees		(102,500)	(102,500)
PROFIT FOR THE YEAR	5	8,028,252	7,205,476
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,028,252	7,205,476
Attributable to:			
Equity holders of the Parent Company		8,009,017	7,205,476
Non-controlling interests		19,235	-
		8,028,252	7,205,476
BASIC AND DILUTED EARNINGS PER SHARE	6	40 fils	36 fils

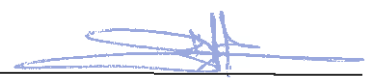
The attached notes 1 to 21 form part of these consolidated financial statements.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 KD	2018 KD
ASSETS			
Cash and cash equivalents		892,808	1,051,002
Trade and other receivables		2,428,969	219,769
Amounts due under instalment credit agreements	7	129,526,265	125,058,297
Trading properties	8	4,615,100	4,615,100
Property and equipment	9	13,336,205	2,182,093
Goodwill		5,875,738	5,875,738
TOTAL ASSETS		156,675,085	139,001,999
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and accruals	10	7,634,497	8,332,550
Payables under Islamic financing	11	75,327,887	67,950,835
Employees' end of service benefits		1,819,262	1,310,533
Obligations under finance leases		2,408,617	-
Total liabilities		87,190,263	77,593,918
EQUITY			
Share capital	12	20,000,000	20,000,000
Statutory reserve	13	6,731,461	5,891,810
Retained earnings		40,285,637	35,516,271
Equity attributable to equity holders of the Parent Company		67,017,098	61,408,081
Non-controlling interests		2,467,724	-
Total equity		69,484,822	61,408,081
TOTAL LIABILITIES AND EQUITY		156,675,085	139,001,999


 Hazim Ali Al Hilal Al Mutairi
 Chief Executive Officer

The attached notes 1 to 21 form part of these consolidated financial statements.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2019

	<i>Attributable to equity holders of the Parent Company</i>				<i>Non- controlling interests KD</i>	<i>Total KD</i>
	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>Retained earnings KD</i>	<i>Sub total KD</i>		
As at 1 January 2019	20,000,000	5,891,810	35,516,271	61,408,081	-	61,408,081
Profit for the year	-	-	8,009,017	8,009,017	19,235	8,028,252
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	8,009,017	8,009,017	19,235	8,028,252
Transfer to statutory reserve	-	839,651	(839,651)	-	-	-
Dividends paid	-	-	(2,400,000)	(2,400,000)	-	(2,400,000)
Arising on acquisition of subsidiary	-	-	-	-	2,448,489	2,448,489
As at 31 December 2019	20,000,000	6,731,461	40,285,637	67,017,098	2,467,724	69,484,822
<i>Attributable to equity holders of the Parent Company</i>						
	<i>Share capital KD</i>	<i>Statutory reserve KD</i>	<i>Retained earnings KD</i>	<i>Sub total KD</i>	<i>Non- controlling interests KD</i>	<i>Total KD</i>
As at 1 January 2018	20,000,000	5,146,760	31,211,163	56,357,923	-	56,357,923
Adjustment on initial application of IFRS 9	-	-	44,682	44,682	-	44,682
Restated balance as at 1 January 2018	20,000,000	5,146,760	31,255,845	56,402,605	-	56,402,605
Profit for the year	-	-	7,205,476	7,205,476	-	7,205,476
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	7,205,476	7,205,476	-	7,205,476
Transfer to statutory reserve	-	745,050	(745,050)	-	-	-
Dividends paid	-	-	(2,200,000)	(2,200,000)	-	(2,200,000)
As at 31 December 2018	20,000,000	5,891,810	35,516,271	61,408,081	-	61,408,081

The attached notes 1 to 21 form part of these consolidated financial statements.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CASHFLOW

For the year ended 31 December 2019

	Notes	2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit before contribution to Kuwait Foundation for The Advancement of Sciences ("KFAS"), Zakat and Directors' fees		8,396,509	7,450,499
<i>Non- cash adjustments to reconcile profit to net cash flows:</i>			
Depreciation	9	556,044	66,632
Write off of property and equipment	9	41,660	-
Provision for employee's end of service benefits		240,668	164,946
Provision for expected credit loss on amounts due under instalment credit agreements	7	5,331,942	6,860,667
Provisions for expected credit loss on trade receivables		45,194	-
Recoveries from written off debts		(1,456,652)	(3,692,212)
Finance cost		3,219,958	2,825,600
Gain on disposal of property and equipment		(118,906)	-
Gain on bargain purchase		(548,428)	-
		<u>15,707,989</u>	<u>13,676,132</u>
Working capital adjustments:			
Amounts due under instalment credit agreements		(8,701,973)	(15,941,659)
Trade and other receivables		(3,854,567)	(48,623)
Account payables and accruals		(2,040,045)	729,222
Receipt of payables under Islamic financing		26,843,912	9,250,000
Repayment of payables under Islamic financing		(20,669,007)	(2,301,245)
Finance cost paid		(3,260,071)	(2,814,284)
		<u>4,026,238</u>	<u>2,549,543</u>
Cash flows from operations		-	(16,576)
Employees end of service benefits paid			
		<u>4,026,238</u>	<u>2,532,967</u>
INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		337,700	-
Purchase of property and equipment		(229,021)	(28,180)
Acquisition of a subsidiary, net of cash acquired		(1,990,186)	-
		<u>(1,881,507)</u>	<u>(28,180)</u>
Net cash flows used in investing activities			
FINANCING ACTIVITIES			
Obligations under finance leases		97,075	-
Dividends paid	14	(2,400,000)	(2,200,000)
		<u>(2,302,925)</u>	<u>(2,200,000)</u>
Net cash flows used in financing activities			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(158,194)	304,787
Cash and cash equivalents at the beginning of the year		1,051,002	746,215
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		892,808	1,051,002

The attached notes 1 to 21 form part of these consolidated financial statements.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

1 CORPORATE INFORMATION AND ACTIVITIES

The consolidated financial statements of Credit One Kuwait Holding Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the board of directors on 11 March 2020. The shareholders have power to amend these consolidated financial statements at the Annual General Meeting.

The Parent Company is a Kuwaiti shareholding company registered in Kuwait on 25 July 2005 and is engaged in the following activities:

1. Owning stocks and shares in Kuwaiti or non-Kuwaiti companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, financing to and managing of these companies and acting as a guarantor for these companies;
2. Financing money to companies in which it owns shares, guaranteeing them with third parties where the holding company owns 20% or more of the capital of the borrowing company;
3. Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait;
4. Owning real estate and moveable property to conduct its operations within the limits as stipulated by law;
5. Employing surplus funds available with the parent company by investing them in investment and real estate portfolios managed by specialised companies.

Its subsidiaries are engaged in the provision of credit facilities to customers through sale on instalments of goods and services and leasing of Motor vehicles.

The registered office of the Parent Company is located at 3d Shuwaikh Industrial area, Building 170, P.O. Box 2220, Safat 13023, Kuwait.

2.1 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is also the functional currency the Group.

The consolidated financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2019.

A Subsidiary is an enterprise which is controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.1 BASIS OF PREPARATION (continued)

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries, other referred to as Group:

Name of the company	Effective Ownership		Activities
	2019	2018	
Al-Sayer Facilities Company for General Trading and Contracting (Hazim Al-Mutairi and Partners) W.L.L.	100%	100%	Motor vehicle financing
Sefeena Car Rental Company W.L.L	51%	-	Car Rentals to outside parties

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, and
- The ability to use its power over the investee to affect its returns

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 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 other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group 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 subsidiary to bring their accounting policies into line with the Group's accounting policies.

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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.
- If the Group loses control over a subsidiary, it derecognizes the related assets including goodwill, liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognized in the consolidated statement of comprehensive income. Any investment retained is recognized at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applies, for the first time, IFRS 16, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Company.

2.2.1 New standards, interpretations, and amendments adopted by the Company

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. The changes in accounting policies does not have any material effect on the Group's consolidated financial statements.

Since, the Group does not have any lease arrangements either as lessor and lessee, adoption of IFRS 16 did not have any impact on the consolidated financial statements of the Group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. Under this method, the acquirer recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date.

The identifiable assets acquired and the liabilities assumed at the acquisition date are measured at fair values. For each business combination, the acquirer measures the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets.

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

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of:

- (a) the aggregate of the consideration transferred, the fair value of any non-controlling interests in the acquiree measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of comprehensive income.

Goodwill is allocated to each of the group's cash-generating units or for groups of cash generating units and is tested annually for impairment and is assessed regularly whether there is any indication of impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates.

The recoverable value is the value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in the subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operations within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in all most of its revenue arrangements since it typically controls the goods or services before transferring them to the customer.

The following specific recognition criteria must also be met before revenue is recognised:

Finance income

Finance Income is recognised using the effective profit rate method. The calculation includes all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the profit rate, except allowance for future credit losses.

Finance cost

Finance costs on bank facilities are recognised as an expense in the consolidated statement of comprehensive income using effective interest/profit rate method.

Vehicle rental services

Revenue from vehicle rental services is recognised for on a straight line basis over the lease/rental term.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve and accumulated losses brought forward should be excluded from profit for the year when determining the contribution.

Zakat

Contribution to Zakat is calculated in accordance with the requirements of Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value, if any. Land and capital work in progress are carried at cost.

Capital work in progress is stated at cost. Following completion, work in progress is transferred into the relevant class of property and equipment.

Depreciation of property and equipment is provided on a straight-line basis over their estimated useful lives as follows:

Furniture and fixture	5 - 10 years
Building	20 - 50 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use. 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 comprehensive income when the asset is derecognised.

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

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Where an impairment loss subsequently reverses, except for reversal of impairment loss recognised for goodwill which is not reversed in a subsequent period, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Financial instruments

a) Recognition and initial measurement

Amounts due under instalment credit agreements and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Receivables are measured at the transaction price.

b) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b) Classification and subsequent measurement (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- ▶ it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ▶ its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost, at FVOCI as at FVTPL if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. Amounts due under instalment credit agreements and other receivables are held at amortised cost.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b) Classification and subsequent measurement (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: (continued)

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses:

- | | |
|--------------------------------------|--|
| ▶ Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| ▶ Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| ▶ Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| ▶ Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

c) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

c) Derecognition (continued)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

d) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

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

- To calculate Expected Credit Loss (ECL), the Group will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and
- The cash flows that the Group expects to receive, discounted at the effective profit rate of the financing facility.

The Group applies a three-stage approach to measure the ECL based on the applied impairment methodology, as described below:

Stage 1: 12-month ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date.

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

For exposures considered credit-impaired, the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the probability default set at 100%. Loss given default (LGD) parameters applied is derived from internally developed statistical models based on history of recovery against defaulted counterparties using discounted cash flow basis as adjusted for management judgment used in estimating future cashflows from exposure.

Transfer of credit facility from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the financial assets to Stage 2.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

d) Offsetting (continued)

Impairment of financial assets (continued)

When estimating lifetime ECL for undrawn financing commitments, the Group estimates the expected portion of the financing commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in statement of income. For this purposes, the Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure.

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

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 profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

- PD- The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD- The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD- The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

For trade receivables and other receivables and bank balances, the Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the balances and the Group's economic environment.

Trading property

Properties acquired in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Cost comprises the purchase cost of the property. Net realisable value is the estimated selling price in the ordinary course of the business, less costs to completion and the estimated costs necessary to make the sale.

Accounts payable

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

Payables under Islamic financing

The Group's obligations under Islamic financing are carried in the consolidated statement of financial position at their principal amount net of unamortised finance costs. Finance costs are amortised over the period of the facility using the effective rate of return method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Employees' end of service benefits

The Group provides end of service benefits to all of 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. The expected costs of these benefits are accrued over the period of employment.

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

4 SIGNIFICANT ACCOUNTING JUDGMENT, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income. The Group has used judgement and estimates principally in, but not limited to the following:

Impairment of financial assets at amortised cost

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4 SIGNIFICANT ACCOUNTING JUDGMENT, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of financial assets at amortised cost (continued)

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades
- The Group's criterion for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The Group has the policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of goodwill

The Group determines whether the goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of net realisable value for trading properties

Trading properties are stated at the lower of cost and net realisable value (NRV).

NRV for completed trading properties is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market transactions.

NRV in respect of properties under development is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of property and equipment

A decline in the value of property and equipment could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value which would be expected from the passage of time or normal use
- significant changes in the technology and regulatory environments
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Material non-controlling interests

The Group's management considers any non-controlling interests which accounts for over 5% of the total equity of the Group as material. As at the reporting date, none of the non-controlling interests accounts for over 5% of the total equity. Hence, no disclosures are considered necessary.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

5 PROFIT FOR THE YEAR

The profit for the year is stated after charging:	2019	2018
	KD	KD
Staff costs	<u>2,524,970</u>	<u>2,214,959</u>

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year.

There are no dilutive potential ordinary shares.

	2019	2018
Profit for the year (KD)	<u>8,009,017</u>	<u>7,205,476</u>
Weighted average number of ordinary shares outstanding (number)	<u>200,000,000</u>	<u>200,000,000</u>
Basic and diluted earnings per share	<u>40 fils</u>	<u>36 fils</u>

7 AMOUNTS DUE UNDER INSTALMENT CREDIT AGREEMENTS

	2019	2018
	KD	KD
Gross amounts due under installment credit agreements	162,406,831	160,654,479
Less: Deferred installment credit income	<u>(23,872,560)</u>	<u>(23,745,190)</u>
	138,534,271	136,909,289
Less: Expected credit losses	<u>(9,008,006)</u>	<u>(11,850,992)</u>
	<u>129,526,265</u>	<u>125,058,297</u>
	2019	2018
	KD	KD
<i>Amount due within a year:</i>		
Gross amounts due under installment credit agreements	74,235,297	73,084,482
Less: Deferred installment credit income	<u>(12,874,261)</u>	<u>(12,626,556)</u>
	61,361,036	60,457,926
Less: Expected credit losses	<u>(3,570,700)</u>	<u>(4,594,066)</u>
	<u>57,790,336</u>	<u>55,863,860</u>
	2019	2018
	KD	KD
<i>Amount due within 1 to 5 years:</i>		
Gross amounts due under installment credit agreements	88,171,534	87,569,997
Less: Deferred installment credit income	<u>(10,998,299)</u>	<u>(11,118,634)</u>
	77,173,235	76,451,363
Less: Expected credit losses	<u>(5,437,306)</u>	<u>(7,256,926)</u>
	<u>71,735,929</u>	<u>69,194,437</u>

The amounts due under instalment credit agreements are at fixed rates of return.

As at 31 December 2019, amounts due under installment credit agreements at nominal value of KD 9,008,006 (2018: KD 11,850,992) were considered impaired and provided for.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

7 AMOUNTS DUE UNDER INSTALMENT CREDIT AGREEMENTS (continued)

Payables under Islamic financing are secured against the amounts due under instalment credit agreements of KD 102,803,487 (2018: KD 84,053,040).

Movement in the expected credit losses of amounts due under instalment credit agreements are as follows:

	2019 KD	2018 KD
At the beginning of the year	11,850,992	5,035,007
Adjustment on amended application of IFRS 9 (Note 2.2)	-	(44,682)
Charge for expected credit losses	5,331,942	6,860,667
Written off during the year	(8,174,928)	-
At the end of the year	9,008,006	11,850,992

Amounts due under instalment credit agreements credit risk exposure and expected credit loss:

	Stage 1 0-120 days KD	Stage 2 121-240 days KD	Stage 3 > 240 days KD	Total KD
2019				
Exposure	124,597,700	8,347,169	5,589,402	138,534,271
Expected credit loss	(1,750,946)	(1,667,658)	(5,589,402)	(9,008,006)
Expected credit loss rate	1%	20%	100%	
2018				
Exposure	127,421,957	2,850,430	6,636,902	136,909,289
Expected credit loss	(3,583,549)	(1,630,541)	(6,636,902)	(11,850,992)
Expected credit loss rate	3%	57%	100%	

8 TRADING PROPERTIES

	2019 KD	2018 KD
At the beginning of the year	4,615,100	633,000
Additions	-	5,000,000
Impairment of trading property	-	(1,017,900)
At the end of the year	4,615,100	4,615,100

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

9 PROPERTY AND EQUIPMENT

	Land KD	Building KD	Furniture and fixtures KD	Vehicles KD	Equipment and tools KD	Capital work in progress KD	Total KD
Cost:							
As at 1 January 2019	1,104,325	1,257,818	826,032	-	-	28,180	3,216,355
Additions	-	2,301	135	212,855	250	13,480	229,021
Acquisition of a subsidiary	-	95,274	10,648	11,625,734	9,933	-	11,741,589
Disposals	-	-	-	(675,894)	-	-	(675,894)
Write off from capital work in progress	-	-	-	-	-	(41,660)	(41,660)
	<u>1,104,325</u>	<u>1,355,393</u>	<u>836,815</u>	<u>11,162,695</u>	<u>10,183</u>	<u>-</u>	<u>14,469,411</u>
Depreciation:							
As at 1 January 2019	-	494,605	539,657	-	-	-	1,034,262
Depreciation charge for the year	-	68,224	1,858	484,869	1,093	-	556,044
Related to disposals	-	-	-	(457,100)	-	-	(457,100)
As at 31 December 2019	<u>-</u>	<u>562,829</u>	<u>541,515</u>	<u>27,769</u>	<u>1,093</u>	<u>-</u>	<u>1,133,206</u>
Net carrying amount:							
As at 31 December 2019	<u>1,104,325</u>	<u>792,564</u>	<u>295,300</u>	<u>11,134,926</u>	<u>9,090</u>	<u>-</u>	<u>13,336,205</u>
Cost:							
As at 1 January 2018	1,104,325	1,257,818	826,032	-	-	-	3,188,175
Additions	-	-	-	-	-	28,180	28,180
	<u>1,104,325</u>	<u>1,257,818</u>	<u>826,032</u>	<u>-</u>	<u>-</u>	<u>28,180</u>	<u>3,216,355</u>
Depreciation:							
As at 1 January 2018	-	430,183	537,447	-	-	-	967,630
Depreciation charge for the year	-	64,422	2,210	-	-	-	66,632
As at 31 December 2018	<u>-</u>	<u>494,605</u>	<u>539,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,034,262</u>
Net carrying amount:							
As at 31 December 2018	<u>1,104,325</u>	<u>763,213</u>	<u>286,375</u>	<u>-</u>	<u>-</u>	<u>28,180</u>	<u>2,182,093</u>

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

10 ACCOUNTS PAYABLE AND ACCRUALS

	2019 KD	2018 KD
Trade accounts payable	4,810,602	2,723,547
Accrued expenses and other payables	488,062	2,128,016
Amount due to related parties (Note 16)	2,335,833	3,480,987
	<u>7,634,497</u>	<u>8,332,550</u>

11 PAYABLES UNDER ISLAMIC FINANCING

Payables under Islamic financing are denominated in Kuwaiti Dinars and carry profit at commercial rate and are repayable within one year from the reporting date.

Payables under Islamic financing are secured against the amounts due under instalment credit agreements of KD 102,803,487 (2018: KD 84,053,040).

Changes in liabilities arising from payables under Islamic financing;

	<i>1 January</i> <i>2019</i> <i>KD</i>	<i>Net cash</i> <i>inflow</i> <i>KD</i>	<i>31 December</i> <i>2019</i> <i>KD</i>
Current payables under Islamic financing	67,950,835	7,377,052	75,327,887
Total liabilities from financing activities	<u>67,950,835</u>	<u>7,377,052</u>	<u>75,327,887</u>

	<i>1 January</i> <i>2018</i> <i>KD</i>	<i>Net cash</i> <i>inflow</i> <i>KD</i>	<i>31 December</i> <i>2018</i> <i>KD</i>
Current payables under Islamic financing	61,002,080	6,948,755	67,950,835
Total liabilities from financing activities	<u>61,002,080</u>	<u>6,948,755</u>	<u>67,950,835</u>

12 SHARE CAPITAL

	<i>Authorised, issued</i> <i>and fully paid-up</i> <i>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
200,000,000 shares of 100 fils each, paid in cash	<u>20,000,000</u>	<u>20,000,000</u>

13 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 attributable to the equity holders of the Parent Company for the year, before contribution to KFAS, Zakat and directors' remuneration shall be transferred to the statutory reserve. 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.

Credit One Kuwait Holding Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

14 DIVIDEND

For the year ended 31 December 2019, a cash dividend of 12 fils per share has been proposed by the board of directors and will be submitted for formal approval at the Annual General Meeting. This dividend totalling to KD 2,400,000 has not been recognised as a liability as at 31 December 2019.

Cash dividend of 12 fils (2017: 12 fils) per share totalling to KD 2,400,000 (2017: KD 2,400,000) proposed by the Parent Company's Board of Directors for the year ended 31 December 2018 was approved by the shareholders at the Annual General Meeting of shareholders on 17 April 2019 and paid subsequently.

15 EXPENDITURE COMMITMENTS

There are no capital expenditure commitments or operating lease commitments during the year (2018: Nil).

16 RELATED PARTY TRANSACTIONS

Related parties represent shareholders of the Parent Company and key management personnel of the Group, entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

	<i>Other related parties</i> <i>KD</i>	2019 KD	2018 KD
Consolidated statement of comprehensive income			
Finance cost	1,255,735	1,255,735	1,269,583

Balances with related parties included in the consolidated statement of financial position are as follows:

	<i>Other related parties</i> <i>KD</i>	2019 KD	2018 KD
Consolidated statement of financial position			
Assets			
Cash and cash equivalents	(27,752)	(27,752)	215,113
Liabilities			
Amount due to related parties (Note 10)	2,335,833	2,335,833	3,480,987
Payables under Islamic financing	32,000,000	32,000,000	29,000,000

Amount due to related parties are repayable on demand and are free of any finance charge.

Directors' fees of KD 102,500 for the year ended 31 December 2019 is subject to approval at the Annual General Meeting of shareholders. Directors' fees of KD 102,500 for the year ended 31 December 2018 was approved at the Annual General Meeting of shareholders on 17 April 2019.

Key management personnel compensation:

	2019 KD	2018 KD
Salaries and short-term benefits	622,050	568,101
Employees' end of service benefits	91,647	58,019
	713,697	626,120

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17 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of the Group's assets and liabilities according to their expected recoverability or settlement from the reporting date:

	<i>On demand KD</i>	<i>Up to 3 months KD</i>	<i>4 to 12 months KD</i>	<i>One year and above KD</i>	<i>Total KD</i>
As at 31 December 2019					
ASSETS					
Cash and cash equivalents	892,808	-	-	-	892,808
Trade and other receivables	-	1,499,815	782,154	147,000	2,428,969
Amounts due under installment credit agreements	-	17,443,934	40,346,402	71,735,929	129,526,265
Trading property	-	-	4,615,100	-	4,615,100
Property and equipment	-	-	-	13,336,205	13,336,205
Goodwill	-	-	-	5,875,738	5,875,738
	<u>892,808</u>	<u>18,943,749</u>	<u>45,743,656</u>	<u>91,094,872</u>	<u>156,675,085</u>
LIABILITIES					
Accounts payable and accruals	130,607	3,921,562	2,875,709	706,619	7,634,497
Payables under Islamic financing	-	44,137,975	31,189,912	-	75,327,887
Employees' end of service benefits	-	-	15,000	1,804,262	1,819,262
Obligations under finance lease	-	1,467,531	941,086	-	2,408,617
	<u>130,607</u>	<u>49,527,068</u>	<u>35,021,707</u>	<u>2,510,881</u>	<u>87,190,263</u>
	<i>On demand KD</i>	<i>Up to 3 months KD</i>	<i>4 to 12 months KD</i>	<i>One year and above KD</i>	<i>Total KD</i>
As at 31 December 2018					
ASSETS					
Cash and cash equivalents	1,051,002	-	-	-	1,051,002
Other receivables	-	-	219,769	-	219,769
Amounts due under installment credit agreements	-	22,301,045	33,562,814	69,194,438	125,058,297
Trading property	-	-	4,615,100	-	4,615,100
Property and equipment	-	-	2,182,093	-	2,182,093
Goodwill	-	-	-	5,875,738	5,875,738
	<u>1,051,002</u>	<u>22,301,045</u>	<u>35,964,676</u>	<u>79,685,276</u>	<u>139,001,999</u>
LIABILITIES					
Accounts payable and accruals	2,743,287	2,716,040	2,873,223	-	8,332,550
Payables under Islamic financing	-	29,894,520	38,056,315	-	67,950,835
Employees' end of service benefits	-	-	-	1,310,533	1,310,533
	<u>2,743,287</u>	<u>32,610,560</u>	<u>40,929,538</u>	<u>1,310,533</u>	<u>77,593,918</u>

18 BUSINESS COMBINATION

On 6 November 2019, the Parent Company acquired 51% equity interest of Sefeena Car Rental Company W.L.L. ("Sefeena" or the "subsidiary"), a company incorporated in the Kuwait, from a third party. Principal activities of Sefeena is leasing out of motor vehicles.

During the year, the Group finalised the Purchase Price Allocation ("PPA") exercise and determined that the fair values of the assets and liabilities acquired do not materially differ from their provisionally determined fair values as at the acquisition date.

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18 BUSINESS COMBINATION (continued)

The capital introduced, and the values of the assets acquired, and liabilities assumed, as at the acquisition date are summarised as follows:

	KD
Assets:	
Property and equipment	11,741,589
Cash and cash equivalents	9,814
Trade and other receivables	2,275,117
	<u>14,026,520</u>
Liabilities:	
Trade and other payables	1,013,848
Due to banks	1,202,147
Obligations under finance leases	6,545,547
Post-employment benefits	268,061
	<u>9,029,603</u>
Total identifiable net assets at fair values	<u>4,996,917</u>
% shareholding for the Parent Company	51%
Parent Company's share of total identifiable net assets	2,548,428
Consideration paid	2,000,000
Gain on bargain purchase	<u>548,428</u>
Capital introduced	(2,000,000)
Cash and cash equivalents in the subsidiary acquired	9,814
Cash outflow on acquisition	<u>(1,990,186)</u>

The gain on bargain purchases amounting to KD 548,428 on acquisition of Sefeena is recognised in the consolidated statement of comprehensive income.

From the date of acquisition, Sefeena has contributed KD 1,211,088 of revenue and KD 1,933 of other income to the consolidated profit before statutory contributions and Board of Directors' remuneration of the Group.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest/profit rate risk and foreign currency risk. No changes were made in the risk management objectives and policies during the years ended 31 December 2019 and 31 December 2018. The management reviews and agrees policies for managing each of these risks which are summarised below:

19.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the date of consolidated statement of financial position.

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19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

19.1 Credit risk (continued)

The Group is exposed to credit risk on its operating activities primarily from its bank balances, amounts due under installment credit agreements and other receivables as reflected in the consolidated statement of financial position.

Assessment of expected credit losses

Definition of default and cure

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

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the customer is past due more than 240 days on any material credit obligation to the Group; or
- customer is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

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

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 whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The analysis supports the usage of financial factors as well as non-financial subjective factors.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, and products.

The standard 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 through the cycle (TTC) PDs are generated based on the internal credit ratings. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility. Term structure of PD is based on hazard rate concept. The survival distribution used is exponential distribution. The probability distribution function of an exponentially distributed random variable is used with the hazard rate as the PD evaluated from the Behavioural scorecard.

Incorporation of forward-looking information

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

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks. The 10 largest customers outstanding as a percentage of gross receivable from customers as at 31 December 2019 is 10% (2018: 17%). The maximum exposure is the carrying amount disclosed in Note 7.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Group normally holds the underlying assets like motor vehicles as collaterals by way of hypothecation.

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19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**19.2 Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Group limits its liquidity risk by ensuring payable under Islamic financing are available and by monitoring on a regular basis that sufficient funds are available to meet future commitments. The Group's terms of business generally require amounts to be paid in instalments as per the contractual agreements. It is the Group's policy to obtain short term payable under Islamic financing that matures within the next 12 month period with a renewal option at both parties' discretion

The table below summarises the maturity profile of the Group's liabilities based on contractual undiscounted repayment obligation and management expectations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future profit payments and management realisation expectations over the life of these financial liabilities.

At 31 December 2019	<i>On demand KD</i>	<i>1 to 3 months KD</i>	<i>4 to 12 months KD</i>	<i>One year and above KD</i>	<i>Total KD</i>
Accounts payable and accruals	130,607	3,921,562	2,875,709	706,619	7,634,497
Gross payables under Islamic financing	-	44,578,673	32,074,799	-	76,653,472
Obligations under finance lease	-	1,467,531	941,086	-	2,408,617
	130,607	49,967,766	35,891,594	706,619	86,696,586
At 31 December 2018	<i>On demand KD</i>	<i>1 to 3 months KD</i>	<i>4 to 12 Months KD</i>	<i>One year and above KD</i>	<i>Total KD</i>
Accounts payable and accruals	2,743,287	2,716,040	2,873,223	-	8,332,550
Gross payables under Islamic financing	-	30,193,004	39,136,009	-	69,329,013
	2,743,287	32,909,044	42,009,232	-	77,661,563

19.3 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Payables under Islamic financing and finance obligation leases disclosed in the consolidated statement of financial position are fixed profit bearing financial instruments and hence not exposed to profit rate risk.

19.4 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group is not exposed to any currency risk as significant portion of its financial instruments are denominated in Kuwaiti Dinar.

20 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018. Total equity comprises of share capital, statutory reserves and retained earnings and is measured at KD 67,017,098 as at 31 December 2019 (2018: KD 61,408,081).

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21 FAIR VALUE MEASUREMENTS

Financial instruments comprise of financial assets and liabilities.

Financial assets consist of bank balances, trade and other receivables and amounts due under instalment credit agreements. Financial liabilities consist of accounts payable and accruals, obligation under finance lease and payables under Islamic financing.

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than twelve months) it is assumed that the carrying amounts approximate to their fair values.