

**National International Holding Company K.S.C.P.
And its subsidiaries
State of Kuwait**

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

National International Holding Company K.S.C.P.
And its subsidiaries
State of Kuwait

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

INDEX	Page
Independent Auditor's Report	1-4
Consolidated Statement of Financial Position	5
Consolidated Statement of Income	6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10-35

Independent Auditor's Report

To the Shareholders of National International Holding Company K.S.C.P

State of Kuwait

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National International Holding Company K.S.C.P (the "Parent Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, 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 the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The following are the key audit matters identified and how we addressed them in our audit:

Valuation of Investments in Unquoted Securities

Investments in securities primarily comprise investments in unquoted securities of KD 16,995,585, which represents 32% of the total assets as at 31 December 2019. These instruments are classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income and are measured at fair value with the corresponding fair value change recognized in the consolidated statement of income and in other comprehensive income respectively. The Group uses an external expert to assist it in determining the fair value these investments.

As disclosed in Note 4 "significant accounting judgement, estimates and assumptions", the valuation of investments in unquoted securities uses inputs other than observable market data and therefore are inherently subjective. It also requires significant judgement by management in determining the appropriate valuation methodology and use of various assumptions like cash flows, discount rates, market information, market risk adjustments etc.

Given the inherent subjectivity and judgement required in the valuation of such unquoted investments, we determined this to be a key audit matter.

Audit procedures to address the Key Audit Matter

- We evaluated the design and implementation of controls over management's valuation process.
- We evaluated the competence, capabilities, qualifications and objectivity of the management's expert engaged by the Group. With the support of our internal valuation experts, we benchmarked and challenged key assumptions in the valuation model and determined if the models used by the Group were appropriate.
- We reperformed, on a sample basis the mathematical accuracy of the models used by the Group
- We agreed the data used in the valuation to supporting documentation on a sample basis.
- We agreed the results of the valuation to the amount reported in the consolidated financial statements.
- We assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Independent Auditor's Report (continued)

To the Shareholders of National International Holding Company K.S.C.P

State of Kuwait

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

Key Audit Matters (continued)

Acquisition of associate

During the current financial year, the Group acquired an investment in an associate for a total consideration of KD 6,302,652 which resulted in a bargain purchase gain of KD 2,495,370. Refer to significant accounting policies 2.3.1 and Note 11 to the consolidated financial statements for the details relating to this transaction.

Significant judgments have been applied and estimates made by management in establishing the initial estimates of the Group's share of the net fair value of the identifiable assets and liabilities of the associate.

Given the inherent subjectivity and judgement required to determine the net fair value of the identifiable assets and liabilities of the associate and due to the complexity involved in accounting for business combinations, we determined this to be a key audit matter.

Audit procedures to address the Key Audit Matter

- We evaluated the design and implementation of controls over the process of determining the Group's share of the identifiable assets and liabilities of the associate.
- We assessed accounting treatment of the acquisition of the associate against the requirements of IFRSs, including an assessment of the date at which the Group obtained significant influence over the associate;
- Together with our internal technical and valuation specialists, we assessed the group's valuation methodology applied in determining the fair values of the net assets acquired for the associate to determine if it was in accordance with the requirements of IFRSs;
- We agreed the inputs into the above mentioned valuation to supporting documentation on a sample basis.
- We reperformed the mathematical accuracy of the valuation of the identifiable net assets acquired.
- We agreed the results of the valuation to the amount reported in the consolidated financial statements.
- We assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs

Impairment of Investments in Associates

As at 31 December 2019, the Group held investments in associates of KD 15,056,194 in the consolidated financial statements which represents 29% approximately of total assets.

Investments in associates are accounted for by the equity method of accounting and are considered for impairment when an impairment indicator is identified. During the year ended 31 December 2019, the Group recognised an impairment loss of KD 1,479,391 relating to its investment in associates. Refer to notes 2.3.1 and 11 to the consolidated financial statements for further details relating to this matter.

The impairment test of the investments in associates performed by the management is significant to our audit because management's assessment of the recoverable amount requires significant estimates to be made and judgements to be applied. Management used the value in use method to assess whether the Group's investments in associates are impaired. Assessment of the value in use includes significant judgments and estimates relating to, inter alia, future cash flows which are dependent on growth rates taking into account management's view of future business prospects and discount rates. Accordingly, we consider this as a key audit matter.

Audit procedures to address the Key Audit Matter

- We evaluated the design and implementation of relevant controls over the process of determining the valuation in use of the Group's investments in associates.
- We inspected published market information on the share price, financial position and performance of the associates to evaluate the completeness of management's impairment assessment and to identify whether there were any additional indicators of impairment on other associates not assessed for impairment;
- Together with our internal technical and valuation specialists, we assessed the Group's valuation methodology applied in determining the recoverable amount of the investments in associates as well as the assumptions around the key inputs into cash flow forecast of the associates with reference to historic dividend income and expected growth rates, as well as exit yields referenced to forward dividend yields;
- We discussed the sensitivity of the abovementioned key inputs with management in order to evaluate whether the inputs and assumptions used in the cash flow forecast were reasonable;
- We reperformed the mathematical accuracy of the value in use calculations;
- We agreed the results of the value in use calculations for those investments which were impaired to the amounts disclosed in the consolidated financial statements.
- We assessed the disclosures in the consolidated financial statements relating to this matter against the requirements of IFRSs.

Independent Auditor's Report (continued)

To the Shareholders of National International Holding Company K.S.C.P

State of Kuwait

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

Other Information

Management is responsible for the other information. Other information consists of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon. The Group's 2019 annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

Independent Auditor's Report (continued)

To the Shareholders of National International Holding Company K.S.C.P
State of Kuwait

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

Talal Yousef Al-Muzaini

Licence No. 209A

Deloitte & Touche, Al-Wazzan & Co.

Kuwait, 31 March 2020

National International Holding Company K.S.C.P.

And its subsidiaries

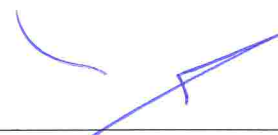
State of Kuwait

Consolidated Statement of Financial Position as of 31 December 2019*(All amounts are in Kuwaiti Dinar)*

	Notes	2019	2018
ASSETS			
Cash and cash equivalents	5	1,079,539	7,479,055
Accounts receivable and other assets	6	2,022,618	1,841,946
Inventories	7	725,710	766,593
Investments at fair value through profit or loss	8	3,004,091	3,275,297
Investments at fair value through OCI	9	13,992,845	14,444,629
Investments in debt instruments at amortized cost	10	8,550,656	8,272,907
Investment in associates	11	15,056,194	7,612,295
Investment properties	12	4,042,191	4,613,130
Property and equipment	13	4,282,686	4,099,249
Total assets		52,756,530	52,405,101
LIABILITIES AND EQUITY			
Liabilities			
Bank facilities	14	3,192,481	3,505,021
Accounts payable and other liabilities	15	3,894,429	3,668,461
Total liabilities		7,086,910	7,173,482
Equity			
Share capital	16	21,687,750	21,687,750
Share premium		2,813,184	2,813,184
Statutory reserve	17	1,136,639	950,889
Fair value reserve		11,260,990	11,797,056
Treasury shares	18	(1,906,792)	(1,906,792)
Treasury shares reserve		318,561	318,561
Group's share in associates' reserves		(476,497)	-
Retained earnings		5,209,334	4,654,440
Equity attributable to shareholders of the Parent Company		40,043,169	40,315,088
Non-Controlling Interests		5,626,451	4,916,531
Total equity		45,669,620	45,231,619
Total liabilities and equity		52,756,530	52,405,101

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


Abdulwahab Mohamed Al Wazzan
 Chairman


Mamdouh Abdul Ghani El Sherbiny
 Chief Executive Officer

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Consolidated Statement of Income for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar)*

	Notes	2019	2018
Revenues			
Net investment income	19	1,287,238	2,198,659
Gross profit from operating activities	20	1,696,259	1,776,985
Net income from associates	21	1,617,744	486,802
Other income	22	141,602	108,875
Change in fair value of investment properties	12	(570,939)	-
		<u>4,171,904</u>	<u>4,571,321</u>
Expenses			
Other expenses	23	1,706,057	1,761,537
Finance costs		<u>246,956</u>	<u>191,459</u>
		<u>1,953,013</u>	<u>1,952,996</u>
Profit for the year before deductions		<u>2,218,891</u>	<u>2,618,325</u>
Contribution to KFAS		(8,662)	(17,067)
National Labour Support Tax		(47,704)	(67,685)
Zakat		(8,791)	(16,941)
Board of Directors' remuneration		<u>(44,000)</u>	<u>(40,000)</u>
Profit for the year		<u><u>2,109,734</u></u>	<u><u>2,476,632</u></u>
Attributable to:			
Shareholders of the Parent Company		1,748,347	2,304,403
Non-Controlling Interests		<u>361,387</u>	<u>172,229</u>
		<u>2,109,734</u>	<u>2,476,632</u>
Basic and diluted earnings per share (fils)	24	<u>8.73</u>	<u>11.51</u>

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

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Consolidated Statement of Comprehensive Income for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar)*

	2019	2018
Profit for the year	<u>2,109,734</u>	<u>2,476,632</u>
Other comprehensive income:		
<i>Items that may be reclassified subsequently to the consolidated statement of income</i>		
Group's share of other comprehensive losses of associates	(291,367)	-
<i>Items that may not be reclassified subsequently to consolidated statement of income:</i>		
Change in fair value of equity investments at fair value through OCI	(193,800)	684,474
Group's share of other comprehensive losses of associates	<u>(185,130)</u>	<u>-</u>
	<u>(378,930)</u>	<u>684,474</u>
Total other comprehensive (losses) / income for the year	<u>(670,297)</u>	<u>684,474</u>
Total comprehensive income for the year	<u><u>1,439,437</u></u>	<u><u>3,161,106</u></u>
Attributable to:		
Shareholders of the Parent Company	1,106,537	2,988,877
Non-Controlling Interests	<u>332,900</u>	<u>172,229</u>
	<u><u>1,439,437</u></u>	<u><u>3,161,106</u></u>

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

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

(All amounts are in Kuwaiti Dinar)

	Equity attributable to the shareholders of the Parent Company						Non-Controlling Interests	Total equity
	Share capital	Share premium	Statutory reserve	Fair value reserve	Treasury shares	Treasury shares reserve	Group's share in associates' reserves	Total
As at 1 January 2018	21,687,750	2,813,184	706,279	11,172,435	(1,906,792)	318,561	-	38,657,689
Effect of application of IFRS 9	-	-	-	(382,361)	-	-	-	(364,716)
Adjusted as at 1 January 2018	21,687,750	2,813,184	706,279	10,790,074	(1,906,792)	318,561	-	38,292,973
Profit for the year	-	-	-	-	-	-	-	2,476,632
Other comprehensive income for the year	-	-	-	684,474	-	-	-	684,474
Cash dividends	-	-	-	-	-	-	-	(1,001,436)
Gain from sale of financial assets at fair value through OCI	-	-	-	322,508	-	-	-	(322,508)
Disposal of share in a subsidiary	-	-	-	-	-	-	-	-
Effect of decrease of parent company's share in a subsidiary	-	-	-	-	-	-	-	34,674
Transfer to statutory reserve	-	-	244,610	-	-	-	-	(244,610)
As at 31 December 2018	21,687,750	2,813,184	950,889	11,797,056	(1,906,792)	318,561	-	40,315,088
As at 1 January 2019	21,687,750	2,813,184	950,889	11,797,056	(1,906,792)	318,561	-	40,315,088
Profit for the year	-	-	-	-	-	-	-	4,916,531
Other comprehensive loss for the year	-	-	-	(165,313)	-	-	(476,497)	1,748,347
Cash dividends (note 28)	-	-	-	-	-	-	-	(641,810)
Loss from sale of Investments at fair value through OCI	-	-	-	6,267	-	-	-	(1,001,436)
Effect of decrease of Parent Company's share in a subsidiary (note 25.1)	-	-	-	(377,020)	-	-	-	(377,020)
Transfer to statutory reserve	-	-	185,750	-	-	-	-	(185,750)
As at 31 December 2019	21,687,750	2,813,184	1,136,639	11,260,990	(1,906,792)	318,561	(476,497)	5,209,334
								40,043,169
								45,669,620

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

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Consolidated Statement of Cash Flows for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar)*

	Notes	2019	2018
Cash flow from operating activities			
Profit for the year		2,109,734	2,476,632
<i>Adjustments:</i>			
Net investment income		(1,287,238)	(2,198,659)
Net income from associates		(1,617,744)	(486,802)
Depreciation and amortization		218,491	118,841
Gain on sale of property and equipment		(497)	(1,962)
Provision for employees' end of service benefits		101,312	149,083
(Reversal)/ provide of expected credit losses		(122,425)	1,109
Impairment in value of property and equipment		67,121	-
Change in fair value of investment properties		570,939	-
Finance costs		246,956	191,459
Operating profit before charges in working capital		286,649	249,701
Accounts receivable and other assets		1,753	(495,559)
Investments at fair value through profit or loss		441,998	851,036
Inventories		40,883	254,187
Accounts payable and other liabilities		(433,264)	1,018,859
Cash generated from operating activities		338,019	1,878,224
End of service benefits paid		(29,131)	(33,246)
Net cash generated from operating activities		308,888	1,844,978
Cash flow from investing activities			
Purchase of investments at fair value through OCI		-	(700,000)
Proceeds from sale of investments at fair value through OCI		197,984	2,496,592
Paid for acquisition of associate	11	(6,302,652)	(39,975)
Purchase of property and equipment		(266,310)	(226,139)
Proceeds from sale of property and equipment		850	2,000
Dividends income received	19	838,697	1,097,473
Proceeds from sale of a subsidiary		-	2,628,976
Net cash (used in)/ generated from investing activities		(5,531,431)	5,258,927
Cash flow from financing activities			
Net change in bank facilities		(312,540)	1,033,704
Finance costs paid		(246,956)	(191,459)
Dividends paid		(617,477)	(937,709)
Net cash used in financing activities		(1,176,973)	(95,464)
(Decrease)/ increase in cash and cash equivalents		(6,399,516)	7,008,441
Cash and cash equivalents at the beginning of the year		7,479,055	470,614
Cash and cash equivalents at the end of the year	5	1,079,539	7,479,055

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

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***1. Corporate information**

The Parent Company is a Kuwaiti Public Shareholding Company registered and incorporated in Kuwait on 14 January 1979 whose shares are listed on the Kuwait Stock Exchange and the Dubai Financial Market.

The registered office of the Parent Company is located at Al -Raya Tower 2, Floor 45, Abdulaziz Al-Saqer Street, P.O. Box 25825 Safat Kuwait.

The Parent Company's main activities are:

1. Manage its subsidiaries or participate in managing other companies in which it owns shares, provide the necessary support, incorporate subsidiaries, or own shares or interests in Kuwaiti or foreign shareholding companies and limited liability companies as well as managing, lending and guaranteeing the same with third parties;
2. Utilize its funds for trading in shares, bonds and other financial securities;
3. Own properties and movables necessary for executing the activities within the limits permitted by law;
4. Finance and extend loans to companies in which it owns shares or interests, and guarantee the same with third parties provided that the ownership of the Holding Company is not less than 20% of the share capital of the Borrowing Company
5. Own intellectual property rights, including patents, trademarks or industrial forms, franchise rights and other moral rights and its utilization and leasing to the subsidiaries or others whether in Kuwait or abroad;

The Company shall be entitled to carry out the above-mentioned activities as a principal or by proxy. The Company may have an interest or participate in any form with the entities, which carry out similar activities or which may assist it in achieving its objectives in the state of Kuwait or abroad. The Company may buy or merge such entities.

These consolidated financial statements include the financial statements of the parent company and its subsidiaries, collectively referred to as "the Group" (Note 25.1).

These consolidated financial statements have been authorized for issuance by the Board of Director on 31 March 2020. The Ordinary General Assembly of the shareholders of the Parent Company have the authority to amend these consolidated financial statements after issuance.

2. Basis of Preparation and Significant Accounting Policies**2.1 Basis of Preparation**

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), under the historical cost basis of measurement except for the measurement of the fair value of investments in equity instruments through profit or loss or through other comprehensive income, as well as investments properties as described in the accounting policies below.

2.2 Application of new and revised International Financial Reporting Standards (IFRS)**2.2.1 New and revised IFRSs that are effective for the current year**

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

IFRS 16 "Leases"**General impact**

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

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

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

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

(All amounts are in Kuwaiti Dinar otherwise stated)

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

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

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

Impact on accounting policy:

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

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

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

Practical expedient

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by KD 203,092 (recorded in property and equipment).
- Lease liabilities – increase by KD 203,092 (recorded in accounts payables and other liabilities).

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

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

(All amounts are in Kuwaiti Dinar otherwise stated)

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

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Definition of Material - Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.	January 1, 2020
Definition of a Business – Amendments to IFRS 3 <i>Business Combinations</i> The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.	January 1, 2020
Amendments to references to the Conceptual Framework in IFRS Standards. Amendments to references to the Conceptual Framework in IFRS Standards related to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	January 1, 2020
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
The Group does not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods.	

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

(All amounts are in Kuwaiti Dinar otherwise stated)

2.3 Significant accounting policies

2.3.1 Basis of consolidation

Subsidiaries

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the 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 into line with the Group's accounting policies.

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

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

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between

- (A) The aggregate of the fair value of the consideration received and the fair value of any retained interest,
- (B) The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

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

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

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)*

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in the consolidated statement of income. Amounts, which have previously been recognised in other comprehensive income, are reclassified to the statement of income as if that interest was disposed off.

Business combinations involving entities under common control are excluded from IFRS 3 (revised)'s scope. Management could use predecessor accounting. Predecessor accounting may lead to differences on consolidation between the consideration given and the aggregate book value of the assets and liabilities (as at the date of the transaction) of the acquired entity. The differences are included in equity in retained earnings or in a separate reserve.

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The requirements of IAS 28 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" (Note 4).

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

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

(All amounts are in Kuwaiti Dinar otherwise stated)

2.3.2 Financial instruments

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

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

Financial assets

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

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

Classification of financial assets

The financial assets are classified as follows:

- Amortised cost
- Equity instruments designated as at FVTOCI
- Financial assets at FVTPL

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

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

By default, all other financial assets are subsequently measured at FVTPL.

Despite the foregoing, the Group may make the following irrevocable election at initial recognition of a financial asset:

- The Group may irrevocably elect to classifying in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods.

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

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

(All amounts are in Kuwaiti Dinar otherwise stated)

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

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

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

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

Interest income is recognised in statement of income.

Financial assets at FVTPL

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

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

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

Equity instruments designated as at FVTOCI

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

A financial asset is held for trading if:

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

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

Dividends on these investments in equity instruments are recognised in consolidated statement of income when the Group's right to receive the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'investment income' in consolidated statement of income.

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

(All amounts are in Kuwaiti Dinar otherwise stated)

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically, for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of financial assets

The Group recognizes loss allowances for ECLs customers' receivables, bank accounts, and purchased or originated credit impaired financial assets those are not measured at FVTPL. No impairment loss is recognised on equity investments.

With the exception of POCI financial assets (which are considered separately below), and customers receivables for which the provision matrix method is used as a simplified approach, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Purchased or originated credit-impaired (POCI) financial assets

For POCI an entity shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition. At each reporting date, an entity shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss.

Derecognition of financial assets

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

(All amounts are in Kuwaiti Dinar otherwise stated)

Financial liabilities subsequently measured at amortised cost

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

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

Foreign exchange gains and losses

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

Derecognition of financial liabilities

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

2.3.3 Inventories

Finished goods are stated at the lower of weighted average cost. The cost of finished products includes direct materials, direct labour and fixed and variable manufacturing overhead and other costs incurred in bringing inventories to their present location and condition.

Spare parts are not intended for resale and are valued at cost after making allowance for any obsolete or slow moving items. Cost is determined on a weighted average basis.

All other inventory items are valued at the lower of cost and net realisable value using the weighted average method after making provision for any slow moving and obsolete stocks. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

2.3.4 Investment properties

Investment properties are properties which have been acquired to earn rentals for long-term periods or for capital appreciation. Investment properties are recognized upon acquisition at cost, including transaction costs. Subsequently, investment properties are re-measured at fair value through independent authorized appraisers and the lowest valuation shall be considered. Gains and losses arising from changes in the fair value are recognized in the consolidated statement of income.

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

2.3.5 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the applicable asset.

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 income as the expense is incurred.

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

(All amounts are in Kuwaiti Dinar otherwise stated)

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 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 income when the asset is derecognised.

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

2.3.6 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use and 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 and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs.

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount by recognizing impairment loss in the consolidated statement of income.

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 (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 income.

2.3.7 Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at cost. When the treasury shares are sold, gains are credited to a separate account in equity (treasury shares reserve) which is non-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 reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividend are distributed on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.3.8 Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees in accordance with Kuwait Labour Law. 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.

2.3.9 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 of the obligation amount can be made.

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

(All amounts are in Kuwaiti Dinar otherwise stated)

2.3.10 Foreign currencies

Functional and presentation currency

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

Transactions and balances

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

2.3.11 Revenue recognition

- Interest income and expense is recognized for all financial instruments except for those classified as held for trading or at fair value through profit or loss as "interest income" and "interest expense" in the consolidated statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows of a financial instrument through the life expectancy of the financial instrument or, if necessary, a shorter period, to the net book value of the financial asset or financial liability. Future cash flows are estimated taking into account all contractual terms of the instrument.
- Interest income / interest expense is calculated by applying the effective interest rate to the gross carrying amount of the non-credit impaired financial assets (i.e., the amortized cost of the financial asset prior to the adjustment for any expected credit loss allowance) or the amortized cost of the financial liabilities. For financial assets which are credit impaired, interest income is calculated by applying the effective interest rate to the amortized cost of credit impaired financial asset (i.e., the gross carrying amount less the expected credit loss). For purchased or originated credit-impaired financial assets (POCI), the effective interest rate reflects the expected credit losses in determining the expected future cash flows expected to be received from the financial asset.
- Sales revenue is recognized at a specific point in time and when control of the goods is transferred to the buyer.
- Dividend income is recognized when the right to receive the dividend is established.

2.3.12 Leases

Policy applicable from 1 January 2019

Where the Group as a lessee

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

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

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

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

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

(All amounts are in Kuwaiti Dinar otherwise stated)

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

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

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

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

Subsequent Measurement

According to usage nature of the leased asset, the Group classifies the asset within a group of related assets. If the asset meets the definition of real estate investment "IAS 40", the Group measures the asset based on the accounting policy adopted in measuring real estate investments owned by the Group. However, if the asset meets the definition of property, plant and equipment, the Group measures the asset as per the accounting policy adopted in measuring the property, plant and equipment.

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

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss.

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

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

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

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

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

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

(All amounts are in Kuwaiti Dinar otherwise stated)

Sale and leaseback

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

Where the Group as the lessor

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

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

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

Policy applicable before 1 January 2019

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

Where the Group as lessor

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

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

Where the Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Operating lease payments are recognized in consolidated statement of income as expenses on a straight-line basis over the lease term.

2.3.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Financial risk management

3.1 Financial risk

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 Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process. The Board of Directors are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

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

(All amounts are in Kuwaiti Dinar otherwise stated)

A) 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. Management of the Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The maximum credit risk is limited to the carrying values of financial assets as follows:

	Note	Credit Rating		Calculation Method	Total value of exposure	ECL	Net Carrying Value
		Internal	External				
2019							
Cash at banks and financial institutions	5	(i)	Aa3/ A1	12 Months	1,076,134	-	1,076,134
Accounts receivable and other assets	6	(ii)	-	Lifetime	2,165,607	312,445	1,853,162
Investment in debt instruments at amortized cost	10	(iii)	-	Lifetime	8,550,656	-	8,550,656
2018							
Cash at banks and financial institutions	5	(i)	Aa3/ A1	12 Months	7,474,985	-	7,474,985
Accounts receivable and other assets	6	(ii)	-	Lifetime	1,775,939	434,870	1,341,069
Investment in debt instruments at amortized cost	10	(iii)	-	Lifetime	8,272,907	-	8,272,907

(i) Although cash and cash equivalents is subject to impairment study as per IFRS 9 requirements, the impact of ECL calculation is immaterial.

(ii) The Group applies the simplified approach in IFRS 9 to measure expected credit losses for all trade receivables over the lifetime of the instrument. The Group determines the credit losses for this item using provision matrix, which was estimated based on the past experience of credit losses on the outstanding receivables that are adjusted to reflect the current and future economic conditions.

The following table shows credit risk related to trade receivables as per provision matrix:

Aging brackets of trade receivables	31 December 2019			31 December 2018		
	gross carrying amount at default	Expected credit loss rate	Lifetime ECL	gross carrying amount at default	Expected credit loss rate	Lifetime ECL
From 0 to 90 days	1,240,876	0.76%	9,462	1,062,307	1.3%	13,488
From 91 to 120 days	253,889	6.05%	15,360	135,014	14.5%	19,577
From 121 to 180 days	190,027	9.46%	17,969	197,932	21.7%	42,951
From 181 to 365 days	249,565	15.39%	38,404	53,682	59.3%	31,850
Above 365 days	231,250	100%	231,250	327,004	100%	327,004
	<u>2,165,607</u>		<u>312,445</u>	<u>1,775,939</u>		<u>434,870</u>

The Group does not grant credit facilities unless it meets the normal requirements and activities of the Group, taking into consideration the financial position, previous transactions and reputation of the customers.

The movement represents provisions for expected credit losses as follows:

	2019	2018
Balance as at the beginning of the year	434,870	159,243
Effect of application of IFRS 9 (retrospectively)	-	274,518
	434,870	433,761
(Reversal)/ Provided during the year	(122,425)	1,109
Balance as at the end of the year	<u>312,445</u>	<u>434,870</u>

(iii) No ECL is recognized at the initial recognition of the purchased or originated credit impaired financial assets (POCI).

B) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future finance costs over the life of these financial liabilities. The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

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

(All amounts are in Kuwaiti Dinar otherwise stated)

	Less than 3 months	3 to 12 months	Over 1 year	Total
2019				
Bank facilities	159,217	1,269,090	1,919,049	3,347,356
Accounts payable and other liabilities	1,038,942	1,270,150	1,585,337	3,894,429
Total liabilities	1,198,159	2,539,240	3,504,386	7,241,785
	Less than 3 months	3 to 12 months	Over 1 year	Total
2018				
Bank facilities	423,534	469,572	2,781,397	3,674,503
Accounts payable and other liabilities	1,034,559	2,145,362	488,540	3,668,461
Total liabilities	1,458,093	2,614,934	3,269,937	7,342,964

C) Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its bank overdrafts and borrowings.

As at 31 December 2019, if the interest rate on bank facilities increase by 5%, with all other variables held constant, the profit for the year would have been decreased by KD 12,348 (KD 9,573 - 2018).

Foreign currency risk

The table below indicates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinars on profit for the year and other comprehensive income, with all other variables held constant:

	Increase/decrease in foreign currency rate	Effect on profit for the year	Effect on other comprehensive income
2019			
US Dollars	+/- 5%	33	11,859
Euro	+/- 5%	155	624,525
	Increase/decrease in foreign currency rate	Effect on profit for the year	Effect on other comprehensive income
2018			
US Dollars	+/- 5%	33	16,830
Euro	+/- 5%	188	630,460

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of industry concentration.

The following table demonstrates the sensitivity of the quoted investments' values to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

The effect on Group's results (as a result of a change in the fair value of investments at fair value through profit or loss at 31 December) and other comprehensive income (as a result of a change in the fair value of investments at fair value through other comprehensive income at 31 December) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2019			2018		
Market indices	Change in equity price	Effect on profit for the year	Effect on other comprehensive income	Change in equity price	Effect on profit for the year	Effect on other comprehensive income
Kuwait	+/- 5%	75	-	+/- 5%	573,664	-

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***3.2 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 maximize shareholders' value.

The Capital structure of the Group consists of net debt (borrowings offset by cash and bank balances) and equity of the Parent Company comprising issued capital, reserve and retained earnings.

	2019	2018
Total borrowings	3,192,481	3,505,021
Less: cash	(1,079,539)	(7,479,055)
Net debt	2,112,942	(3,974,034)
Total equity	40,043,169	40,315,088
Total capital	42,156,111	36,341,054
Gearing ratio%	5	-

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. The Group's current strategy is to maintain the external finance at minimum.

3.3 Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Level one: Quoted prices in active markets for identical financial instruments.
- Level two: Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in market that are not active. Inputs other than quoted prices that are observable for assets and liabilities.
- Level three: Inputs for the asset or liabilities that are not based on observable market data.

The table below gives information about how the fair values of the financial assets are determined:

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and Key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31/12/19	31/12/18				
<u>Fair value through P&L</u>						
Local quoted equity securities	1,351	357,508	1	Bid prices	-	-
Local unquoted equity securities	3,002,740	2,917,789	3	i) Peer market price to book value of similar companies in the same industry ii) Discounted future cash flows	i) Peer market price to book value factor and discount for lack of market availability ii) Discount rate and growth rate	i) Changes in market multiple and discount rate will result change in fair value ii) The higher the discount rate, the lower the fair value
<u>Equity instruments designated as FVTOCI</u>						
Local and foreign equity securities	13,992,845	14,444,629	3	i) Peer market price to book value of similar companies in the same industry ii) Discounted future cash flows	i) Peer market price to book value factor and discount for lack of market availability ii) Discount rate and growth rate	i) Changes in market multiple and discount rate will result change in fair value ii) The higher the discount rate, the lower the fair value

The following table shows a reconciliation of the opening and closing amount of level 3:

	2019	2018
Balance as at 1 January	17,362,418	19,836,361
Change in fair value during the year	(102,582)	1,011,202
Net disposal	(264,251)	(3,485,145)
Balance as at 31 December	16,995,585	17,362,418

The fair values of other financial assets and financial liabilities approximately equal its book value as at the consolidated financial statements date. Investments in debt instruments at amortized cost amounted by KD 8,550,656 as at 31 December 2019 (KD 8,272,907 – 2018) are recognized using the effective interest rate method.

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

(All amounts are in Kuwaiti Dinar otherwise stated)

4. Significant accounting judgement, estimates and assumptions

In the application of the Group's accounting policies, the Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements:

Determining the lease term of contracts with renewal and termination options - Group as lessee

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 the renewal. 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).

Discounting of lease payments

The lease payments are discounted using the Group's incremental borrowing rate ("IBR"). At initial adoption of IFRS 16 "Leases", the Management has applied judgments and estimates to determine the incremental borrowing rate.

Classification of financial instruments

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

The Group has classified its investments in equity instruments mainly as "FVTOCI" as these investments are strategic investments, and are not traded actively.

The Group also classified the investments in debt instruments which were acquired during the year under the financial assets at amortized cost. The Group has adopted the guidelines of IFRS 9, which resulted in classification of such instruments as investments in debt instruments "purchased or originated credit-impaired".

Sources of estimation uncertainty

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

Fair value measurements and valuation techniques

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

Impairment in value of financial assets

The Group estimates the expected credit losses for all financial assets carried at amortized cost or fair value through profit or loss, except for equity instruments. The determination of expected credit losses implies significant use of internal and external data and assumptions. The amount of expected credit losses is affected by changes in expected economic conditions and other factors. The experience of the Group's expected historical credit losses as well as an expectation of economic conditions may not be considered evidence of a customer's actual exposure to default in the future. Please refer to note 2.3.2 impairment of financial assets for more information. The assessment of the relationship between observed historical default rates and expected economic conditions, as well as expected credit losses, is significant estimation.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)*

In respect of debt instruments classified at credit impaired level that are measured at amortized cost, the Group estimates the expected cash flows of the recoverable amounts on an annual basis which are considered to be a component of material uncertainty and require a high degree of appreciation. The effective interest rate adjusted for credit risk is also a process that requires the exercise of significant judgments and estimates. Impairment losses on these financial instruments are determined on the basis of the difference between the discounted cash flows and the carrying amount.

Impairment of associates

Impairment testing of the associate is carried out when there is an indication of such impairment. Impairment is assessed for the entire carrying value of the Group's investment in the associates including goodwill, therefore no impairment study for goodwill is required independently.

The impairment of the associate is assessed based on estimate of value in use. The calculation of the value in use requires that the management estimate the expected future cash flows and an appropriate discount rate to calculate the present value. An impairment loss may arise materially when the actual future cash flows are less than expected.

The recovery value of the investment in associates had been determined, based on value in use calculations, using cash flow projections based on financial budgets as follows:

	2019
Specialties Group Holding Company	
Financial budgets cover period (years)	2020-2024
Discount rate (weighted average cost of capital)	12.50%
Terminal growth rate	2%

The discount rate reflects the current market assessment of risks specific to associates.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors result in investment being impaired.

Contingent liabilities

Contingent liabilities arise as a result of past events that are determined to exist only on the occurrence or non-occurrence of an uncertain future event or events that are not entirely within the Group's control. Provisions are recognized against liabilities when the loss is considered to be probable and can be estimated reliably. The determination of whether or not a provision should be recorded against any contingent liability is based on management's judgment.

Revaluation of investment properties

The Group recognizes the investment properties at fair value and changes in fair value are included in the consolidated statement of income. The Group appoints independent specialized valuers to determine the fair value. Those valuers use valuation techniques to determine the fair value. The estimated fair value of investment properties may differ from the actual realizable prices in arm's length transaction as at reporting date.

5. Cash and cash equivalents

	2019	2018
Cash on hand	3,405	4,070
Cash at banks and financial institutions	1,076,134	7,474,985
	<u>1,079,539</u>	<u>7,479,055</u>

6. Accounts receivable and other assets

	2019	2018
Trade receivables	2,165,607	1,775,939
Expected credit losses	(312,445)	(434,870)
	1,853,162	1,341,069
Other receivables	169,456	500,877
	<u>2,022,618</u>	<u>1,841,946</u>

7. Inventories

	2019	2018
Finished goods	285,382	390,090
Raw and packing materials (net of provision)	440,328	376,503
	<u>725,710</u>	<u>766,593</u>

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***8. Investments at fair value through profit or loss**

	2019	2018
Quoted shares	1,351	357,508
Unquoted shares	3,002,740	2,917,789
	<u>3,004,091</u>	<u>3,275,297</u>

- Fair value hierarchy disclosures for investments are provided in (Note 3.3).
- Investments at fair value through profit or loss include securities with fair value of KD 3,002,740 as at 31 December 2019 (KD 3,274,451- 31 December 2018) pledged as collateral against credit facilities granted by a local bank.

9. Investments at fair value through OCI

	2019	2018
Unquoted Foreign equity securities	12,727,678	12,946,102
Unquoted local equity securities	1,265,167	1,498,527
	<u>13,992,845</u>	<u>14,444,629</u>

- Fair value hierarchy disclosures for investments are provided in (Note 3.3).
- Investments at fair value through OCI are not subject to impairment, and their cumulated changes in fair value included in the investments revaluation reserve is not subsequently reclassified to statement of income.
- During the current year, the Group disposed certain investments. The fair value of the disposed investments at the date of derecognition was KD 257,984. Accordingly, the Group transferred the related cumulative reserve of KD 6,267 (loss) to the retained earnings upon disposal during the current year.

10. Investments in debt instruments at amortized cost

During the prior year, the Group acquired credit impaired debt instruments (sukuk) for contractual amount of KD 10.5M, the Group classified sukuk as debt instruments at amortized cost.

The Group's management expects to obtain future cash flows over the three years from the date of acquisition amounted by KD 9,590,000. The present value of expected cash flows of the acquired debt instruments is estimated based on discount rate of 6%. The gain for the current year from these instruments are amounted to KD 277,749 (KD 122,260 -2018).

11. Investment in associates

<u>Company name</u>	<u>Country of incorporation</u>	<u>Principal activity</u>	2019		2018	
			%	Carrying value	%	Carrying value
Specialties Group Holding Company	Kuwait	Investment Holding	31.54	6,546,194	31.54	7,612,295
Coast Development and Investment Company	Kuwait	Investment	31.65	8,510,000	-	-
				<u>15,056,194</u>		<u>7,612,295</u>

The movement over investment in associates summarized as below:

	2019	2018
Opening balance	7,612,295	7,175,716
Additions during the year	8,798,022	39,975
Impairment in value	(1,479,391)	-
Share of results	601,765	486,802
Share of other comprehensive losses	(476,497)	(90,198)
	<u>15,056,194</u>	<u>7,612,295</u>

- The Group's share in the results and other comprehensive losses of the associates is calculated based on the audited financial statements for Specialties Group Holding Company and management accounts of Coast Development and Investment Company for the year ended 31 December 2019. The Group's share in the results of the associates' operations amounted to KD 601,765 as at 31 December 2019 (KD 486,802- 2018).
- The fair value based on quoted price (level 1) for the investment in Specialties Group Holding Company and Coast Development and Investment Company is KD 3,784,500 (KD 3,073,500 - 2018), and KD 7,307,500 as at 31 December 2019 respectively.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)*

- The Group's 98% of its owned shares of Specialties Group Holding Company are pledged against credit facilities granted by a local bank.
- On 17 January 2019, the Group acquired 31.65% equity interest in Coast Development and Investment Company. The principal activities of the Company is investment management, equity and real estate in local and international markets. The fair values of acquired assets and assumed liabilities of the associate are summarized as follows:

	KD
Property, plant and equipment	1,088,617
Investment property	151,650
Investment in associates	21,075,303
Financial assets at fair value through other comprehensive income	282,660
Prepayments and other assets	1,712,984
Financial assets at fair value through profit or loss	5,628,694
Cash and cash equivalents	3,268,369
Total assets	33,208,277
Employees' end of service benefits	238,455
Other liabilities	5,139,417
Total liabilities	5,377,872
Non-controlling interests	32,546
Net identifiable assets	27,797,859
Group's share of the net fair value of the identifiable assets and liabilities (31.65%)	8,798,022
Consideration paid	(6,302,652)
Bargain purchase gain	2,495,370

- During the current year, the Group carried out a review of the recoverable amount of an associated company "Specialties Group Holding Company". The assessment led to the recognition of an impairment loss of KD 1,479,391, which has been recognised in the consolidated statement of income. The Group also estimated the fair value less costs of this associate based on the recent market prices. The fair value less costs of disposal is less than the value in use and hence the recoverable amount of this associate has been determined on the basis of value in use.

- The following is summary of the financial information of the associates based on the latest available financial statements which have been prepared in accordance with IFRS:

Specialties Group Holding Company

	2019	2018
Revenues	20,429,318	22,247,648
Profit for the year	1,322,306	1,492,365
Other comprehensive (loss)/ income for the year	(8,984)	225,842
Total comprehensive income for the year attributable to shareholders	1,311,918	1,717,636
Total assets	34,169,119	32,019,528
Total Liabilities	8,490,644	7,652,825
Total equity	25,678,475	24,366,703
Non-controlling interests	232,739	231,335
	25,445,736	24,135,368
Ownership %	31.54	31.54
Associate's carrying value	8,025,585	7,612,295
Less: impairment losses	(1,479,391)	-
	6,546,194	7,612,295

Coast Development and Investment Company

	2019
Revenues	1,973,254
Profit for the year	586,493
Other comprehensive loss for the year	(910,164)
Total comprehensive loss for the year attributable to shareholders	(909,961)
Total assets	32,168,419
Total Liabilities	5,248,240
Non-controlling interests	32,343
Total equity	26,887,836
Ownership %	31.65
Associate's carrying value	8,510,000

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***12. Investment properties**

	2019	2018
At 1 January	4,613,130	2,463,130
Additions	-	2,150,000
Change in fair value	(570,939)	-
At 31 December	4,042,191	4,613,130

Investment properties are categorized as follows:

	2019	2018
Land	1,370,185	1,709,873
Developed property	2,672,006	2,903,257
	4,042,191	4,613,130

The fair value of investment properties has been determined based on independent real estate evaluators inside and outside the State of Kuwait, the fair value was determined for these investment properties based on the comparative market method (level 2). The comparative market approach is based on comparing market prices for similar properties and transactions with purely commercial terms, adjusted to reflect the difference in the nature, location and condition of the property in question.

Certain investment properties amounted to KD 2,100,000 are registered in names of related parties and there was letter of assignment in favor of the Group.

13. Property and equipment

	Leasehold Lands	Buildings	Machinery and equipment	Projects under constructions	Other assets	Total
Cost						
As at 1 January 2018	3,360,597	215,780	475,568	7,026	164,015	4,222,986
Additions	-	16,385	7,591	131,335	70,828	226,139
Disposals	-	-	-	-	(23,364)	(23,364)
As at 31 December 2018	3,360,597	232,165	483,159	138,361	211,479	4,425,761
Additions	-	5,040	136,349	89,706	35,215	266,310
IFRS 16 Impact	-	-	-	-	203,092	203,092
Disposals	-	-	-	-	(2,650)	(2,650)
Balance at 31 December 2019	3,360,597	237,205	619,508	228,067	447,136	4,892,513
Accumulated depreciation						
As at 1 January 2018	-	37,268	133,852	-	59,873	230,993
Charge for the year	-	23,853	54,367	-	40,621	118,841
Depreciation related to disposals	-	-	-	-	(23,322)	(23,322)
As at 31 December 2018	-	61,121	188,219	-	77,172	326,512
Charge for the year	-	24,176	73,615	-	73,191	170,982
IFRS 16 Impact	-	-	-	-	47,509	47,509
Depreciation related to disposals	-	-	-	-	(2,297)	(2,297)
Impairment in value	67,121	-	-	-	-	67,121
Balance at 31 December 2019	67,121	85,297	261,834	-	195,575	609,827
Net book values						
As at 31 December 2019	3,293,476	151,908	357,674	228,067	251,561	4,282,686
As at 31 December 2018	3,360,597	171,044	294,940	138,361	134,307	4,099,249
Annual depreciation rates	-	4%-20%	5%-33.33%	-	33.33%	

Buildings are constructed on lands leased from the Public Authority for Industry, State of Kuwait for a period ending 2020 and 2024. The Group has mortgaged nine plots to local banks against credit facilities (Note 14).

The fair value of leasehold lands and buildings amounting to KD 3,464,861 as of 31 December 2019 based on valuation from independent authorized valuers.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***14. Bank facilities**

	2019	2018
Bank overdraft	735,775	144,666
Wakala and murabha payable	2,456,706	3,360,355
	<u>3,192,481</u>	<u>3,505,021</u>

The average interest rate on Wakala and murabaha payable is 5.6% (5.6% - 2018).

Following is the maturity of the bank facilities;

	2019	2018
Within 1 year	1,033,333	868,626
More than 1 year	2,159,148	2,636,395
	<u>3,192,481</u>	<u>3,505,021</u>

The bank facilities are granted to the Group against the following assets;

	2019	2018
Investments in an associate (Note 11)	6,429,267	7,612,295
Investments at fair value through profit or loss (Note 8)	3,002,740	3,274,451
Property and equipment (Note 13)	3,275,000	2,462,500
	<u>12,707,007</u>	<u>13,349,246</u>

In addition to the pledge of the above assets, the Group has secured 48.46% of the shares of Al Ahlia Chemical Company "the Subsidiary" of the Group (Note 25).

15. Accounts payable and other liabilities

	2019	2018
Trade payables	1,038,942	973,669
Advances received	70,816	60,890
Accrued expenses	742,545	809,695
Dividends payables	609,263	225,304
Employees' end of service benefits	649,368	488,540
Lease liability	155,988	-
Other liabilities	627,507	1,110,363
	<u>3,894,429</u>	<u>3,668,461</u>

16. Share capital

The authorized, issued, and fully paid up share capital of the Parent Company is KD 21,687,750 distributed over 216,877,500 shares with a nominal value of 100 fils each, and all shares are paid in cash.

17. Reserves**Statutory reserve**

As required by the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration has been transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

General reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration is required to be transferred to general reserve based on recommendation of the Board of Directors and subject to the approval of the General Assembly of the Parent Company's shareholders. Such annual transfer may be increased or discontinued by a resolution of the General Assembly of the Parent Company's shareholders upon recommendation from the Parent Company's Board of Directors.

For the years ended 31 December 2019 and 31 December 2018, no transfer was made to general reserve based on the recommendation by the Parent Company's Board of Directors. This proposal is subject to the approval of the Annual Ordinary General Assembly Meeting of the Parent Company's shareholders.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***18. Treasury shares**

	2019	2018
Number of shares	16,590,207	16,590,207
Percentage of issued shares (%)	8	8
Market value (KD)	1,269,151	995,412

The Parent Company is required to retain reserves and retained earnings equivalent to the cost of treasury shares throughout the year, in which they are held by the Parent Company, in accordance with the instructions of the relevant regulatory authorities. These shares are not pledged.

19. Net investment income

	2019	2018
<i>Investments at fair value through profit or loss</i>		
Realised gain	45,490	13,170
Change in fair value	125,302	(48,465)
Dividends income	315,567	278,742
	<u>486,359</u>	<u>243,447</u>
<i>Investments at fair value through OCI</i>		
Dividends income	523,130	818,731
<i>Investments in debt instruments at amortized cost</i>		
Net gain	277,749	122,260
<i>Others</i>		
Gain on sale of assets held for sale	-	1,014,221
	<u>1,287,238</u>	<u>2,198,659</u>

20. Gross profit from operating activities

	2019	2018
Sales	5,268,512	5,385,612
Cost of sales	(3,572,253)	(3,608,627)
	<u>1,696,259</u>	<u>1,776,985</u>

The breakdown of cost of sales is as follows:

	2019	2018
Material costs	2,895,346	3,141,699
Staff costs	322,306	307,828
Depreciation	61,183	72,522
Others	293,418	86,578
	<u>3,572,253</u>	<u>3,608,627</u>

21. Net income from associates

	2019	2018
Group's share from results of associates	601,765	486,802
Bargain purchase gain from acquisition of associate	2,495,370	-
Impairment losses from investments in associate	(1,479,391)	-
	<u>1,617,744</u>	<u>486,802</u>

22. Other income

	2019	2018
Reversal/ (provided) of ECL provision	122,425	(1,109)
Rental income	34,807	18,438
Others	51,491	91,546
Impairment in value of property and equipment	(67,121)	-
	<u>141,602</u>	<u>108,875</u>

23. Other expenses

	2019	2018
Staff cost	1,050,608	1,057,619
Others	655,449	703,918
	<u>1,706,057</u>	<u>1,761,537</u>

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***24. Basic and diluted earnings per share**

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares). Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. As at 31 December, the Parent Company had no outstanding dilutive potential shares.

The basic earnings per share is calculated based on the profit for the year divided by the weighted average number of shares outstanding, less treasury shares, during the year is as follows:

	2019	2018
Profit for the year (KD)	1,748,347	2,304,403
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	200,287,293	200,287,293
Basic and diluted earnings per share (fils)	8.73	11.51

25. Investment in subsidiaries**25.1. Subsidiaries**

The consolidated financial statements includes the financial statements of the Parent Company and its subsidiaries, together referred to as "the Group" as follows:

Company Name	Country of incorporation	Principal activity	Effective interest (%)	
			2019	2018
Al-Oula National Real Estate Company sole proprietorship	Kuwait	Real estate activities	100	100
Al-Ghad Project Management Company sole proprietorship	Kuwait	Real estate projects management	100	100
Al-Ghad International General Trading W.L.L.	Kuwait	General Trading	100	100
Ahlia Chemicals Company K.S.C.C.	Kuwait	Manufacturing	62.6	62.6
Smart Wood for General Trading Company W.L.L.	Kuwait	General Trading	76	79
Asoul Sukuk Musharaka for General Trading W.L.L.	Kuwait	General Trading	100	100

The financial statements of the subsidiaries have been consolidated based on audited financial statements as at 31 December 2019.

During the current year, the Parent Company sold a stake of 8% from Smart Wood for General Trading Company between the Group's companies. Accordingly, the Group effective interest in Smart Wood for General Trading Company decreased to 76% as at 31 December 2019. Accordingly, the fair value reserve decreased with KD 377,020 and the minority interest increased with the same amount.

25.2. Subsidiaries in which non-controlling interests hold significant rights

Below is a summary of the financial information of the Group's subsidiaries in which non-controlling interests hold significant rights:

Al Ahlia Chemicals Company K.S.C.C	Kuwait Dinars	
	2019	2018
Current assets	4,043,408	4,116,392
Non-current assets	5,242,691	3,154,105
Current Liabilities	2,266,228	2,173,716
Non-current Liabilities	512,434	281,511
Total Equity	6,507,437	4,815,270
Revenues	5,268,512	5,385,612
Net profit for the year	879,667	687,906
Net (decrease)/ increase in cash flow	(901,981)	401,308

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***26. Related party transactions**

These related party is the main shareholders, close members of their families and companies of which they are principal owners or over which they are able to exercise control or significant influence entered into by the Group in the ordinary course of business. The Parent Company's management approves pricing policies and terms of these transactions with the related party.

Balances and transactions with related parties included in the consolidated financial statements are as follows:

	2019	2018
Balances:		
Due from related parties	-	353,512
	2019	2018
Transactions: (Key Management Compensation)		
Salaries and short-term benefits	296,090	222,800
Employees' end of service benefits	106,994	58,886
Board of Directors' remuneration	44,000	40,000
Board committee remuneration	7,600	6,000

27. Segmental information

The Group is classified into business units based on their products and services, and has three reportable operating segments as follows:

- Financial investing activities comprise participation in financial and real estate funds and managing the Group's liquidity requirements; and
- Real estate investing activities comprise investing and trading in real estate and construction or development of real estate for the purpose of sale in the ordinary course of business and other related real estate services.
- Industrial activities comprise manufacturing and selling of chemical products.

The segment reporting information is as follows:

	2019				
	Industrial activities	Real estate investing activities	Financial investing activities	Unallocated	Total
Segments revenues	1,696,259	(570,939)	2,904,982	141,602	4,171,904
Segments expenses	(821,372)	(16,647)	(1,137,519)	(86,632)	(2,062,170)
Total segments' results	874,887	(560,759)	1,767,463	54,970	2,109,734
Segments assets	8,714,390	4,085,293	39,956,847	-	52,756,530
Segment liabilities	2,778,662	-	3,756,134	552,114	7,086,910
	2018				
	Industrial activities	Real estate investing activities	Financial investing activities	Unallocated	Total
Segments revenues	1,809,010	-	2,685,461	76,850	4,571,321
Segments expenses	(886,993)	(29,579)	(148,776)	(1,029,341)	(2,094,689)
Total segments' results	922,017	(29,579)	2,536,685	(952,491)	2,476,632
Segments assets	7,381,653	4,613,130	40,040,458	369,860	52,405,101
Segment liabilities	2,455,227	-	4,718,255	-	7,173,482

28. Cash dividends

On 31 March 2020, the Parent Company's Board of Directors propose bonus shares dividends of 5% (Nil - 2018), cash dividends of Nil (5% - 2018) and propose Board of Directors remuneration for the Parent Company's Board of Directors of KD 44,000 for the year ended 31 December 2019. These proposal are subject to the approval of shareholders at the general assembly meeting.

The consolidated financial statements for the year ended 31 December 2018 were approved in the general assembly of the shareholders held on 20 May 2019 and also approved cash dividends of 5% (5 fils per share) and Board of Directors remuneration of KD 40,000.

National International Holding Company K.S.C.P.

And its subsidiaries

State of Kuwait

Notes to the Consolidated Financial Statements for the year ended 31 December 2019*(All amounts are in Kuwaiti Dinar otherwise stated)***29. Commitments and contingent liabilities**

	2019	2018
Letters of guarantee	293,317	276,468
Letters of credit and acceptance	161,857	172,301
	<u>455,174</u>	<u>448,769</u>

30. Subsequent events

The existence of Novel Coronavirus (Covid-19) was confirmed in January 2020 in mainland China and has subsequently spread to many other countries around the world. This event has caused widespread disruptions to business, with a consequential negative impact on economic activity. The Group considers this event to be a non-adjusting event after the reporting period and therefore has not made any adjustments to the financial statements as a result of this matter. The outcome of this event is unknown and therefore the impact on the Group cannot be reasonably quantified at the date of issuance of these financial statements. The effect of Covid-19 on the Group will be incorporated into the determination of the Group's impairment of equity-accounted investees, expected credit loss estimates, valuation of equity portfolio and valuation of investment properties in 2020.