بيت التمويل الكويتي
Kuwait Finance House

Annual Report

Kuwait Finance House (K.S.C.P) and Subsidiaries

2022

بِسْمِ ٱللَّهِ ٱلرَّحْمَٰنِ ٱلرَّحِيمِ

In the name of Allah the Most Gracious, the Most Merciful.

O ye who Believe, Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Holy Quran - Al Baqara - Verses (278 - 279)

His Highness Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Amir of the State of Kuwait

His Highness Sheikh
Mesh'al Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

His Highness Sheikh
Ahmad Nawaf Al-Ahmad Al-Sabah
The Prime Minister

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Kuwait Finance House (KFH)

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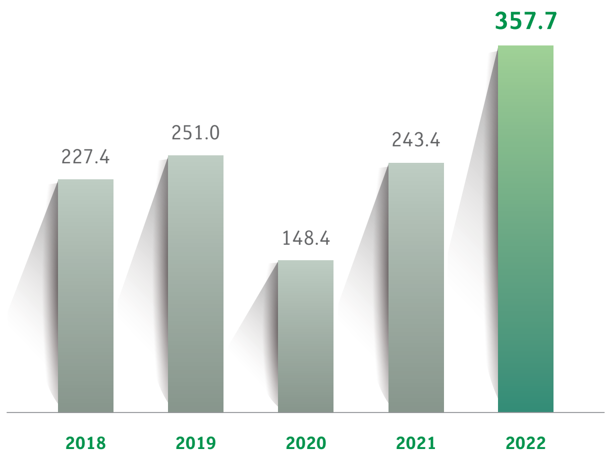
Financial Indicators

Financial Indicators

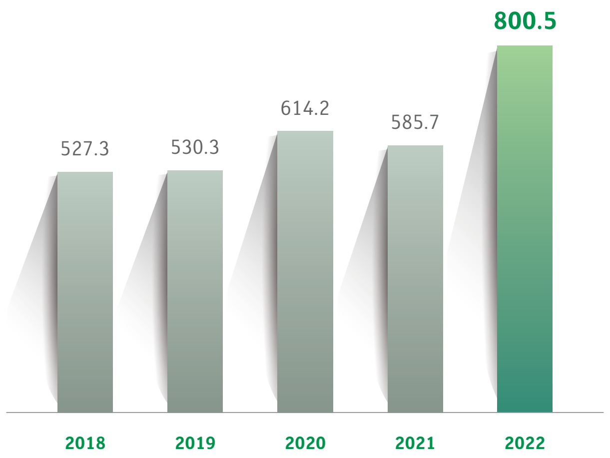
Net Profit to Shareholders of the bank | 57.3%

Million KWD



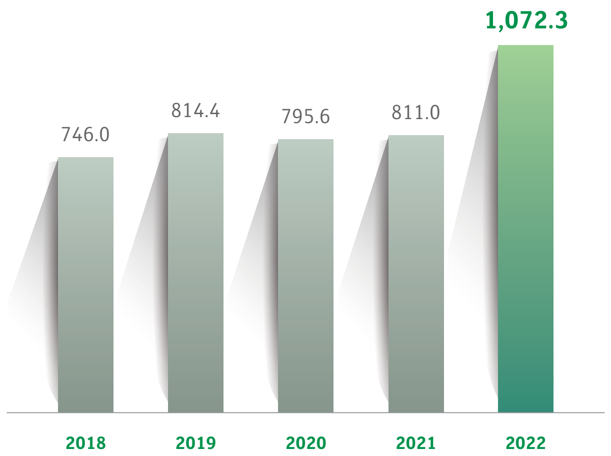
Net Financing Income | 51.8%

Million KWD



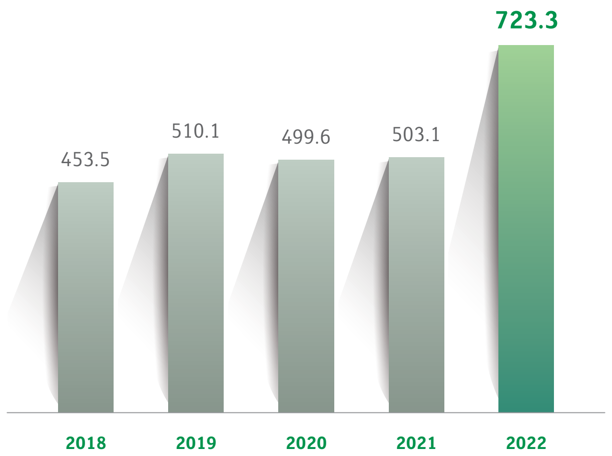
Total Operating Income | 43.7%

Million KWD



Net Operating Income | 59.5%

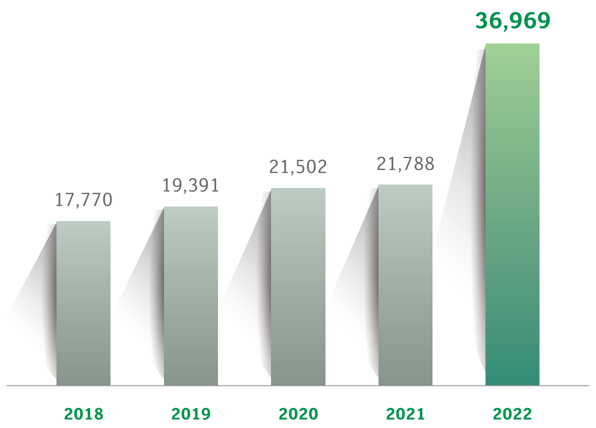
Million KWD



* Growth Ratio reflects the change in 2022 statements compared to 2018

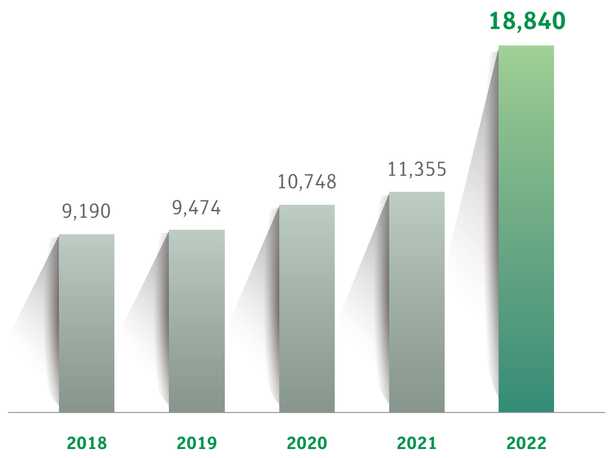
Total Assets | 108.0%

Million KWD



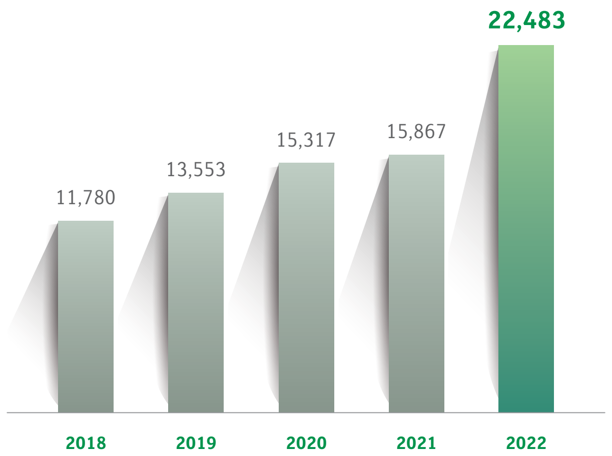
Financing Receivables | 105.0%

Million KWD



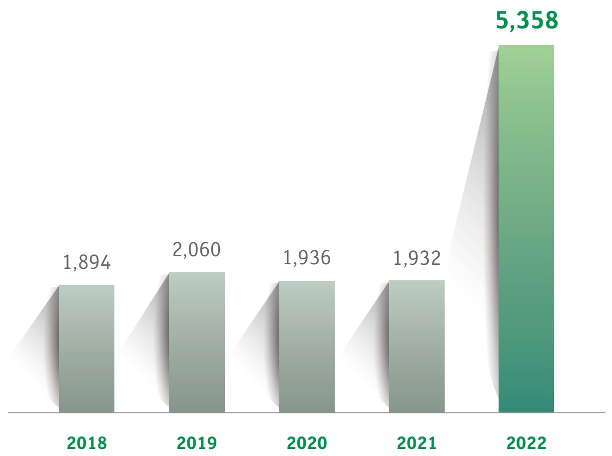
Depositors’ Accounts | 90.9%

Million KWD



Shareholders’ Equity | 182.9%

Million KWD



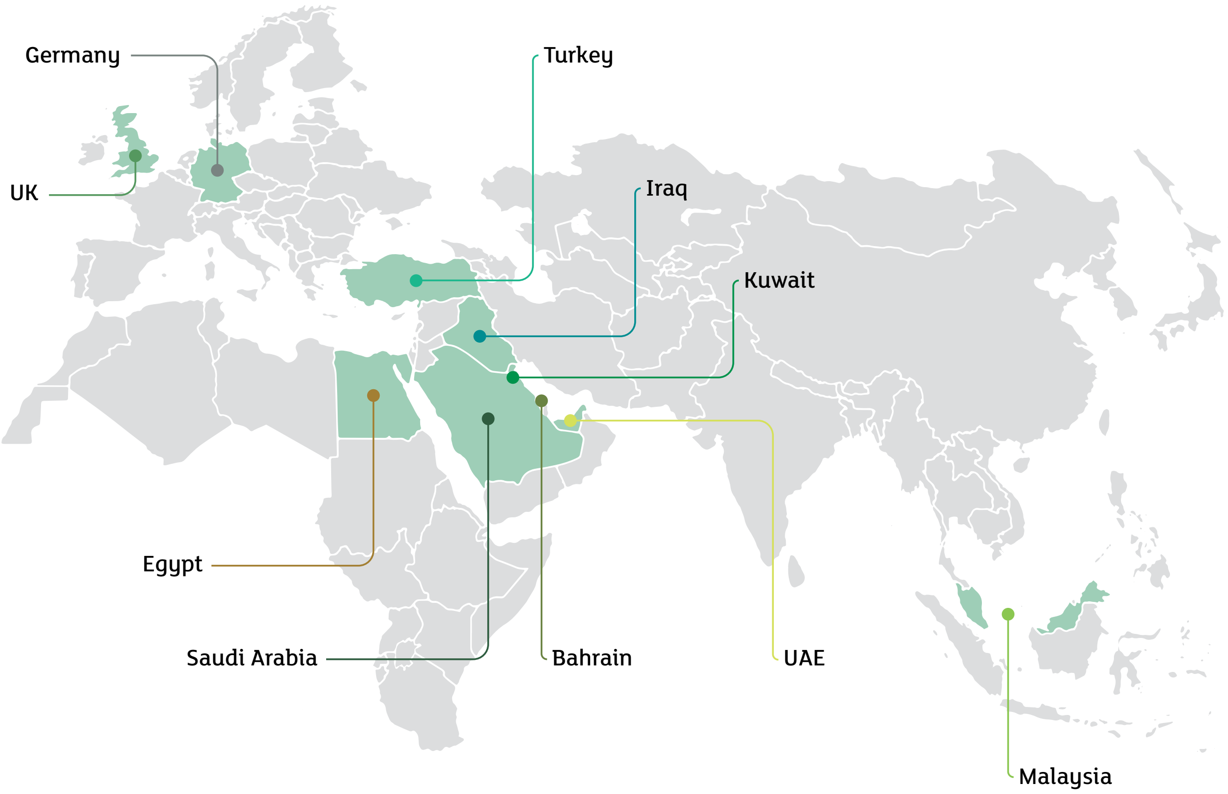
* Growth Ratio reflects the change in 2022 statements compared to 2018

KFH Group Overview

KFH Group Overview

Global Integrated Operations

KFH Group leads Islamic finance globally, where it provides various Islamic financial products and services as it operates in several regions around the world as it has 631 banking branches, 2,100 ATMs and around 16,000 employees.



- Kuwait Finance House "KFH" is the first Islamic bank in the State of Kuwait, established in 1977 and today it has become one of the largest Islamic banks in the world, and one of the largest financiers in the Kuwaiti and regional market.
- KFH's major shareholders are Kuwait Investment Authority (direct ownership), Kuwait Awqaf Public Foundation (direct ownership), The Public Authority for Minors Affairs (direct ownership), and The Public Institution for Social Security (direct & indirect ownership).
- Kuwait Finance House is a Kuwaiti public shareholding company registered and listed on Kuwait and Bahrain Stock Exchange with the Ticker "KFH".

1 Kuwait Finance House - Kuwait
2 Kuwait Finance House - Malaysia (Berhad)
3 Kuwait Finance House - Bahrain
4 Kuwait Turkish Participation Bank – Türkiye
5 Saudi Kuwaiti Finance House – KSA
6 KT Bank AG – Germany
7 Ahli United – Bahrain
8 Ahli United – Kuwait
9 Ahli United – Egypt
10 Ahli United - Iraq
11 Ahli United - UK
12 Ahli United - DIFC

Vision

To lead the international development of Islamic financial services, and become the most trusted and sustainably most technologically advanced Shari'a-compliant bank in the world.

Mission

To deliver superior innovation and customer service excellence while protecting and enhancing the interests of all our stakeholders.

Values

Leadership
Accountability
Partnership

Chairman's Message

In the name of Allah, Most Gracious, Most Merciful,
Praise be to Allah the Almighty, and Peace and Blessings be upon our Prophet, his family, and companions.

Dear Esteemed Shareholders,
Assalamu Alaikum Warahmatu Allah Wabarakatuh…

On behalf of myself, my fellow colleagues, and members of the Board of Directors of Kuwait Finance House (KFH), I would like to present to you the 2022 KFH Group Annual Report including major achievements, consolidated financial statements and other technical and administrative reports.

In the beginning, I would like to refer to KFH Extraordinary General Assembly resolutions in its meeting on Monday 25th July 2022 which included authorizations to the Board of Directors to execute the acquisition of Ahli United Bank – Bahrain.

We are pleased to assure our shareholders that the Board of Directors has, by the grace of Allah, executed all resolutions passed by the Ordinary and Extraordinary General Assembly meetings concerning KFH successful acquisition of 100% of AUB-Bahrain shares.

The year 2022 witnessed the conclusion of AUB-Bahrain acquisition deal, a successful and promising strategic project which has taken several years to finalize. The project represents a new pivotal era in KFH journey which is no less in its significance, opportunities, and challenges than KFH inception around 45 years ago. The acquisition has rendered KFH as the largest bank in Kuwait and the second largest Islamic bank worldwide. KFH market capitalization increased to more than KD 10 billion. KFH dominates more than 25% of the Premier Market weight which represents around 80% of Boursa Kuwait. If the past years can be named by the most significant achievements therein, then the year 2022 should be named the “Acquisition Year”.

The acquisition was a well-studied optional challenge which KFH took on with remarkable ability and flexibility, thus overcoming several challenges. The date 6th October 2022 marked the beginning of trading on the new entity in both Kuwait and Bahrain stock exchanges, transfer of the acquired bank shares fully to KFH, increase of capital to KD 1,342,223,324.800 (One Billion, Three Hundred Forty-Two Million, Two Hundred Twenty-Three Thousand, Three Hundred Twenty-Four Dinars & Eight Hundred Fils) which was preceded by the endorsement of the shares exchange ratio at 2.695 of AUB shares against each KFH share. We have ensured during all stages that dealing with the acquisition project was made with transparency as KFH presented approximately 80 disclosures concerning the acquisition resolutions and steps. Also, we have organized 7 press conferences and interviews for the same purpose to make the project a success by the grace and blessings of Allah.

I would like to avail myself of this occasion to thank the shareholders for their trust and support, the regulatory authorities in Kuwait and Bahrain for endorsing the acquisition, local and global consultants, and the team which participated in the arrangement of the deal which was compatible with the interests of all parties, financial safety considerations and trademark value. Looking forward, I would like to emphasize that the success we have achieved is just another step on a road that demands further endeavor so that our shareholders would reap the benefits and we achieve our goals i.e., ensuring a diversified flow of income, entering new markets e.g., the UK and Egypt, utmost utilization of available advantages, expanding the scope of our competitive capabilities, maximizing our shareholders investments and achieving profit for our customers and depositors.

In the midst of economic challenges, KFH continued its initiative and leadership efforts which have characterized KFH business under a clear integrated strategy that focused on boosting the core banking activities to achieve sustainable profitability and growth. The strategy covered all other related requirements in the fields of digitalization, human resources, financing and investment products, social activities and humanitarian contributions while adhering fully to Sharia regulations which is KFH business methodology.

Our products have exhibited real economic value. KFH has made substantial progress in elevating innovation, digitalization, artificial intelligence, and business leadership, setting an example for Islamic banking of the future. Reforms continued at a larger pace to increase revenues, optimize costs, and maintain profit ratios through the implementation of the best responsible banking practices and risk management. The year-end financial indicators have affirmed the sound performance, balanced arrangement of priorities, creditworthiness, efficiency, and durability of conditions, thus enhancing KFH Group outstanding position and emphasizing its ability to encounter foreseeable uncertainty of global economy. KFH is still enjoying high liquidity, solvency, diversified financing portfolio and a remarkable provisions coverage. While we hope for the operating environment to improve, we are still optimistic about the continuity of valuable dividends as KFH dividends policy has always been stable.

By the grace of Allah, KFH has achieved a net profit distributable to shareholders reaching KD 357.7 million i.e., an increase by 47.0% compared to last year. Earnings per share reached 33.58 Fils i.e., an increase by 29.2% compared to last year.

KFH Group profits for the year 2022 included Q4 profits of AUB Group, effective as of the date of the share ownership on October 2 till the end of the year, reaching KD 62.5 million according to the international accounting standards applied in Kuwait. We look forward in 2023 to seeing full year profits of AUB Group included in KFH profits.

Net financing income increased to reach KD 800.5 million i.e., an increase by 36.7% compared to last year.

Total operating income increased to reach KD 1,072.3 million i.e., an increase by 32.2% compared to last year

Net operating income increased to reach KD 723.3 million i.e., an increase by 43.8% compared to last year.

Total assets reached KD 37.0 billion, marking an increase of KD 15.2 billion or 69.7% compared to last year.

Depositors' accounts reached KD 22.5 billion, marking an increase by KD 6.6 billion or 41.7%. Capital adequacy ratio reached 17.66%, taking into consideration the recommended dividends.

The Board of Directors has recommended to the General Assembly distribution of 15% cash dividends and 10% bonus shares to shareholders, considering the distributed returns on investment deposits and saving accounts as shown in the following table:

Depositors Profit

Account Type	2022	2021
"Khumasiya" Investment Deposit	4.000%	1.700%
"Mustamera" Investment Deposit	3.500%	1.450%
"Sidra" Investment Deposit	2.325%	1.100%
Dima Investment Deposit (12 months)	2.725%	1.275%
Dima Investment Deposit (6 months)	2.225%	1.150%
Long term investment plans	2.550%	1.225%
Investment Saving Accounts	0.230%	0.200%

KFH succeeded in introducing a new generation of digital banking services as part of its comprehensive trend to digitalize all functions, services, products and means of providing such services, thus reinforcing our position to utilize and invent the best tools of financial technology. KFH has exclusively provided highly distinguished banking services at the banking sector level e.g., opening bank accounts online for non-KFH customers through interactive XTMs. IT sector has executed more than 33 systems, programs and automated services covering various aspects of business, developed IT infrastructure, cyber security buffers, accelerated regulatory reports issuance and introduced new solutions to enhance joint relationship with regulatory authorities.

Systems and programs have been provided for the new products in the field of cards, finance, operations, real estate valuation and Ijarah, in addition to the Digital Print project at branches, online cash transfer service, enhancement of Trade and e-payment SMS, banking cards issuance systems with 5 years validity and strengthening privacy protection policies.

Group Operations Sector achievements have enhanced digital transformation using robotic technology RPA, and artificial intelligence in the fields of clearance, cards, digitization of all paper files for trade finance, payment and documentary cycle on Easy Way system. The Digital Print project should ensure the transformation of all transactions to e-documents. Moreover, the transfer of Procurement Department to Operations will improve supply chains.

In corporate finance, KFH digitized transactions to facilitate transactions. KFH acted as the lead arranger of a KD 216 million syndicated finance deal in favor of Agility Company. Meanwhile, we continued to provide finance to small companies to enhance their role and support the national plan, as part of KFH's support to this segment. Also, we increased the number of corporate banking branches to 11 branches. Risk Department implemented an early warning program for credit risks at the Group level to mitigate costs and enhance profitability.

As part of its efforts to support innovation, technology and business leadership, the Digital Transformation Department has exerted significant efforts to establish business models among departments and with corporate customers and to spread technology culture among employees.

Group Treasury relentlessly expanded its investment and trading activities in Primary and Secondary Capital Markets. Treasury Dept. executed transactions worth more than USD 13 billion during 2022. Meanwhile, it continued to expand its trading of the short-term Sukuk of International Islamic Liquidity Management (IILM). KFH Group Treasury maintained its leadership position in IILM Market Making and won the top rank Primary Dealer for the 6th time and consecutive 2nd year in a row for Secondary Dealer from amongst several international and regional banks by IILM. Also, it expanded its exposure to green Sukuk and participated in Sukuk compatible with environment, social and corporate governance (ESG).

Group Treasury FX transactions exceeded USD 70 billion. Also, the department built a new partnership with a leading global bank to be its only Market Maker for GCC currencies. Furthermore, it introduced fully automated live FX prices for retail customers through ATMs. Also, it added the corporate FX platform "KFH Global" to improve transaction timing and provide live ratings for customers. Accordingly, several companies were brought onboard as customers of the Group.

The Group Financial Institutions Unit continued to develop its interbank facilities portfolio through its participation in financing two international syndicated facilities for two regional banks in the GCC region exceeding USD 2 billion in value.

KFH Capital, the investment arm of KFH Group, arranged the issuance of more than USD 6 billion Sukuk comprising sovereign and corporate Sukuk. Also, it acted as Lead Manager and Bookrunner for several issuances around the world.

On the employee engagement side, KFH Group continued to lead in the achievement of market leading engagement results compared to its peers and high performing organizations where we have achieved an engagement level of 83% on the Group Level. Capitalizing on the successful track record in this, KFH was the first bank /company in Kuwait to be awarded by "The Brandon Hall Group" who operates the largest and most prestigious awards program for Human Capital Management where KFH has competed with the top corporations on the global level.

As we review 2022 events and the achievements made, we proudly convey our sincere thanks and gratitude for the efforts exerted by KFH Group members and all departments and sectors, which have reflected positively on the best services provided to our customers and enhanced our shareholders and strategic partners' trust. We look forward to continuing our endeavor to achieve KFH, shareholders and customers aspirations.

Our vast banking experience enables us to maintain a long-term commitment towards our shareholders and enhance prosperity in the markets where we operate. We have witnessed remarkable improvement in the financial positions of subsidiaries despite the challenges and our need to encounter certain structural credit pressures resulting from the economic developments in their countries and regions. We anticipate continuing the achievement of long-term growth, benefiting from income increasing opportunities, improving efficiency and boosting our offers and services.

The values of initiative, compliance and quality will always remain as the main pillars of our social role and contribution to society. We believe that sound governance is reflected not only in achieving financial stability and complying with regulatory requirements but also in taking into consideration society development and environment sustainability. Accordingly, KFH introduced several environmental and sustainability initiatives and signed partnership agreements with government and private entities for the protection of environment as part of the (Keep it green) campaign.

KFH enjoys a track record of social responsibility as it made different social contributions inside and outside Kuwait e.g., signing a memorandum of understanding with Kuwait Municipality for the design and restructuring of the areas damaged in Mubarakiya market fire incident. Work includes the development of the market with estimated cost of KD 8 million. Social contributions also included the settlement of the debts of troubled debtors who have habeas corpus orders issued against them by court. Total debts amount exceeded KD 20 million benefiting around 10 thousand troubled debtors in cooperation with the Ministry of Justice.

KFH also provided support to the Kuwaiti Red Crescent Society in its social and aid initiatives where total value of contributions during 2022 approximated KD 4.5 million.

Along with its outstanding creditworthiness that has been affirmed by global credit rating agencies, KFH received during the year 23 valuable banking awards from global organizations specialized in the follow up and evaluation of top banks activities.

Meanwhile, we will continue to focus our efforts on enhancing our business model and achieving sustainable and joint added value for stakeholders. We focus on customers, innovation, digital banking, green finance, governance and social responsibility.

Finally, I would like to convey our sincere thanks, gratitude, and appreciation to His Highness the Amir of Kuwait Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard him, His Highness the Crown Prince Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard him, and His Highness, the Prime Minister Sheikh Ahmad Nawaf Al-Ahmad Al-Sabah. Our thanks and appreciation are also extended to the Central Bank of Kuwait and regulatory authorities for their continuous support to the banking sector in the State of Kuwait.

May Allah grant us success.

Chairman
Hamad Abdulmohsen Al-Marzouq

Board of Directors

Mr. Hamad Abdul Mohsen Al-Marzouq

Chairman since 2014

Chairman of Board Executive Committe,
and Chairman of Board Governance & ESG Committee

Mr. Al Marzouq received his Master's Degree in International Finance and Business Management from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. in 1985.

Mr. Al Marzouq serves as a Board Member of Kuwait Banking Association (KBA) since 2002 and was appointed as Chairman of the Association from 2010 until 2016. Mr. Al Marzouq served as a Board Member of the Kuwait Institute of Banking Studies (KIBS) from 2003 to 2014 and the Public Authority for Applied Education and Training (PAAET) from 2007 until 2016. Mr. Al Marzouq served as a Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 until 2009 and was a Board Member of the Union of Arab Banks from 2003 until 2010.

Mr. Al Marzouq has a diverse professional experience in Banking and Finance both in Kuwait and abroad spanning more than thirty years as he has held many prominent positions in various banking, financial and regulatory institutions. Mr. Al Marzouq was Chairman and Managing Director of Ahli United Bank - Kuwait from 2002 until 2014, and was Vice Chairman of Ahli United Bank - U.K. from 1998 until 2014 and was Vice Chairman of Ahli United Bank - Egypt from 2006 until 2014. Mr. Al Marzouq served as Vice Chairman of Ahli United Bank – Bahrain from 2000 until 2014 and served as Vice Chairman of Ahli Bank - Oman from 2007 until 2014. Mr. Al Marzouq served as Vice Chairman of the Commercial Bank of Iraq from 2006 until 2014.

Mr. Al Marzouq served as a Board Member, Vice Chairman, and Chairman of Kuwait & Middle East Financial Investment Company in Kuwait from 2002 until 2010. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 until 2013 and was Vice Chairman of Ahli Bank in Qatar from 2004 until 2013.

Mr. Al Marzouq previously held several executive positions at the Central Bank of Kuwait including the position of Deputy Manager of the Technical Affairs Office in 1990. In addition, Mr. Al Marzouq served as the Deputy Manager of Financial Control Department from 1992 until 1996 and then served as Manager of Financial Control Department from 1996 until 1998. Mr. Al Marzouq commenced his professional career as an Investment Officer in the U.S. Equity Portfolios and Derivatives at the Investment Department at Kuwait Investment Company from 1987 until 1990.

Mr. Abdul Aziz Yacoub Al-Nafisi

Vice Chairman since 2014

Member of Board Executive Committee ,
and Member of the Board Nomination and Remuneration Committee

Mr. Alnafisi received his Bachelor's Degree in Economics from Whittier College in the U.S. in 1977.

Mr. Alnafisi holds the position of General Manager of Abdul Aziz Alnafisi General Trading Company.

Mr. Alnafisi has a wealth of experience in Kuwait and abroad as he has held many prominent leadership positions in companies within Banking, Financial, Real Estate and Telecommunication Sectors.

Mr. Alnafisi was a Board Member in Mobile Telecommunications Company "Zain Group" from 2005 until 2017 where he held the position of Vice Chairman until 2013. In addition, he was a Board Member in Mobile Communication Company - Saudi Arabia "Zain KSA" from 2013 until 2019. Mr. Alnafisi held many positions in the Board of Directors of Zain Group MENA entities including Zain Iraq, Zain Jordan and Zain Sudan as well as many positions in the Board of Directors of Celtel - Zain Africa.

Mr. Alnafisi was the Chairman of Mada Communication Company from 2001 until 2011 and assumed the position of the Chairman of Al Madar Finance and Investment Company from 1998 until 2004. Mr. Alnafisi was a Board Member of Wethaq Takaful Insurance Company from 2000 until 2004 and was a Board Member of Kuwait Investment Projects Company from 1993 until 1996. In addition, Mr. Alnafisi held the position of the Chairman of KFIC Brokerage Company from 1989 until 1992.

Mr. Alnafisi previously held several executive positions including the position of CEO of Alnafisi National Real Estate Group from 1996 until 2010. In addition, Mr. Alnafisi held the position of Deputy General Manager of Yacoub Alnafisi General Trading and Contracting Establishment from 1984 until 1990 and Managing Director of KFIC Brokerage Company from 1989 until 1990. Mr. Alnafisi commenced his professional career as the Head of Banking Facilities Division at Burgan Bank from 1978 to 1981.

Mr. Noorur Rahman Abid - Independent Member

Board Member since 2014

Chairman of Board Audit and Compliance Committee,
and Chairman of Board Nomination and Remuneration Committee

Mr. Abid has been a Fellow Chartered Accountant from Institute of Chartered Accountants in England and Wales (ICAEW) since 1976.

Mr. Abid was appointed as Assurance Leader for Ernst & Young Middle East and North Africa in 1999 and has vast experience within the profession spanning more than 41 years.

In 2012, Mr. Abid received the World Islamic Banking Conference Industry Leadership Award in recognition for his contribution to the Islamic Banking industry.

Mr. Abid previously served as Chairman of the Accounting Standards Committee and Vice Chairman of Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Mr. Abid is currently a member of the Board of Trustees of the (AAOIFI). Mr. Abid served as the Chairman of the Audit Committee and the Chairman of Board Human Resources Committee at Meezan Bank, one of the largest Islamic Banks in Pakistan. In addition, Mr. Abid is a Board Member at Arcapita Company in the Kingdom of Bahrain and Chairman of its Audit Committee. Mr. Abid is a Board Member at Dr. Soliman Fakeeh Hospital in Jeddah in the Kingdom of Saudi Arabia, Chairman of its Audit Committee, and a member of its Nomination and Remuneration Committee.

Mr. Motlaq Mubarak Al-Sanei

Board Member representing Kuwait Investment Authority since 2017

Member of Board Executive Committee, Member of Board Risk Committee,
and Member of Board Nomination and Remuneration Committee

Mr. Al Sanei received his Bachelor's Degree in Economics from Kuwait University in 1983.

Mr. Al Sanei has a wealth of professional experience in the Economic and Investment field where he has held numerous prominent positions. He served as the Director General of Kuwait Authority for Partnership Projects from 2016 until 2020, and he served as the Chairman and Board Member for numerous leading companies in Kuwait including the role of Chairman of Kuwait Small Projects Development Company from 2005 until 2011. Mr. Al Sanei has assumed overseas roles including the role of Chairman of the Tunisian Kuwaiti Bank from 2001 until 2011.

Mr. Al Sanei made efficient and effective contributions to the Board Committees he participated in. He headed the Privatization Committee of Kuwait Airways Corporation in 2010. In addition, Mr. Al Sanei has a highly distinguished professional experience in the field of Islamic Banking and Capital Markets as he headed the Founding Committee of Warba Bank. In addition, he was a member of the Privatization Committee of Kuwait Stock Exchange in 2011 and the Founding Committee of Media City Company in 2008.

Mr. Al-Sanei was a Board Member in several leading companies in Kuwait including Tri International Consulting Group (TICG) from 2014 until 2016 and Bank of Bahrain and Kuwait from 2011 until 2017. He served as a Board Member in several companies abroad including Arab Investment Company in the Kingdom of Saudi Arabia from 2008 until 2015, Arab Authority for Investment and Agricultural Development in the Republic of Sudan from 2001 until 2008, and the Kuwaiti United Company in the Syrian Arab Republic for one year.

Mr. Al Sanei was a member at Kuwait Economic Society from 2006 until 2014 and Board Member of Kuwait Airways Company during 2011. In addition, he assumed the role of Chairman and General Manager for the Kuwaiti Tunisian Development Group. Mr. Al Sanei served previously as the General Manager of the Kuwaiti Real Estate Investment Group Office in Tunisia until 2000.

Mr. Salah Abdulaziz Al-Muraikhi

Board Member representing Kuwait Investment Authority since 2018

Member of Board Audit and Compliance Committee, Member of Board Investment Committee, and Member of Governance & ESG Committee

Mr. Al-Muraikhi received his Master's Degree in Business Management and Financial Accounting from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Finance from the Kuwait University in 1984.

Mr. Al-Muraikhi joined Kuwait Investment Authority in 1996. He then worked in Kuwait Investment Office in London from 2000 until 2005. Mr. Al-Muraikhi currently holds the position of Director of Hedge Fund Department in Kuwait Investment Authority.

Mr. Al-Muraikhi has a wealth of professional experience in the Economic and Investment field where he held numerous prominent positions. He served as the Chairman of the Board of Farah Al-Maghreb Company (previously known as Moroccan Kuwaiti Development Group) from 2015 until 2018, Board Member of Kuwait Investment Company from 2012 until 2018, Chairman of the Board for Pakistan Kuwait Investment Company from 2007 until 2012, Board Member of Kuwaiti Egyptian Investment Company from 2007 until 2013, Board Member of Grupo Plastico Company in Spain from 2004 until 2005, Vice Chairman for Kuwait Real Estate Investment Consortium from 1998 until 2000 where he held the position of Managing Director from 1999 until 2000. Mr. Al-Muraikhi served as Board Member of Housing Bank in Amman - Jordan from 1997 until 2001.

Mr. Mohammed Nasser Al-Fouzan

Board Member since 2020

Member of Board Audit and Compliance Committee,
and Member of Board Investment Committee

Mr. Al Fouzan received his Bachelor's Degree in Business Administration from Kuwait University in 1986. He also received his Higher Banking Diploma from the Arab Institute for Banking Studies - Jordan in 1989.

Mr. Al Fouzan has successfully completed many specialized training programs and he holds numerous specialized professional certificates such as the Executive Development Program from The Wharton School in the United States of America in 2001, and the Strategic Management Program from Harvard Business School in 2006.

Currently, Mr. Al Fouzan is the Vice Chairman of Kuwait Finance House - Bahrain since 2012, and a Board Member in Kuwait Finance House - Malaysia since 2014. In addition, he previously held various positions in different companies such as the Chairman of (K-Net) Company from 2005 until 2008, and the Chairman of International Turnkey Systems Group (ITS) from 2008 until 2012.

Mr. Al Fouzan previously held several executive positions at KFH Group including the Group CEO Office Consultant from 2014 until 2018, Acting CEO in 2014 and Chief Retail Banking Officer from 2012 until 2014.

Mr. Khaled Salem Al-Nisf

Board Member since 2014

Member of Board Risk Committee, Member of Board Executive Committee, and Member of Board Investment Committee

Mr. Al Nisf received his Bachelor's Degree in Finance from the College of Commerce, Economics and Political Sciences at Kuwait University in 1995. He also pursued specialized courses in Financial Statement Analysis from the Institute of International Research, in addition to several specialized courses in Islamic Banking.

Mr. Al Nisf is a Board Member at Kuwait Digital Computer Company since 2001. In addition, Mr. Al Nisf holds the position of Board Member at Al-Shamiya Holding Company since 2016 and is a Board Member at Al Tadamon Al Kuwaitiya Holding Company since 2016.

Mr. Al Nisf held the position of Chairman of the Executive Board specialized in setting strategies and implementation at Al Nisf Group of Companies. Mr. Al Nisf has held the position of CEO at Mohamed Bin Yusuf Al Nisf & Partners Company, Al Tadamon Al Kuwaitiya Company, and Trading and Industrial Equipment Company since 2008.

Mr. Al Nisf previously held several executive positions including the position of Investment and Finance Manager at Al Nisf Companies from 1997 until 2008 and was the Administration Manager of the Company from 1995 until 2007. In addition, Mr. Al Nisf previously held the position of Deputy Chairman at the Kuwaiti Digital Computer Company from 2016 until 2019.

Ms. Hanan Yousif Ali Yousif

Board Member representing Kuwait Awqaf Public Foundation (KAPF) since 2019

Member of Board Governance Committee, and Member of Board Risk Committee

Ms. Hanan Yousif received her Bachelor's Degree in Business Administration in Finance and Banking from Kuwait University in 1996.

Ms. Hanan Yousif is the Director of the Investments Management Department in Kuwait Awqaf Public Foundation since 2018, and holds now the position of Acting Deputy Secretary General for Investment since June 2021. Ms. Hanan Yousif commenced her professional career in the Investments Management Department at Kuwait Awqaf Public Foundation as a Financial Researcher in 2000. In addition, Ms. Hanan Yousif held the position of Head of Financial Investment Unit from 2004 until 2011, and the Investment Management Controller from 2011 until 2018.

Furthermore, Ms. Hanan Yousif was a board member representing Kuwait Awqaf Public Foundation in Public Services Company from 2003 until 2006, Al Masar Leasing & Investment Company from 2005 until 2012, Al Madar Finance & Investment Company from 2006 until 2007, and Rasameel Investment Company since 2012 until 2021. In addition, Ms. Hanan Yousif held the position of Chairman of the Board Audit Committee and Board Risk Committee in Rasameel Investment Company since 2015 until 2021.

Ms. Hanan Yousif possesses a vast financial experience. During her professional career, she held numerous prominent leadership roles at Kuwait Awqaf Public Foundation including the position of Member and Rapporteur of the Staff Social Committee from 2001 until 2003, Rapporteur of Waqf Resources Development and Investment Committee since 2010, Assistant Rapporteur of the Committee for responding to the Observations of the State Audit Bureau of Kuwait since 2010, a member of the Strategic Planning's Working Group in 2013, and a member of Awqaf Management System Implementation Committee in 2014. Ms. Hanan Yousif also served as the Rapporteur of the Doubtful Debt Reviewing Committee in 2015 and the Secretary of the Real Estate Investment Company (Al-Awadhi) Liquidation Committee from 2016 until 2018.

Mr. Fahad Ali Al-Ghanim

Board Member since 2014

Chairman of Board Investment Committee, Member of Board Executive Committee, and Member of Board Audit and Compliance Committee

Mr. AlGhanim received his Bachelor's Degree in Civil Engineering from Kuwait University in 2002.

Mr. AlGhanim is the Chairman of Ali Alghanim Sons Automotive Co., K.S.C.P since 2021. He is also CEO at Ali Mohammed Thunayan AlGhanim and Sons Automotive Company since 2005, the Vice Chairman of Aayan Leasing and Investment Company since 2022 and the Chairman of Global Auto S.A.E., BMW - Egypt since 2021.

In addition, he is the Vice Chairman of AlAhlia Heavy Vehicles Selling and Import Company since 2011, Board Member of Kuwait Building Materials Manufacturing Company since 2004, Board Member and Treasurer at Kuwait Sports Club since 2007 and member of Kuwait Society of Engineers since 2003.

Mr. AlGhanim has held many prominent leadership positions including the Chairman of Aayan Leasing and Investment Company from 2011 until 2022, the Chairman of the Restructuring Committee at Aayan Leasing and Investment Company from 2010 until 2011, the Chairman and CEO of Al Ahlia Heavy Vehicles Selling and Import Company from 2005 until 2011, and Board Member of the Representatives Board of the World Agents of McLaren Motors Company (Representatives of the Middle East) from 2010 until 2015.

Mr. AlGhanim assumed Board Member positions in numerous local companies including the International Company for Electronic Payment (UPS) from 2005 until 2010, Al-Oula Slaughter House Company from 2003 until 2005, and was the CEO of Ali AlGhanim and Sons Group of Companies – Contracting Sector from 2002 until 2005.

Mr. Muad Saud Al-Osaimi

Board Member since 2014

Member of Board Executive Committee, Member of Board Risk Committee, and Member of Board Investment Committee

Mr. Al Osaimi received his Bachelor's of Science Degree in Finance from George Mason University in the U.S. in 2001.

Mr. Al Osaimi was appointed as the Chairman of Kuwait Finance House - Malaysia since 2017. He also served as a Board Member of numerous companies including Kuwait Gate Holding Company from 2004 until 2014, Kuwait Financial Center Company from 2008 until 2011 and Al Raya International Holding Company from 2005 until 2009.

Mr. Al Osaimi is the CEO of Faiha International Real Estate Company since 2017. He previously held the position of Deputy General Manager of Global Retail Company from 2003 until 2020. In addition, Mr. Al-Osaimi worked at the Investment Department of Aayan Leasing and Investment Company in 2002 and completed an 18 months specialized training program for graduates at Kuwait Investment Authority (KIA) in 2001.

Mr. Hamad Abdullateef Al-Barjas

Board Member since 2020

Member of Board Audit and Compliance Committee, Member of Board Nomination, and Remuneration Committee, and Member of Board Governance & ESG Committee

Mr. Al Barjas received his Bachelor's Degree in Civil Engineering from the College of Engineering and Petroleum at Kuwait University in 1993. Mr. Al Barjas has attended many courses in the fields of management, control, leadership skills, strategic planning, information technology, artificial intelligence, and digital transformation.

Mr. Al Barjas is Acting Director General of Kuwait's Public Authority for Minors Affairs (PAMA) since 2020, Board Member of Kuwaiti Zakat House since 2020, Member of the Board of Trustees of the Martyr's Bureau since 2020, Board Member of Al Durra for Manpower Company since 2019, Member of Kuwait Society of Engineers since 1993 and Member of Kuwait Red Crescent Society since 2011.

Mr. Al Barjas previously held several positions including Deputy Director General of Minors Affairs since 2017 until 2020, Deputy General Manager for the Administrative and Financial Affairs in the PAMA from 2016 until 2017, Board Member of REAM Real Estate Company from 2000 until 2004, Board Member of Al Khaldiya Cooperative Society since 1998 until 2001, and Member of the Media Bureau of the National Committee for Missing and PoWs Affairs (NCMPA) since 2001 until 2003. He also served as the Head of the Technical Task Force charged with following up the design and construction of PAMA's complexes in Mahboula and Head of the Technical Task Force charged with following up the design and construction of the PAMA's headquarters and branches in Ahmadi and Jahra Governorates, in coordination with the Ministry of Public Works. Mr. Al Barjas also worked as a member of the committee charged with following up on the design and construction of the Heritage Markets Project (Al Zal Market and Money Exchange Area) on B.O.T basis from 1995 until 1998. Further, Mr. Al Barjas held other positions at PAMA such as the Director of the Engineering Department, Head of the Construction Department in 1996 and an Engineer in the Construction and Maintenance Department from 1994 until 1996. He also worked as an Engineer in the Engineering Department of the Shuaiba Refinery at the Kuwait National Petroleum Company.

Mr. Ahmed Meshari Al-Faris

Board Member since 2020

Chairman of Board Risk Committee, and Member of Board Governance & ESG Committee

Mr. Al Faris received his Higher Diploma in Islamic Finance from the College of Graduate Studies at Kuwait University in 2010. In addition, he received his Master of Business Administration in 2009 and Postgraduate Diploma in Business Administration in 2006 from Maastricht School of Management – Kuwait. Mr. Al Faris received his Bachelor's Degree in Accounting from the College of Business Administration at Kuwait University in 2000.

Mr. Al Faris is currently the Board Secretary at Kuwait Telecommunication Company since 2019 and Board Treasurer in Kuwait Transparency Society. In addition, Mr. Al Faris was the Acting Chief of the Internal Audit Department at Kuwait Telecommunication Company from 2019 until 2020, the Assistant Under-Secretary for the Corporate Affairs and Commercial Licenses at the Ministry of Commerce and Industry from 2017 until 2018, Board Member at the Public Authority for Industry from 2017 until 2018, Board Member at the Central Bank of Kuwait in 2018, Board Secretary at the Kuwait Accountants and Auditors Association from 2017 until 2019, Chairman of the Kuwait Accountants and Auditors Association from 2015 until 2017 and a Board Member from 2007 until 2015.

Mr. Al Faris holds many Professional Certificates such as Certified Compliance Officer (CCO) since 2019, Certified Merger & Acquisition Specialist (CMAS) since 2017, Certified Professional Internal Auditor (CPIA) since 2015 from the United States of America, Certified Risk Based Auditor (CRBA) since 2015 and Certified Risk Analyst (CRA) since 2014 from Hong Kong.

Fatwa & Shari'a Supervisory

Board's Report

The Annual Report of Fatwa and Shari'a Supervisory Board 2022 Kuwait Finance House

To the Respected KFH Shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh…

Praise be to Allah, the Almighty, and peace and blessings be upon our Prophet Muhammad, his family and his companions.

We have reviewed and endorsed the policies, products, services and activities that KFH had carried out in 2022. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwas, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held 27 meetings during the year 2022, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Research and Advisory Department conducted its review on contracts, agreements; and policies and procedures as per Fatwa and Shari'a Supervisory Board's resolutions in addition to the Group Internal Shari'a Audit conducted audit exercises on randomly selected samples of all operations and transactions of KFH with the shareholders, investors, clients and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and subsidiaries. The Shari'a Board has also received the periodic reports that the Group Internal Shari'a Audit Department has prepared on the Shari'a audit process and operations, site visits and compliance status of the process and implementation of the fatwa and resolutions issued by the Fatwa and Shari'a Supervisory Board.

We have also obtained all necessary information and clarifications to give us sufficient evidence to provide reasonable confirmation that KFH and its subsidiaries had complied with Shari'a rules and principles in all its operations that have been presented to the Fatwa and Shari'a Supervisory Board.

Through the process and steps that we followed to ascertain the compliance of KFH to the Shari'a rules, we confirm the following:

First; the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2022 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Second; the profit distribution and loss bearing on the investment accounts are in compliance with the terms of our approval in accordance with the rules and principles of Shari'a.

Third; the Zakat calculation is made in accordance with the Company Zakat Manual issued by Kuwait Zakat House, and in accordance with the resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Peace be upon our Prophet Muhammad, his family members and companions and praise be to Allah, the Lord of the universe.

Kuwait Finance House (K.S.C.P.) and Subsidiaries
Annual Report 2022
Fatwa & Shari'a Supervisory Board's Report

Sheikh/ Professor Dr Sayyid Mohammad Sayyid Abdul Razaq Al-Tabtaba'e
Chairman, Fatwa & Shari'a Supervisory Board

Sheikh/ Dr. Anwar Shuaib Al-Abdulsalam
Member, Fatwa & Shari'a Supervisory Board

Sheikh/ Professor Dr. Mubarak Jeza Al-Harbi
Member, Fatwa & Shari'a Supervisory Board

Sheikh/ Dr. Esam Abdulrahim Al-Ghareeb
Member, Fatwa & Shari'a Board Member

Sheikh/ Dr. Khaled Shujaa' Al-Otaibi
Member, Fatwa & Shari'a Supervisory Board

Date: 3 Jumada Al-Akhera 1444 H
Corresponding: 27 December 2022

Fatwa & Shari'a Supervisory Board

**Sheikh Professor
Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e**

Chairman of Fatwa & Shari'a Supervisory Board

Dr. Al-Tabtaba'e received his PhD in 1996, and his master's degree in 1993 from the Higher Judicial Institute at Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia. He received his bachelor's degree in 1988 from the College of Shari'a at Imam Mohammad Ibn Saud Islamic University in Al-Qaseem.

Dr. Al-Tabtaba'e is currently the Chairman of Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Al-Tabtaba'e chairs the Fatwa Board for Personal Status Law of the Ministry of Awqaf & Islamic Affairs in the State of Kuwait. During his professional career he held several prominent positions e.g., Chairman of the Shari'a Law Implementation Committee, and Member of the Board of Trustees of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr. Al-Tabtaba'e was the former Dean of Shari'a and Islamic Studies College at Kuwait University, former Vice Chancellor of Kuwait University, and a teaching faculty member of the college at professorship grade.

Sheikh Professor Dr. Mubarak Jeza Al-Harbi

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Harbi received his PhD in Comparative Islamic Jurisprudence from the Faculty of Dar Al-Uloom in Cairo University, Egypt in 2002. He received his master's degree in Comparative Islamic Jurisprudence from the Faculty of Dar Al-Uloom in Cairo University, Egypt in 1998. Dr. Al-Harbi received his bachelor's degree in Shari'a from the Islamic University of Medina, Kingdom of Saudi Arabia in 1992.

Dr. Al-Harbi is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2009.

Dr. Al-Harbi is member of the Fatwa and Shari'a Supervisory Board for Kuwait Finance House - Bahrain. He is also a member of the Fatwa Board at the Ministry of Awqaf and Islamic Affairs in Kuwait, and a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions and organizations.

Dr. Al-Harbi was former head of the Comparative Islamic Jurisprudence and Shari'a Policy Department at Shari'a and Islamic Studies College of Kuwait University.

Sheikh Dr. Anwar Shuaib Al-Abdulsalam

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Abdulsalam received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Al-Azhar University in Egypt in 1999. He received his master's degree in Islamic Jurisprudence and Usul Al-Fiqh from Al-Azhar University in Egypt in 1996. Dr. Al-Abdulsalam received his bachelor's degree in Shari'a from Kuwait University in 1989.

Dr. Al-Abdulsalam is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2000.

Dr. Al-Abdulsalam is a member of the Fatwa and Shari'a Supervisory Board of Kuveyt Turk Participation Bank and a member of Fatwa & Shari'a supervisory boards at various Islamic financial institutions and organizations.

Dr. Al-Abdulsalam was former head of Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College of Kuwait University.

Sheikh Dr. Esam Abdulrahim Al-Ghareeb

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Ghareeb received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the United Kingdom in 2000. He received his master's degree in Islamic Jurisprudence and Usul Al-Fiqh from the same university in 1997. Dr. Ghareeb received his bachelor's degree in Islamic Jurisprudence and Usul Al-Fiqh from Kuwait University in 1988.

Dr. Al-Ghareeb is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Al-Ghareeb is a teaching faculty member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College and at the Faculty of Law of Kuwait University.

Dr. Al-Ghareeb previously held the position of Assistant Dean at Shari'a and Islamic Studies College and College of Law of Kuwait University. Dr. Ghareeb also held the position of member of the Shari'a Law Implementation Committee.

Sheikh Dr. Khaled Shujaa' Al-Otaibi

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Otaibi received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 2000. He received his master's degree in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 1995. Dr. Al-Otaibi received his bachelor's degree in Islamic Jurisprudence and Usul Al-Fiqh from the Islamic University of Medina, Kingdom of Saudi Arabia in 1991.

Dr. Al-Otaibi is currently a member of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House since 2014.

Dr. Al-Otaibi is a teaching faculty member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College of Kuwait University. He is the head of the Shari'a Supervisory Board at Kuwait Zakat House and the general advisor for Kuwait Hajj Delegation and a member of Fatwa & Shari'a supervisory boards at various Islamic financial institutions and organizations.

Dr. Al-Otaibi is an imam and orator at the Ministry of Awqaf and Islamic Affairs in Kuwait.

Economic Developments

During 2022

Inflation rates during 2022 reached record levels that the world has not witnessed since 2008, so we can say that 2022 is the year of inflation.

The causes of inflation are due to the repercussions of the Corona crisis, as governments around the world have spent to support the economy and reduced the interest rate to a level that touched zero in some countries, which led to a rise in prices, in addition to the rise in shipping prices globally and the results of the Ukrainian war, which led to a rise in oil prices globally and thus higher prices of food and other commodities.

The Federal Reserve had no choice in 2022, but to wage a relentless war on inflation, yet with consequences that impacted both advanced and developing jurisdictions affected by the depreciation of their currencies. Aware of the costs, the Federal Reserve officials and their counterparts around the world are trying to defeat inflation by rapidly raising interest rates. The Federal Reserve raised the fed funds rate by 50bps to 4.25% - 4.5% during its monetary policy meeting of 14 December 2022, pushing borrowing costs to the highest level since 2007. It was a seventh consecutive rate hike, following four straight three-quarter point increases.

The US dollars flied high in 2022 reaching the highest level during September 2022 when registered 114.2 points. While on 15 December the US dollar index registered 103.9 points higher by %8.8 compared to the closing of the index at 95.5 points at the end of year 2021.

As a result of the increase in the US Dollars, the emerging countries currency retreated in value causing a hyperinflation in their countries.

The annual inflation rate in the US slowed for the 4th month to %7.7 in October, the lowest since January, and below forecasts of %8 and below %8.2 in September. The US registered the highest inflation rate in June 2022 when the inflation reached %9.1, while the lowest inflation rate registered during the year was in January by %7.5.

The situation in Europe is not better due to the direct effect of the Russian Ukrainian war, and the shortage of the energy supply which mainly comes from Russia. Annual inflation rate in the Euro Area continued to break record high levels and jumped to %10.7 in October of 2022 from %9.9 in September. The inflation in Euro Area was the lowest during the year 2022 at %5.1 in January.

During 2022, the Central Bank of Kuwait raised its key discount rate four times, the first of which was on July 27 by 25 bps. The second hike was on August 10 by the same previous amount, followed by another hike on September 21, again by 25 bps, while the fourth time was on December 6 by 50 bps, bringing the key discount rate to %3.5, which raised borrowing costs to their highest levels since September 2019.

Despite the economic slowdown globally, the latest International Monetary Fund (IMF) in October 2022 forecasts Kuwait to register %8.7 GDP growth in 2022, the highest growth among all the GCC countries, and better than their forecast in April 2022 which was %8.2. The notable expected growth is supported by the high oil prices and large reserve funds. Despite the high inflation period globally, the annual inflation rate in Kuwait eased to %3.19 in September 2022, an upwardly revised %4.2 in the previous month. It was the lowest reading since August 2021. The annual inflation rate in Kuwait edged higher to %3.27 in October of 2022 from its lower inflation level within one year which registered in the previous month.

Acting Group Chief Executive Officer's Message & Key Achievements

In the name of Allah, Most Gracious, Most Merciful

Praise be to Allah the Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and companions.

By the grace of Allah, Kuwait Finance House (KFH) demonstrated its robust organizational structure and successful business model during 2022. KFH improved performance efficiency, maximized solvency, developed and diversified the base of products, services and human talents. As well, KFH led competition and increased its market share, reflecting customers' confidence and constant leadership.

KFH continued its growth, taking into consideration the global and local economic developments, while following risk and strategy policies, governance standards as well as the Islamic Shari'a principles. The Bank has constantly focused on innovation, digitalization and banking technology to maintain its standing as the best bank for current and potential customers. KFH capped off its efforts with the successful completion of AUB-Bahrain acquisition deal, a major advance, and a strategic shift in KFH's business journey.

Financial indicators

KFH has achieved major growth in key financial indicators reflecting strong performance and financial robustness as well as the success of policies and plans that are being implemented. The indicators also reflect KFH's balanced performance and sustainable growth in all main budget items, with a clear increase in operating income, a reduction in expenses and rationalization of spending as well as a growth in the volume of assets, deposits, capital ratios and other items listed in the financial statements included in the 2022 Annual Report.

On another front, we emphasize the importance of maintaining a good dividend policy, as I have full confidence in KFH's solid financial position and the Group's ability to continue generating profits and rewarding its shareholders.

Strategy

During 2022, the Strategic Planning adopted innovative initiatives dealing with the principal pillars of KFH strategy. It followed with high efficiency the set targets and outlined a clear measurable and realistic plan which enabled it to follow up the strategic projects which the KFH Group aims to launch in the next few years. This created harmony within the Group and helped overcome obstacles for various administrative units. During the year, the Strategic Planning tasks were expanded to monitor the external environment and the successive changes as well as monitoring customer feedback and studying their banking experience in order to enrich their experience and strengthen their loyalty. We used in this pursuit effective tools of prognosis, planning, analytics and measurement, therefore enabling KFH Group to augment its market capitalisation to become the highest in the Kuwaiti market with the completion of the acquisition of Ahli United Bank (AUB).

The planning process was realistic and ambitious,and utilized effecientlt the Fintech on KFH diverse application programming interface (APIs) and our comprehensive data, through continuous follow up and specialized reports about the course of business under the economic developments and indicators of the banking industry locally and globally. The strategic plan takes into consideration security protection standards, enhances Cloud solutions and meets the goals of monetary and financial policies in the international environment and the countries in which KFH Group operates.

The Strategic Planning team carried out in 2022 close follow up of all Group activities and initiatives. It provided the BoD and the Executive Management with regular reports on the course of business, achievements, obstacles and means of overcoming them in coordination with various departments.

Risks

Thanks to our strong risk management framework at the Group level, our prudent risk approach, and the comprehensive governance framework that we implement and support effectively, we carefully manage credit risks in all businesses of the Group and its subsidiaries through a comprehensive and strong framework of supervision and governance. Also, we have a solid framework and tools to continuously identify external and internal threats and potential failures in people, processes and systems.

The Risk Management Department successfully implemented an early warning program for credit risks at the Group level, which contributed to improving the quality of assets and reducing bad debts and had a direct impact on mitigating the cost of credit risks and improving the Group profitability. This was implemented successfully and with integration between the Group subsidiaries in Kuwait, Turkiye and Malaysia, despite the economic and geopolitical changes. The Department also succeeded in implementing several experiments at the Group level to ensure business continuity under potential disaster scenarios.

Corporate finance

KFH maintained its vital role in corporate finance and business sector and increased its market share as well as strengthened its prestigious position in the corporate finance market where KFH runs credit portfolio of the highest-quality assets. KFH took a number of initiatives to solidify the relationship with customers, which had a positive impact on supporting the national economy and achieving KFH mission to create favourable investment environment. Also, KFH kept financing SMEs in appreciation of the important role they play in diversifying the national economy and creating job opportunities for young people.

KFH contributed to several financing deals, including acting as the lead arranger for a USD 216 million syndicated financing facility for Agility Public Warehousing Company to finance the acquisition of John Menzies Airport Services.

Banking services

Seeking to maintain its position in Kuwait, and to lead the Islamic banking sector by providing comprehensive package of products and services in the retail and private banking, KFH launched several major customer-focused campaigns, which achieved successes based on the customers assessment. In the face of renewed and intense competition, the high-quality assets of KFH witnessed strong and sustainable growth, while the bank successfully attracted high-net-worth Kuwaiti clients by significantly increasing its market share in personal finance since the beginning of this year.

As part of its endeavor to develop the branches network, KFH continued to invest in direct customer service initiatives, which included the renovation of branches in order to reflect the new and modern design of the Bank. The following four branches have been renovated in 2022: Bayan - Al-Khalidiya - Al-Jahra - Sabah Al-Salem, while work is underway to renovate four other branches: Salwa - Al-Qadisiyah - Sabah Al-Nasser - Fahaheel.

Innovative products

KFH launched several new innovative products and services and digital technologies with great success, including the staff rotation scheme designed to meet the needs of Kuwaiti and GCC customers in Turkiye, free airport service for Al Ruwad customers, raise over tenfold the number of withdrawals on Al Rabeh account, launch of the enhanced Baitak Rewards Program through travel catalogue, in addition to partnerships with major trademarks such as Qatar Airways, Alshaya Group, Privilege Club, Turkish Airlines, First Fuel Company, and others. Meanwhile, KFH successfully launched prepaid cards in five different currencies – US Dollar- UAE Dirham- Euro- Pound Sterling- Saudi Riyal, in addition to the KFH card for corporates as well as additional charge cards. Also, KFH launched many campaigns such as the "The Card is in Your Court with VISA" campaign, in addition to the service of cash deposit delivery for private banking customers.

With the aim of ensuring quality of service, KFH launched a new contact center infrastructure using Avaya Aura® Contact Center that improves and creates communication and collaborative interaction with customers, and directly enhances system stability and efficiency as well as productivity. Furthermore, new Digital Print service has been launched to end paper transactions in retail banking.

The shift of customers from the traditional channels of basic transactions and services to KFHonline app is evidence of their changing needs. All key services have been offered through the website, ATMs, KFHGo, and KFHonline app. We introduced a new service that enables non-KFH customers to open a bank account using the interactive XTMs.

Meanwhile, we worked on collecting direct feedback from customers at every touchpoint, with prompt follow-up and taking notice of their complaints or praise for the excellent service provided. In this regard, KFH launched the CX Hero Program to employees which aims to build a strong culture focusing on customer centralization, enhancement of customer satisfaction and inspiring employees to exceed customers' expectations. Also, an independent review is conducted by a third party to follow and assess the service level provided through all customer touchpoints with the Bank's channels. There has been a positive improvement over the years- by the grace of Allah- in service and behavior across all channels.

Digital transformation

As part of KFH's ongoing digital transformation journey, the Digital Transformation and Innovation Department struck many fruitful partnerships with Fintechs and SMEs that have generated value for internal stakeholders, external customers and regulatory bodies. Advancements have been made in sync with regulatory open banking initiatives. At the same time new products such as BNPL Service (Buy Now Pay Later) are being explored in an effort to maximize value for both our shareholders and customers. KFH and the team leading the digital transformation are keen on adapting and applying the latest technologies that not only maximize value for our stakeholders but also simplify and make day-to-day banking easier and more enjoyable.

We endeavored to promote a culture of innovation and continued process improvement internally which subsequently elevates our product and service delivery.

In line with our digital strategy, digital awareness campaigns and projects are ongoing and one of their fruits has been the Digital Academy. By providing the latest and best educational tools, knowledge, and frameworks easily accessibly on a large scale, KFH will be able to continue growing in the market.

Information Technology

The Information Technology Department implemented dozens of projects, services, systems and programs related to strengthening our approach towards digitization and the technicalization of all our services and products. In collaboration with the concerned departments, the department introduced a new FC Pre-Paid Card with Turkish Lira for frequent travelers to Turkiye, in addition to the current available 5 FCs Pre-Paid Cards. The new card gives a smart and convenient way to carry travel-spending money. Along with new supplementary charge card issuance within shared limits, the new systems witnessed successful update of card issuance systems to reach the validity of bank cards issued by the bank to a period of five years. K2K Money "Send" Service has also been issued through KFH Online to allow customers to send money using phone number through KNET links.

We successfully implemented the variable Ijarah product to serve individual finance, corporate and finance operations teams by providing a new mechanism that matches with the latest variable rates applied by the CBK to ensure proper profit recognition by KFH. Also, The Department automated three AML-intensive resources processes using RPA technology. The processes are Transaction Monitoring (TM), Blacklist Monitoring (BM), and Real-time SWIFT Filtering. In addition, the real estate valuation has been automated. This new solution was intended to serve KFH customers, non-KFH customers, banks, and financial institutions as well as the Bank's departments who have real-estate evaluation step as part of their business-as-usual processes.

As per CBK's requirements, KFH is currently able to identify KFH customers with special needs, the type of such needs, and the severity of these needs. This contributes to raising the level of dealing and satisfaction with the bank's customers.

As one of the important activities that ensure business continuity at KFH, the one-week integrated testing experiment of backing up the main systems of KFH on the backup operational environment (DR) has been successful. Following this experiment, the return to the actual operational environment has been completed successfully.

In collaboration with external partners, a card-on-file transaction for Kuwait Airways has been enabled to offer a new service to passengers where they can upgrade seats online through a third-party vendor without contacting the airline. Among other achievements: the automated merchandise return - VISA mandate, Zain Kiosk bill payments has been identified as ATM Transactions instead of being POS, apply necessary validations and controls to the corporate charity donation service to ensure compliance with recommended KFH security standards, to better serve our customers in the safest possible way and to 3D Secure OTP SMS text format enhancements, and merchandise refund SMS.

Moreover, we are implementing the leading project Digital Printing system in the branches. This CR is a major step towards digital banking and it will reduce the number of physical documents printed by the branch and transferring it to a digital copy.

We applied several improvements in the systems that led to the rapid extraction of Central Bank of Kuwait reports collected through KFH's system by enabling parallel operation, which has contributed to a reduction in time. Also, we added new reports in CBK reporting system to consolidate all the written off Retail personal finance transactions, Real-estate transactions and corporate transactions, therefore changing the behavior for outward cheques to limit the accepted account types, enhance the CBK check report to be sent to business, and automate the filling and the extraction of the Financial Disclosure Notes to save time and effort.

Also, we made enhancements on reporting expired Ijarah, XTM regulatory enhancements, adding XTM ID to transaction description in customer account statement in the following transaction types: cash/deposit withdrawals and buy gold, applying modifications for incoming telex messages MT103, MT202, MT199, MT299 to achieve higher system efficiency and speed of passage.

The department successfully added Maker-Checker control over card activation function on SSO-CMS, automated the suspicious transactions report, replaced Moody's Risk Analysis System with Risk Management with Credit Lens for the analysis and evaluation of the credit center of customers so that the data of the credit centers of KFH Group were collected and concentrated in one database with Kuwait as its center.

On the other hand, a large and important range of vital bank systems have been upgraded to keep up with the latest releases such as: Risk IBM Open Pages for suspected risk operations, credit card issuance system, HR system to work on the cloud, upgrade of network devices and information security devices, Super Cluster Database System, special systems for identifying users "Active Directory", provision of 250 new servers, and upgrade of the Domain Controllers and servers from 2012 to 2019 core.

Group Operations

Thanks to its regional and local position as a leading bank in adopting innovative technology that maximizes productivity, minimizes cost, and maintains the lowest risk ratios and most sound control measures, KFH Group Operations continues to focus on operational excellence as the engine facilitating all distinguished customer journeys for all KFH products and services.

In 2022, we launched and engaged in several transformation projects and focused on digitalizing some key back-office processes using RPA and A.I technologies in areas like customer clearance letter for our customers which was consuming long time and efforts and doesn't provide our customers with the expected experience.

There were several achievements in card operations toward enhanced customer experience and operational excellence achieved by Introducing non-stop processing (7 Days in a week) incoming and outgoing files related to settlement and reconciliation. We have enhanced the system and stopped issuing PIN mailers for all credit and prepaid cards, instead and in a unique customer experience, KFH customer can select his/her own preferred PIN through ATM's.

Moreover, Operations Department had also introduced further enhancements in several areas of finance operation where we digitalized all trade finance physical files. In the area of operational excellence, the Financing Product catalogue for all finance products has been created which will cultivate the staff knowledge on the product financing cycle and be used as an easy access for referral by any staff in the bank whenever required.

We also enhanced the customer experience in retail by disbursing the deals based on soft copy (scanned) instead of the previous exercise. That process resulted in a major increase of KFH market share and decreased the processing cycle to one day instead of three days and enhanced customer experience.

We implemented the documentary cycle on the Easy Way system in which the deal and the required documentation are moving parallel in the same workflow. This led to automating the disbursement process, provided more accuracy in the deals and resulted in a better customer experience. Also, we automated many workflows between the corporate banking and individual finance on the CRM workflow.

We also automated collecting the Brokerage fees of Tawarruq deals and added accounting packages with TWQ disbursement step to calculate and collect brokerage fees automatically by the system. On the other hand, we piloted the Digital Printing project which will transform all transactions performed by all related systems from physical paper workflow to e-documents through systems. Meanwhile, in order to enhance the experience of our corporate customers and ease the reach for them CSC (Corporate Service Center), Hubs concept has been expanded to additional 6 retail branches reaching a total of 11 branches providing dedicated service to corporate customers at all the governorates of Kuwait in order to enhance the customer journey and decrease the number of customers visiting CSC at the Head Office.

Treasury and Financial Institution

The Group Treasury took significant steps by foreseeing higher yield environment much earlier and proactively arranged cost effective liquidity and stable funding to Group businesses and optimized efficiently the excess liquidity between the returns for short- and long-term investment while maintaining funding diversification at an acceptable cost compared to the fluctuations in the rates of returns in the global markets.

The Group Treasury continued its investment and trading activities in primary and secondary capital markets. While being one of the most active market makers, Group Treasury executed Sukuk transactions worth more than USD 13 billion during the year and persistently expanded its short term Sukuk trading in International Islamic Liquidity Management Corporation's (the IILM) short term issuances. KFH Group Treasury maintained its leadership position in IILM market making and won the top rank Primary Dealer for the 6th time and consecutive 2nd year in a row for Secondary Dealer from amongst several international and regional banks by IILM. Also, Treasury expanded further green Sukuk exposure by participating in ESG- compliant Sukuk during the year.

The Group Treasury achieved USD 70 billion volume in FX transactions during the year and on boarded several new large and reputed corporate clients for dealing in FX Spot and Islamic derivatives hedging instruments and solutions and entered a new partnership with a leading global bank to be their sole market maker for GCC currencies. The Group Treasury's FX activities were further enhanced by providing the retail customers' live FX prices through ATMs where they can transact and obtain competitive and live FX market prices. Meanwhile "KFH Global", an FX platform for corporate FX which optimizes the speed of transactions with real time pricing, added more customers for its services.

The Group Financial Institutions (FI) department under Group Treasury continued to grow its portfolio of interbank facilities with further participation in the financing of two major international syndicated facilities totaling more than USD 2 billion, for two large regional banks in the GCC region. The FI department was also successful in raising competitive funding from several Asian banks with medium and long-term tenors which helped diversify KFH's funding base and work with regional and global banking partners.

In support of our corporate and private banking, FI also executed several bilateral agreements concerning Shari'a-compliant treasury and hedging solutions that will assist KFH with money management, liquidity, and mitigate fluctuations in benchmark rates and foreign currency positions for both KFH's customers and KFH Group.

Sukuk

In 2022, KFH Group continued its pioneering presence in the international Sukuk space. Through its sole investment arm, KFH Capital, the Group had successfully led and arranged Sukuk issuances exceeding USD 6 billion through diversified issuances covering sovereigns and institutions across various sectors and geographies during the year.

Leveraging on KFH Group's investor base and extensive network, KFH Capital has proved to be one of the companies in the debt placement field in the region. This was demonstrated when KFH capital arranged USD 3 billion sovereign Sukuk issuance for the Republic of Turkiye which was the largest governmental Sukuk issuance in Turkiye.

Additionally, KFH Capital demonstrated its key role by acting as JLM & Bookrunner for Islamic Development Bank's Sukuk (USD 1.6 billion), Dubai Islamic Bank's Sukuk (USD 750 million), First Abu Dhabi Bank's Sukuk (USD 500 million) and Boubyan Bank's Sukuk (USD 500 million), in addition to other international issuances.

KFH Capital also won ten reputable awards from various institutions for the deals concluded in 2021. The most prominent awards were Kuwait Deal of the year, 2021 – KFH's USD 750 million Sukuk, Hybrid Deal of the Year, 2021 – Saudi Aramco's USD 6 billion Hybrid Sukuk, Saudi Arabia Deal of the Year, 2021 – Saudi Aramco's USD 6 billion Hybrid Sukuk and Turkiye Deal of the Year 2021 – Kuveyt Turk USD350 million Tier 2 sustainability Sukuk.

KFH Capital demonstrated its Equity Capital Markets capabilities with notable transactions and its in-depth understanding of the Equity Capital Markets enabled it to succeed in the preparation, marketing, and execution of these transactions.

The Real Estate Investment management under KFH Capital also displayed good performance through multiple international real estate transactions, involving real estate funds of KFH clients. It successfully completed the sale of three properties in the UK: an office building in Liverpool, an industrial warehouse in Peterborough and a retail warehouse in Southampton.

Furthermore, KFH Capital continued to provide a robust and improved platform for its trading and brokerage clients to make things easier and help investors manage their portfolios as well as increase their market reach. Currently, online trading service covers Kuwait, Saudi, Dubai, Abu Dhabi, Qatar and US markets. The continuous improvement of its trading platform kept on attracting new clients and, by providing the best overall client experience, KFH Capital was able to grow its client base in 2022.

Shari'a Control

During 2022, KFH's Shari'a Control continued to perform its tasks and work to the fullest, as the Group's Internal Shari'a Audit Department carried out Shari'a audit work on KFH sectors and departments according to the approved plan for 2022. Also, the Shari'a Research and Advisory Department conducted Shari'a review on contracts, products, agreements and policies received from KFH sectors and departments, responded to Shari'a questions and inquiries and submitted what is required of them to the Fatwa and Shari'a Supervisory Board to obtain Shari'a opinion. In terms of spreading awareness and Shari'a culture among customers and employees, the Department answered Shari'a questions and inquiries received from customers and conducted and published economic jurisprudential bulletins through the e-channels available at KFH.

Human Resources

KFH continued its drive towards diversity and inclusiveness. Our programs and employment intakes continue to have a focus on further diversity where ladies make up 20% of our new recruits during this year.

In line with the continued drive on the Kuwaitization fronts, KFH has successfully increased the number of Kuwaitis within middle management to 64%. KFH has also injected more Kuwaiti leaders within the executive leadership level thanks to the robust and deep pipeline KFH has. As part of KFH role toward providing attractive and differentiated employment opportunities to our Kuwaiti Youth Talent, we have recruited 390 Kuwaitis during this year.

As part of our continued focus on the development of our current and future leaders, we have executed a series of programs for our talent with the most prestigious educational entities such as Headspring, INSEAD, and others. These programs have been tailored to equip our leaders with all the up to date thinking on leadership and driving towards results. The programs have been received very well by our current and future leaders.

With 2022 behind us, the Group's Human Resources has worked on ensuring that KFH colleagues continue being retained as part of this industry leading organization through a differentiated approach in putting together our Employee Value Proposition whereby the Grace of Allah, this will allow us to continue attracting and developing our talent.

Sustainability & Social Responsibility

At KFH, we recognize our role as an integral part of the community. This inspires us to interact with all stakeholders by fulfilling our social duty through collaboration and coordination with institutions and governmental bodies working effectively in the societal and sustainability initiatives in line with the State's development project.

KFH participated in supporting the 3rd Kuwaiti Relief and Medical Campaign in Jordan through a team of Kuwaiti doctors and consultants. The campaign was organized by Kuwait Red Crescent Society in coordination with Jordan National Red Crescent Society. With the support of KFH, Kuwait Red Crescent Society signed an agreement with the Turkish Red Crescent Society to execute different relief and social projects to aid people affected by natural disasters in Turkiye. The total value of contributions during 2022 reached about KD 4.5 million.

Further, KFH participated, in coordination with Kuwait Red Crescent Society in a field visit to aid Rohingya refugees in Bangladesh. The visit was part of the memorandum of understanding signed with the United Nations High Commissioner for Refugees (UNHCR), Kuwait Office.

KFH also signed a memorandum of understanding with Kuwait Municipality for the design and reconstruction of damaged areas of Al Mubarakiya market, as part of KFH's leading role in the community and considering the historical value, cultural significance, and reputable heritage which the market enjoys. The memorandum also included the reconstruction of 17 buildings at an estimated cost of around KD 8 million.

In collaboration with the Ministry of Justice, KFH executed an initiative to cover the payments on behalf of people with defaulted debts, against whom the court issued arrest warrants. The amount paid exceeded KD20 million, benefitting nearly 10,000 debtors.

KFH also signed a strategic partnership with Kuwait Society for the Handicapped (KSH), the first of its kind in the banking sector, to train a group of people with special needs, empower and engage them into society.

On the sustainability front, KFH launched various initiatives under (Keep it Green) campaign affirming its keenness towards projects that focus on sustainability and the preservation of the environment. At the forefront of its green initiatives is launching the first environmentally friendly cards, which are 85.5% made of recycled plastic. KFH also signed memoranda of cooperation with private and government entities to support the plantation and greening projects as well as mitigating carbon emissions.

We will continue channeling our efforts to increase investment in Green Sukuk from the total Financing Portfolio, especially in projects related to reducing carbon footprint and climate change risks. We also provide financing and technical stimuluses for projects that focus on environmental aspects and the reduction of carbon emissions.

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KFH also owns KFH-Auto showroom, an environmentally friendly building that meets green building and global sustainability standards. It is the largest auto showroom in the Middle East with a total area of 38,000 sqm. KFH received the Global Sustainability Assessment System GSAS – Gold Level Certificate for KFH Auto building which is granted to projects compliant with strict environment sustainability standards.

We also released the sustainability report as part of KFH Group's integrated sustainability strategy. The report covered environment, society, and governance in KFH activities, management, and operations.

During this year, KFH scooped 23 prestigious awards from well-known international and regional providers concerned with monitoring the performance of world-leading banks. The awards were in recognition of KFH's achievements and significant transformation in various fields, in addition to its developed products, services, digital plans, leading position, reliability, community and humanitarian initiatives, as well as creditworthiness endorsed by the reports and certificates of international rating agencies.

Finally, I would like to emphasize that we will increase our investment in, and support to human capabilities, developing softwares, system integration projects and after-sale and support services. The employee will be the main element of these projects and the key driver for the success, development and upgrade of KFH.

We will focus on the organizational structure - management standing - service quality - customer attraction - integration of the Group's departments and other parties - interdepartmental synergy - general strategy.

We will also continue our efforts ensuring that KFH always remains in a new and good position to benefit from enhancing efficiency, increased customers, service excellence and future growth opportunities fostered by a culture of transparency, responsibility and cooperation. We will also maintain our commitment to building a better society for groups, companies and individuals, affirming our continuous endeavor to provide added value in financial, environmental and social aspects for the interest of our customers, shareholders, employees and communities.

In conclusion, I would like to convey our sincere thanks, gratitude, and appreciation to His Highness the Amir of Kuwait Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard them, and to His Highness, the Prime Minister Sheikh Ahmad Nawaf Al-Ahmad Al-Sabah. Our thanks and appreciation are also extended to the Central Bank of Kuwait and all the regulatory authorities for their constant support to the banking sector in the State of Kuwait.

May Allah grant us success.

Abdulwahab Iesa Al-Rushood
Acting Group Chief Executive Officer

Financial Performance

For Year 2022

Inflation rates reached unprecedented record levels worldwide since 2008. However, KFH financial indicators have proved the durability and creditworthiness of Kuwait Finance House financial position.

The year 2022 witnessed the completion of the acquisition deal of AUB-Bahrain Group, thus improving the group financial performance remarkably. AUB-Bahrain financial results have been consolidated for the period from the date of acquisition till the end of the financial year 2022. Accordingly, the group net profit to shareholders for the year 2022 included AUB-Bahrain group financial results for Q4 2022. AUB-Bahrain contribution to net profit attributable to shareholders is 17.5% while contribution to gross operating income is 10.2%.

KD 357.7 Net Profit attributable to Shareholders

Net profit attributable to shareholders for the year 2022 approximated KD 357.7 million marking an increase by 47.0% compared to 2021. Earning per share reached 33.58 Fils for the year ending 2022 compared to 25.99 Fils last year i.e. an increase by 29.2%

51.7% growth in total financing income and 36.7% grwoth in net financing income

Total financing income for the year ended 2022 approximated KD 1,322.3 million, marking an increase by 51.7% compared to last year. Net Financing Income for the year 2022 approximated KD 800.5 million i.e. an increase by 36.7% compared to last year.

32.2% growth in Total operating income and 43.8% growth in net operating income

Total operating income for the year ended 2022 approximated 1,072.3 million i.e. an increase by 32.2% compared to last year, accompanied by an increase in net financing income. Net operating income for the year 2022 approximated KD 723.3 million, marking an increase by 43.8% compared to last year.

Total operating expenses / total operating income

Total operating expenses / total operating income ratio improved to reach 32.5% for the year 2022 compared to 38.0% for the year 2021. It has improved during the past few years as it exceeded 51% in 2014.

54.1% decline in Provisions and impairments

Total provisions and impairments declined at the group level to reach KD 62.1 million i.e., a decline by 54.1% compared to 2021.

69.7% Growth in Group Total Assets

KFH Group total assets reached KD 37.0 billion, marking an increase by 69.7% or KD 15.2 billion compared to 2021.

65.9% Growth in Financing Receivables

KFH Group Financing Receivables reached KD 18.8 billion i.e., an increase by 65.9% or KD 7.5 billion compared to 2021. The increase is mainly attributable to the acquisition of AUB-Bahrain. The financing portfolio commands 51% of total assets and represents 83.8% of deposits. Growth continued for both corporate and retail sectors.

122.5% Growth in Investment in Debt Securities

Investment in debt securities reached KD 6.1 billion i.e. an increase by 122.5% or KD 3.4 billion compared to 2021. The increase has resulted mainly due to the acquisition of AUB – Bahrain. Investment in debt securities represents 16.5% of the group assets mainly representing sovereign debt instruments.

Non-performing Financing Ratio

Non-performing financing ratio improved as it recorded a decline to reach 1.32% for the year 2022 including AUB-Bahrain results (as per CBK regulations) compared to 1.6% in 2021.

41.7% Growth in Depositors' Accounts

Depositors' Accounts base increased to reach KD 22.5 billion, marking an increase by KD 6.6 billion or 41.7% compared to 2021. This has resulted mainly from the acquisition of AUB-Bahrain, thus enhancing KFH geographical spread.

Return on Average Assets (ROAA) and Average Shareholders Equity (ROAE)

Return on Average Shareholders' Equity reached 13.2% as at the end of 2022 compared to 12.8% for the year 2021. Return on average assets reached 1.7% as at the end of 2022 compared to 1.4% for the year 2021.

Due to acquisition of AUB, ROAA and ROAE for 2022 are calculated based on monthly average.

Capital Adequacy

Capital adequacy ratio reached 17.66% in 2022 which is higher than CBK required ratio.

Shareholders Equity

Shareholders equity increased to reach KD 5.4 billion as at the end of 2022, which is higher by 177.4% compared to last year.

Proposed Dividends to Shareholders

The Board of Directors has proposed the distribution of cash dividends to shareholders by 15% for the year ended 31st Dec. 2022 (compared to 12% in 2021) and the issuance of bonus shares by 10% of the issued and paid-up capital (compared to 10% last year). These distributions are recommended considering the returns on investment deposits and saving accounts. These distributions are subject to the ordinary general assembly approval as well as the regulatory and legal procedures.

The proposed board of directors' remuneration KD 1,096 thousand for the year ending 31st December 2022 (KD 1,096 thousand for the year 2021) falls within the permissible limits as per local regulations, subject to the general assembly approval.

Summary of Significant Financial Results

KD Million

	2022	2021	2020	2019	2018
Net Profit attributable to shareholders of the bank	357.7	243.4	148.4	251.0	227.4
Earnings Per Share (Fills) *	33.58	25.99	16.13	27.35	24.80
Net Financing Income	800.5	585.7	614.2	530.3	527.3
Total operating income	1,072.3	811.0	795.6	814.4	746.0
Net Operating Income	723.3	503.1	499.6	510.1	453.5
Total Assets	36,969	21,788	21,502	19,391	17,770
Financing Receivables	18,840	11,355	10,748	9,474	9,190
Investment in Debt Securities	6,085	2,735	2,742	2,292	1,563
Depositors' Accounts	22,483	15,867	15,317	13,553	11,780
Equity attributable to the shareholders of the bank	5,358	1,932	1,936	2,060	1,894

*** Restated for comparative years.**

Executive Management

Mr. Abdulwahab Issa Al-Rushood
Acting Group CEO

Mr. Al-Rushood received his Bachelor's Degree in Mathematics and Computer Science from Western Oregon State College in the U.S in 1987. Mr. Al-Rushood successfully completed a specialized training course on Strategic Leadership at Harvard Business School.

Mr. Al-Rushood is currently the Acting Group CEO and Group Chief Treasury and Financial Institutions Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Rushood is the Chairman of KFH Capital Investment Company, Board Member at Kuwait Finance House - Bahrain.

Mr. Al-Rushood possesses a vast banking experience, spanning more than 33 years. During his professional career, he held numerous prominent leadership roles starting in the Treasury Department in Gulf Bank before moving to Kuwait Finance House where his roles included General Manager - Kuwait Treasury from 2013 until 2015. In addition, he was promoted to various leadership positions within the Treasury Department from 2002 until 2013.

Mr. Al-Rushood served as Board Member for numerous leading companies including Kuwait Finance House - Malaysia from 2007 until 2013, Liquidity Management House (KFH Investment Company) from 2008 until 2013, Development Enterprises Holding Company (DEH) from 2014 until 2016, Liquidity Management Centre - Bahrain (LMC) from 2006 until 2016 and Aviation Lease & Finance Company (ALAFCO) from 2013 to 2022.

Mr. Shadi Ahmad Zahran
Group Chief Financial Officer

Mr. Zahran received his Master of Business Administration (MBA) Degree in Finance from the University of Manchester in the U.K. in 2014. He received his Bachelor of Science Degree in Accounting from the University of Jordan in 1992. Mr. Zahran successfully completed the General Management Program at Harvard Business School in 2021. And currently a doctorate researcher in finance with Hult international business school.

Mr. Zahran holds several professional certificates including Certified Public Accountant (CPA) from the state of Illinois in the U.S. since 1996, and (JCPA) certificate from the Jordanian Council of the Auditing Profession in 1996, Certified Bank Auditor (CBA) from Bank Administration Institute (BAI) since 1999, and Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) since 2006.

Mr. Zahran is currently the Group Chief Financial Officer at Kuwait Finance House since 2014. In addition, Mr. Zahran is the Vice Chairman of KFH Capital Investment Company and Board Member at Kuwait Finance House – Bahrain and Board Member of Kuveyt Turk Participation Bank. Mr. Zahran is a member of the Board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), and a Vice Chairman of the Board of Trustees of the General Council for Islamic Banks and Financial Institutions (CIBAFI).

Mr. Zahran previously held several executive positions at Ahli United Bank Group including Chief Financial Officer in Kuwait from 2009 until 2014 and Head of Group Financial Controlling at Ahli United Bank in Bahrain from 2005 until 2009. Mr. Zahran previously held the position of Head of Financial Systems Management & Operations Department at Al Rajhi Bank in the Kingdom of Saudi Arabia from 2000 until 2005. In addition, Mr. Zahran previously worked as an External Auditor at the international external audit firms including Ernst & Young.

Mr. Fahad Khaled Al-Mukhaizeem
Group Chief Strategy Officer

Mr. Al-Mukhaizeem received his Master of Business Administration (MBA) and Master's Degree in Economics from Boston University in the U.S. in 2000. He received his Bachelor's of Science Degree in Engineering and Bachelor's Degree in Economics from Tufts University in the U.S. in 1996. Mr. Al-Mukhaizeem successfully completed many training programs in addition to the Leadership Development Program at Harvard Business School in 2008.

Mr. Al-Mukhaizeem is currently the Group Chief Strategy Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Mukhaizeem is the Chairman of International Turnkey Systems Group (ITS). Mr. Al-Mukhaizeem also supervises some of the duties related to the Head of GCEO Office Support and provides the required assistance.

Mr. Al-Mukhaizeem possesses a vast banking experience, spanning more than 20 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group General Manager - Strategy & Corporate Affairs from 2013 until 2015. Mr. Al-Mukhaizeem previously held several executive positions within Retail Banking and other areas at Kuwait Finance House.

Mr. Al-Mukhaizeem successfully supervised the execution of several initiatives concerning the bank's business development in addition to being an effective member in several Restructuring Programs at Kuwait Finance House during his career in addition to establishing many departments within different areas at Kuwait Finance House.

Mr. Ahmed Soud Al-Kharji

Group Chief Corporate Banking Officer

Mr. AlKharji received his Master of Business Administration (MBA) Degree in Finance from University of San Diego in the U.S. in 1998. He received his Bachelor of Science Degree in Finance and Banking from Kuwait University in 1994. Mr. AlKharji successfully completed the Program for Leadership Development at Harvard Business School in 2008. In addition, Mr. AlKharji completed the Leading Change & Organizational Renewal Program at Harvard Business School in 2018 and the Leading Global Business Program at Harvard Business School in 2021.

Mr. AlKharji is currently the Group Chief Corporate Banking Officer at Kuwait Finance House since 2016. In addition, Mr. AlKharji is a Board Member of Kuveyt Turk Participation Bank, Board Member of Kuwait Finance House - Malaysia, Board Member of KFH Capital Investment Company .

Mr. AlKharji was seconded to Kuveyt Turk Participation Bank from 2006 until 2008 to revamp and enhance the Investment Banking Division. Mr. AlKharji previously held the position of CEO and Managing Director at Kuwait Finance House - Malaysia from 2015 until 2016.

Mr. Khaled Yousif Al-Shamlan

Group Chief Retail and Private Banking Officer

Mr. Al-Shamlan received his bachelor's degree in Economics from Kuwait University in 1995.

Mr. Al-Shamlan successfully completed a specialized training course on Managing Strategically and Leading for Results conducted by Harvard Business School and attended numerous professional courses in Leadership, Financial Analysis and Risk Management. In addition, Mr. Al-Shamlan completed a 2-year specialized training program for graduates at Kuwait Investment Authority (KIA).

Mr. Al-Shamlan is currently Group Chief Retail and Private Banking Officer at Kuwait Finance House since March 2022 and Group General Manager Retail Banking since January 2021. In addition, Mr. Al-Shamlan is a Board Member of KFH Capital Investment Company. And a Board Member of the Shared Electronic Banking Company (KNET).

Mr. Al-Shamlan possesses a vast banking experience, spanning more than 24 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including General Manager Corporate Banking - Kuwait from 2018 until January 2021, Deputy General Manager Individual Financing from 2016 until 2017, Deputy General Manager Corporate Real Estate Financing from 2015 until 2016, Executive Manager Corporate Real Estate Financing in 2014 and Executive Manager Credit Analysis in 2013.

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Executive Management

Mr. Haitham Abdulaziz Al-Terkait

Group Chief Information Officer

Mr. Alterkait received his Bachelor's Degree in Mechanical Engineering Technology from Metropolitan State Colleague in U.S in 1989.

Mr. Alterkait is currently the Group Chief Information Officer at Kuwait Finance House since May 2021. In addition, Mr. Alterkait is a Board Member of International Turnkey Systems Group (ITS).

Mr. Alterkait possesses a vast Information Technology experience, spanning more than 30 years. During his professional career, he held numerous prominent leadership roles positions including Chief Technology Officer at Warba Bank from 2012 until May 2021 and Infrastructure Services Department Manager at Kuwait Finance House from 2002 until 2012.

Mr. Zeyad Abdulla Al-Omar

Group Chief Human Resources Officer

Mr. Alomar received his Bachelor's Degree in English Language from Kuwait University in 1986.

Mr. Alomar possesses a vast Human Resources experience, spanning more than 30 years. Mr. Alomar joined Kuwait National Petroleum Company in 1986 and rose in positions until 2001 as a General Superintendent of Salaries and Industrial Relations. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including General Manager Human Resources from 2013 until 2015. Mr. Alomar previously held several executive positions including Group Human Resources Director at Zain Group from 2012 until 2013, Corporate Affairs Director at Zain Group from 2011 until 2012, Chief Regulatory Officer at Wataniya Telecom from 2009 until 2011 and Human Resources Director at Wataniya Telecom from 2002 until 2009.

Mr. Alomar is currently the Group Chief Human Resources Officer at Kuwait Finance House since April 2021.

Mr. Abdullah Mohammed Abu Alhous

Group Chief Operations Officer

Mr. Abu Alhous received his Bachelor's Degree in Business Administration in Finance and Banking from Kuwait University in 1987. He attended numerous specialized Executive Programs including the Senior Executive Leadership Program at Harvard Business School in the U.S. in 2008 in addition to attending numerous professional courses and executive programs from world's most reputable business schools like London Business School, INSEAD and Wharton School and some prestigious institutions such as JP Morgan in 2019, in addition to the Global Banking Program at Columbia University NY 2022.

Mr. Abu Alhous is currently the Group Chief Operations Officer at Kuwait Finance House since 2015. In addition, Mr. Abu Alhous is a Board Member of International Turnkey Systems Group (ITS).

Mr. Abu Alhous previously held several executive positions including Group General Manager Operations at Kuwait Finance House from 2012 until 2015, Chief Operations Officer at Warba Bank from 2011 until 2012 and Deputy General Manager of Operation Group at the National Bank of Kuwait from 2005 until 2011.

Mr. Gehad Mohamed El-Bendary

Group Chief Risk Officer

Mr. El-Bendary received his Finance & Risk Management Diploma from the University of Wales in the U.K. in 2014. He received his Bachelor of Commerce Degree in Accounting from Tanta University in Egypt in 1996.

Mr. El-Bendary has successfully completed specialized training programs in Enterprise Leadership from INSEAD University, Network Leadership Program from IMD University, and Advanced Risk Management from Wharton School. Mr. El-Bendary holds numerous specialized professional certificates including the International Certificate in Banking Risk and Regulation (ICBRR) from the Global Association of Risk Professionals (GARP) in 2009.

Mr. El-Bendary is currently the Group Chief Risk Officer at Kuwait Finance House since 2018. Mr. El-Bendary has over 23 years of experience in Risk Management, Auditing, and Internal Control Systems in Financial Institutions.

Mr. El-Bendary previously held several executive positions at Kuwait Finance House including the position of General Manager Risk Management from 2016 until 2018, Deputy General Manager - Portfolio & Enterprise Risk Management from 2013 until 2016, Head of Enterprise Risk Management Unit from 2012 until 2013, Head of Risk Unit from 2007 until 2012, and currently a Board Member at Kuwait Turk Participation Bank (KTPB).

Mr. El-Bendary oversaw the implementation of several initiatives including the development of a robust Enterprise Wide Risk Management Program for KFH Group by establishing a framework, reviewing policies, designing a governance structure which ensures an independent oversight for assessing if respective functions are adhering to defined Board approved strategy, Risk Policies, Risk Standards including Risk Appetite in addition to overseeing the implementation of the regulators' instructions including Basel I, II and III, IFRS9 and liquidity frameworks and guidelines.

Mr. Wissam Sami El-Kari

Group Chief Internal Auditor

Mr. El-Kari received his Master of Applied Finance Degree from the University of Melbourne in Australia in 2002. He received his Bachelor's Degree in Business Administration from the American University of Beirut, Lebanon in 1996.

Mr. El-Kari holds many specialized professional certificates including Certified Information Systems Auditor (CISA) from the U.S in 2020, Certified Anti-Money Laundering Specialist (CAMS) from the U.S in 2020, Financial Risk Manager (FRM) from the U.S. in 2012, Certified Fraud Examiner (CFE) from the U.S. in 2008, Certified Bank Auditor (CBA) from the U.S. in 2007, Certified Internal Auditor (CIA) from the U.S. in 2001 and Certified Management Accountant (CMA) from the U.S. in 2001. Mr. El-Kari successfully completed many training programs in addition to the Leading Strategy Execution in Financial Services by Harvard Business School in 2015.

Mr. El-Kari is currently the Group Chief Internal Auditor at Kuwait Finance House since 2017.

Mr. El-Kari possesses a vast experience, spanning more than 23 years and a solid experience in assessing Internal Controls, Risk Management, and Governance Processes. During his professional career, he held numerous prominent leadership roles where he has been Heading the Group Internal Audit Department at Kuwait Finance House since 2012. In addition, Mr. El-Kari served as Assistant General Manager Internal Audit, Banking Operations at Burgan Bank in Kuwait from 2005 until 2012.

Dr. Khaled Mohammed Al-Jumah

Group General Manager Legal

Dr. Al-Jumah received his PhD in International Economic Law from the University of Wales in the U.K. in 1997. He received his Master's Degree in Law from the University of Edinburgh in the U.K. in 1993. Dr. Al-Jumah received his Bachelor's Degree in Law from Kuwait University in 1988.

Dr. Al-Jumah is currently the Group General Manager Legal at Kuwait Finance House since 2015.

Dr. Al-Jumah previously held several consultant positions including Legal Consultant at the Central Bank of Kuwait in 2012 and the Legal Consultant at the Office of Secretary General of the Organization of Arab Petroleum Exporting Countries "OAPEC" in 1999. In addition, Dr. Al-Jumah previously worked in the legal field at the Legal Consultancy Group Office in 1998. Prior to that, Dr. Al-Jumah held the position of Chief Legal Consultant at Kuwait Oil Company from 1988 until 1998.

Mr. Ahmad Eissa Al-Sumait

General Manager Treasury Kuwait

Mr. Al-Sumait received his Bachelor's Degree in Political Science from Kuwait University in 1999. Mr. Al-Sumait successfully completed a specialized training course on Decision Making Strategies at Harvard Business School.

Mr. Al-Sumait is currently General Manager Treasury - Kuwait at Kuwait Finance House since 2017. In addition, Mr. Al-Sumait is the Chairman of Kuwait Financial Markets Association.

Mr. Al-Sumait possesses a vast banking experience, spanning more than 21 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Executive Manager Money Market and Senior Manager Money Market. In addition, he was promoted to various leadership positions within the Treasury Department from 2006 until 2015.

Mr. Al-Sumait served as Board Member of Liquidity Management House from 2012 until 2013.

Mr. Al-Sumait held the position of Chairman of the Board of Directors of Energy House Holding Company from 2015 to 2020.

Mr. Mazyed Abdulatif Al-Mazyed

General Manager Digital Transformation and Innovation

Mr. Al-Mazyed received his Bachelor's Degree in Computer Science from Kuwait University in 1993.

Mr. Al-Mazyed has successfully completed specialized training programs in Enterprise Leadership program from INSEAD University in 2018 and Network Leadership Program from IMD University in 2017. In addition, Mr. Al-Mazyed has successfully completed a specialized training course on Managing Strategically and Leading for Results conducted by Harvard Business School in 2013.

Mr. Al-Mazyed is currently the General Manager Digital Transformation and Innovation at Kuwait Finance House since September 2021.

Mr. Al-Mazyed possesses a vast Information Technology experience, spanning more than 29 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group Deputy General Manager System Development from 2016 until September 2021 and Deputy General Manager Information Technology from 2013 until 2016. In addition, he was promoted to various leadership positions within the Information Technology Department from 2001 until 2013.

Mr. Al-Mazyed served as Board Member and Vice Chairman of International Turnkey Systems Group (ITS) from 2012 until 2014 and served as an Advisory Board Member of Kuwait University - College of Computing Sciences and Engineering from 2013 until 2015.

Mr. Dherar Al-Reshaid

General Manager Internal Audit - KFH Kuwait

Mr. Alreshaid received his Bachelor's Degree in Accounting and Auditing from Kuwait University in 1999.

Mr. Alreshaid holds many specialized professional certificates including Certified Information Systems Auditor (CISA) from the U.S in 2002, Certified Internal Auditor (CIA) from the U.S. in 2002 and Certified Investments & Derivatives Auditor (CIDA) from the U.S in 2005. He has also successfully passed several leadership trainings programs from Harvard Business School and the International Institute for Management Development (IMD).

Mr. Alreshaid is currently the General Manager Internal Audit – Kuwait at Kuwait Finance House since 2022.

Mr. Alreshaid possesses a vast experience, spanning more than 22 years and a solid experience in assessing Internal Controls, Risk Management, and Governance Processes. During his professional career, he held numerous prominent leadership roles where he has been DGM Internal Audit - Kuwait at Kuwait Finance House since 2020. In addition, Mr. Alreshaid served as the Internal Audit Director at Capital Markets Authority (CMA) from 2012 to 2020, also he served as the Internal Audit Director at Kuwait Telecom Company (STC) from 2009 to 2012.

Corporate Governance Report

Introduction

KFH Board of Directors exerts unremitting and continuous efforts to ensure that work within KFH Group proceeds in accordance with the highest international standards, and adheres to all decisions, controls, and regulatory instructions issued by regulatory authorities, in order to achieve the best levels of governance and good management. All KFH efforts in this field are subject to a continuous development process, keeping pace with the latest developments and requirements related to governance systems and instructions.

KFH Board of Directors exploits its utmost potential to adopt governance and transparency standards according to the best global practices through the review and development of policies and procedures applied to ensure full compliance with the instructions of the regulatory authorities on governance and all mandatory requirements issued by CBK. KFH implements governance rules and regulations adopted at kuwaiti banks level and Shari'a Control governance instructions at Kuwaiti Islamic banks level to ensure meeting the ethical and operational obligations towards its customers, shareholders, the Kuwaiti community, and towards other communities where the Group's subsidiaries operate.

KFH Board of Directors is always keen on raising governance awareness at all administrative levels. KFH Board seeks to go beyond regulatory authorities' instructions to achieve leadership in governance, making KFH business run smoothly and safely and cope with the fast developments that the world is witnessing in the banking industry in its conventional and Islamic sectors.

KFH Board of Directors established in 2022 the Sustainability Committee to assist the BoD in supervising the execution of the sustainability strategy, development of internal systems for environmental, social and governance practices, prepare sustainability reports. The Sustainability Committee was merged with the Governance Committee which oversees governance process, provides necessary consultancy services and assists the Board of Directors in fulfilling its regulatory obligations relating to appropriate governance practices by providing a set of guidelines on corporate governance and playing a leading role in drawing up governance frameworks at KFH.

In 2022, the Governance and Sustainability Committee supervised KFH's sustainability system development project, endorsement of sustainability strategy and issuance of KFH Sustainability Report 2021 in accordance with GRI Sustainability Reporting Standards.

KFH conducts a regular review on governance updates and the standards issued by global organizations on governance. It also conducts a periodical review on governance applications to assess their efficiency against all challenges encountered by the bank to protect the interests and rights of shareholders and stakeholders and ensure that all information reach on time with transparency and neutralism in implementation of KFH approved disclosure policy.

All subsidiaries are subject to auditing and periodical review regarding governance frameworks and improving their performance at the group level. KFH ensures that all subsidiaries implement the Group's approved corporate governance policies in addition to complying with the instructions imposed by other regulatory authorities both inside and outside Kuwait.

While KFH places absolute emphasis on its commitment to the teachings and provisions of Islamic Shari'a in all its transactions, KFH Fatwa & Shari'a Supervisory Board enjoys full independence and support of the Board to conduct its activities as per the Fatwa & Shari'a Supervisory Board regulations. The Committee comprises highly reputable and recognized scholars, having vast experience in Shari'a studies. The General Assembly of the bank assigns these scholars and determines their remunerations.

KFH has a specialized Shari'a team that it support the Fatwa and Shari'a authority for the Fatwa and Shari'a Supervisory Board. Through its supervisors deployed in all business units, the department ensures KFH's compliance with Shari'a provisions and Fatwa and Supervisory Board Committee decisions in all the Bank's businesses, activities, products, services, and contracts. Also, KFH assigns an independent external Shari'a auditor to verify that the Fatwa and Shari'a Board decisions are being implemented properly to ensure impartiality and the implementation of regulatory instructions. This supports the Shari'a regulatory system at KFH and preserves the integrity of the approach, and the good application of Shari'a rules and fatwas.

KFH Corporate Governance Manual has been prepared and published on KFH's website to increase transparency. Overall, KFH has taken the lead in implementing all various aspects of governance rules and regulations. In addition, KFH ensures adherence to all new standards, and continues its ongoing efforts to develop governance systems and mechanisms at the Group level in accordance with the best global practices.

Highlights on the governance and sustainability at KFH during 2022:

In 2022, KFH continued to enhance environmental, social and governance (ESG) standards by adopting initiatives to strengthen KFH position as one of the pioneering banks in the region. KFH has adopted an unprecedented methodology towards sustainability issues by implementing a clear strategy that would match Kuwait's 2035 vision and the Sustainable Development Goals (SDGs) of the United Nations.

KFH has adopted a model that has three independent lines of defense that integrate with each other to achieve the desired goals:

First line: Functions comprising risks.

Second line: Risk management functions and Regulatory Compliance functions.

Third Line: The Internal Audit function.

This led to resilience and thoroughness in conducting business and meeting regulatory requirements, as well as carrying through the vision of the KFH Board of Directors in achieving its strategic objectives and providing harmony between different stakeholders

KFH's adoption of sustainable business principles over the past years contributed to enhancing leadership and ability to overcome obstacles while maintaining business continuity and adding value to all stakeholders by achieving consistency and integration between the three parties: Governance, Strategy and Sustainability.

1- Governance at KFH Group level:

KFH Group is constantly committed to complying with the Group's corporate governance policy with transparency and credibility in accordance with the highest international standards and best practices.

The responsibilities of the Board Governance Committee are as follows: reviewing the Group's business periodically as well as reviewing and evaluating the policies and procedures that regulate the Group's business to ensure meeting its needs in achieving its strategic goals. Moreover, the Committee is also responsible for the existence of mechanisms that facilitate communication between the group companies, and the existence of means to monitor governance implementation at the group level, in addition to responsibilities related to sustainability, including supervising, and monitoring the implementation of the bank's sustainability strategy, and applying the highest international standards in ways of development in the environmental, social and governance aspects.

2- Disclosure and Transparency:

The KFH's disclosure policy constitutes one of the pillars of corporate governance. KFH adopts a clear framework that enhances the principle of disclosure and transparency and ensures fairness and equality in the timely delivery of information to stakeholders as required by the regulatory authorities and as per the best international practices.

The first Sustainability Report issued by KFH in accordance with the Global Reporting Initiative (GRI) is a strategic ESG disclosure document in the Bank's history. By issuing this report, KFH aims to conduct a comprehensive and consistent evaluation that reflects its practices and management approaches at all levels of sustainability. In addition, the sustainability report paves the way for future disclosures in a sustainable manner by focusing on the importance of stakeholder participation as an integral part of the decision-making process and following guidelines and instructions that serve and protect their interests.

3- Enhancing the Code of Business Conduct:

At KFH, we rely on the highest standards of adherence to the Code of Business conduct, starting with the members of the Board of Directors to all employees of KFH. Therefore, the Board of Directors has been keen to strengthen the framework of the code of business conduct through strict policies and procedures to ensure that KFH enjoys integrity and credibility. The Board of Directors annually reviews the policies and procedures regulating the framework for professional behavior, which consists of the following:

- Code of Business Conduct policy
- Conflict of Interest policy
- Related Party policy

- Information Security policy
- Whistle-Blowing policy
- Anti-Bribery and Corruption policy

The Board of Directors reviews, signs, and commits to these policies. KFH employees also review and sign the policies on an annual basis. At KFH, we are keen on spreading the culture of adherence to ethical standards through periodic training programs and awareness publications with the support of the Fatwa and Shari'a Supervisory Board.

4- Caring for KFH Employees:

At KFH-Kuwait, we are proud of establishing an ethical, fair and balanced work environment to prepare our employees as future leaders in accordance with Islamic principles and our corporate values.

Accordingly, our business model is based on a value creation to empower and actively engage our employees at all levels of management. Their needs and feedback are reflected in all our strategic initiatives and practices, which can be summarized in five main pillars:

- Attractive and engaging work environment.
- Sustainable economic and social well-being.
- Professional and career growth.
- Effective communication.
- Culture, professional ethics and transparency.

In KFH, we believe that the human capital is the basis of our success, so we make sure that we create a positive working environment for our employees and ensure the development of our human capital as well as attract the best talents. We invest in training and development through our partnerships with the best service providers in the world to offer the best training programs for our employees.

KFH provided programs and training courses using modern technology, as 3,245 employees received training programs and courses at a rate of 54,338 training hours, with an average of 16 hours per employee. We have contracted with world-class training service providers such as Thomson Reuters - Harvard Business School - LinkedIn Learning – Deloitte – Moody's – Euromoney – Headspring – LEORON – Destination Outdoors Learning Solutions.

The Training Department evaluates the programs periodically to ensure their effectiveness. It also assesses employees' need for training courses, each according to his/her field, competence, and experience by providing tailored programs that cover the bank's business, in addition to providing leadership programs to develop KFH human capital according to the approved succession plans for qualifying future leaders.

Each year, KFH grants opportunities for employees to continue their studies by providing scholarships for master studies. KFH also cares for newly graduated employees by enrolling them in (Forsa) training program in which KFH train and refine their skills to prepare them to be the future leaders of KFH. The program includes practical training in the bank as well as intensive training courses inside and outside the State of Kuwait.

Under the slogan (Together We Make the Difference), KFH involves its employees at KFH Group level in developing and improving the work environment by conducting an annual engagement survey to obtain their opinions, ideas, comments, and their view on KFH's business. The participation rate in the survey reached 87%.

At KFH, we are keen to have professional and flexible communication tools to represent employees and support their requirements and respond to their inquiries. The bank has 6 business partners assigned to the bank's various departments and they sometimes represent a point of contact between multiple business areas.

In recognition of women's vital role at work, KFH takes pride in its female employees who comprised 22.15% of the total workforce during 2022, while emphasizing its endeavor to increase the percentage by attracting and recruiting female talents that fit KFH's strategic vision.

5- Social Responsibility:

KFH believes in the importance of contributing to the support and stability of society and general development projects in different aspects of life to serve the country and its citizens and build a cohesive community capable of achieving prosperity. To ensure the sustainability of our social contributions and the long-term added value, KFH has launched health, educational, cultural and sports initiatives, including:

- During 2022, KFH supported the initiative to reconstruct the areas damaged in Mubarakiya fire incident. This included 17 buildings at an estimated cost of around KD 8 million. The initiative affirms the bank's national and social role.
- KFH supported the social and humanitarian initiatives of Kuwait Red Crescent Society in Jordan and Turkey. The total value of KFH contributions reached around KD 5 million during the year 2022. The aid includes, but is not limited to, the purchase of 12 blood donation vehicles and 2 rescue boats and a 300-day central kitchen.
- As part of a strategic initiative in collaboration with the Ministry of Justice, KFH paid over KD20 Million to release approximately 10,000 defaulting debtors against whom the court has issued habeas corpus.
- KFH supported the Ministry of Interior by providing 30 cars to serve the ministry personnel while carrying out their duties towards the state and society.
- KFH supported the Capital governorate's initiative to beautify its buildings and roads.
- KFH participated in supporting the Kuwaiti Relief and Medical Campaign in Jordan through its voluntary team which comprised a team of Kuwaiti doctors and consultants. Over 200 patients benefitted from the campaign.
- KFH supported Kuwait Red Crescent Society for the execution of aid and medical projects in Jordan in cooperation with the Jordan Red Crescent Society. Initiatives included: winter clothing, medical aid, provision of a one-year food supply, Iftar meals, construction of a clinic, and other social charity activities.
- KFH signed two agreements with Kuwait Red Crescent Society and King Hussein Cancer Center in Jordan to cover the treatment expenses of cancer patients of Gaza and Syrian refugees in Jordan.
- KFH signed agreement with the "Red Crescent" to support needy families.
- KFH signed with the Disaster and Emergency Management in Turkey "EFAD" an agreement to support the establishment of a regional center to respond to the disasters and fires in Antalya – Turkey.
- KFH implemented social and aid initiatives as part of the memorandum of understanding and cooperation with the UNHCR in Kuwait.
- KFH participated in a field visit to aid Rohingya refugees in Bangladesh.
- KFH supported over 400 students to complete their graduation projects at the College of Engineering and Petroleum (COEP) at Kuwait University.
- KFH has several cooperation partnerships and initiatives with various universities, colleges and academic educational institutions in Kuwait.
- KFH held honoring ceremony to celebrate 130 high school toppers under the patronage of Minister of Education.
- KFH continued its partnership with Coded which launched Bootcamps for coding that supports building of or working in a startup or tech team.
- KFH participated in the careers fair held at Kuwait University and Gulf University for Science and Technology GUST.
- KFH continued efforts to enhance financial awareness by supporting (Diraya) campaign.
- KFH continued its memorandum of understanding with Gulf University for Science and Technology (GUST).
- KFH participated in the first students' fair held at the Public Authority for Applied Education and Training (PAAET).
- KFH participated in the career fair organized by the Australian University- Kuwait (AU- Kuwait), as part of the bank's continuous efforts to attract the talents of the newly graduated Kuwaiti youth.
- KFH organized breast cancer awareness campaign.
- KFH continued its efforts in raising awareness of diabetes through organizing events and activities on World Diabetes Day and all the year around.
- KFH partnered with doctors and specialists to give advice to the public through KFH social media platforms.
- KFH participated in a social initiative to distribute food baskets and Iftar meals to needy families as part of its Ramadan program.
- KFH organized a comprehensive training program for a group of students with special needs in various departments at KFH. This comes within the framework of partnership agreement with the Kuwait Society for the Handicapped (KSH).

KFH's contributions in 2022 amounted to:

"Value in Kuwaiti Dinar"

Zakat and Humanitarian contributions & donations	KFH contribution made to KFAS	National labor Support tax (NLST)	Contribution to Institute of Banking Studies (IBS)
KD 9,729,909	KD 1,906,684	KD 4,312,076	KD 687,825.000

6- Environment Protection:

KFH pays special attention to issues related to climate change and the environment for their significant impact on sustainable development and financial life of society. KFH works closely with local and international bodies and institutions interested in environmental issues and provides many important contributions to various projects and initiatives focusing on preserving the environment and mitigating the negative impacts of climate change. The Bank also supports the efforts towards a zero-carbon economy at the Group level and its units in different countries.

During 2022, KFH has launched several initiatives including:

- KFH continued it "Keep it Green" campaign under which it launched several initiatives.
- KFH received the Global Sustainability Assessment System GSAS – Gold Level Certificate for environment sustainability standards -compliant KFH Auto Showroom.
- KFH participated in an awareness initiative to encourage the culture of recycling and preservation of the environment, where over 25 thousand plastic bottles were collected in 5 hours in collaboration with PUFF.
- KFH sponsored the first sustainability business incubator and accelerator "ECO".
- KFH partnered with the Public Authority for Agriculture Affairs & Fish Resources (PAAFR), to support the campaign for afforestation and greening areas of Kuwait for the 2021/22 agricultural season.
- KFH partnered with the Kuwait Environment Public Authority for different initiatives including cleaning beaches. KFH partnered with the Capital Governorate for supporting works, and activities aiming to improve the cultural profile of Kuwait City.
- KFH launched environment friendly banking cards.
- KFH collaborated with (Seeds) in launching environmental and sustainability initiatives for different social segments and age groups.
- Cleaning over 10,000 sq.m of Ushairaj beach in Kuwait.

Shareholders and Stakeholders' Rights:

At KFH, we guarantee the protection of the rights of shareholders and stakeholders by implementing policies and procedures that ensure fair treatment of all shareholders, including those in the minority, through two specialized business units. The first unit follows up shareholder affairs while the second unit follows up investors' affairs.

Both units work continuously to serve KFH shareholders and investors. KFH shareholders enjoy equal rights without discrimination. They have the right to participate in the general assembly meetings (ordinary and extraordinary), vote on agenda items, elect members of the Board of Directors, receive dividends, obtain information and data on the bank's activities and all other due rights as provided in the Memorandum and Articles of Association and in accordance with Laws and regulations issued by the regulatory authorities.

Governance requirements in the annual report

Ownership shares as 31/12/2022

Authority	Ownership form	Country	Ownership ratio
Kuwait Investment Authority	Direct	Kuwait	16.80%
Public Authority for Minor Affairs	Direct	Kuwait	7.32%
General Foundation of Awqaf	Direct	Kuwait	5.09%
Public Institution for Social Securities	Direct & Indirect	Kuwait	9.19%

Board Members' duties and responsibilities

1- General Responsibilities of the Board of Directors

The Board of Directors shall bear full responsibility for KFH including setting and approving strategic goals, adopting risk strategy and governance standards, and following up on the implementation and supervising of the proper execution of these goals and standards, in addition to the responsibility of supervising the Executive Management functions including the CEO.

Additionally, the Board of Directors shall bear all the responsibilities related to KFH's operations and its sound financial position. Accordingly, the Board shall ensure KFH's compliance with the Central Bank of Kuwait's requirements and maintain the interests of the shareholders, depositors, creditors, employees and other stakeholders and related parties. Also, the Board shall ensure that KFH is managed in a professional and disciplined manner and in line with KFH's applicable rules, regulations, and bylaws.

Governance Structure

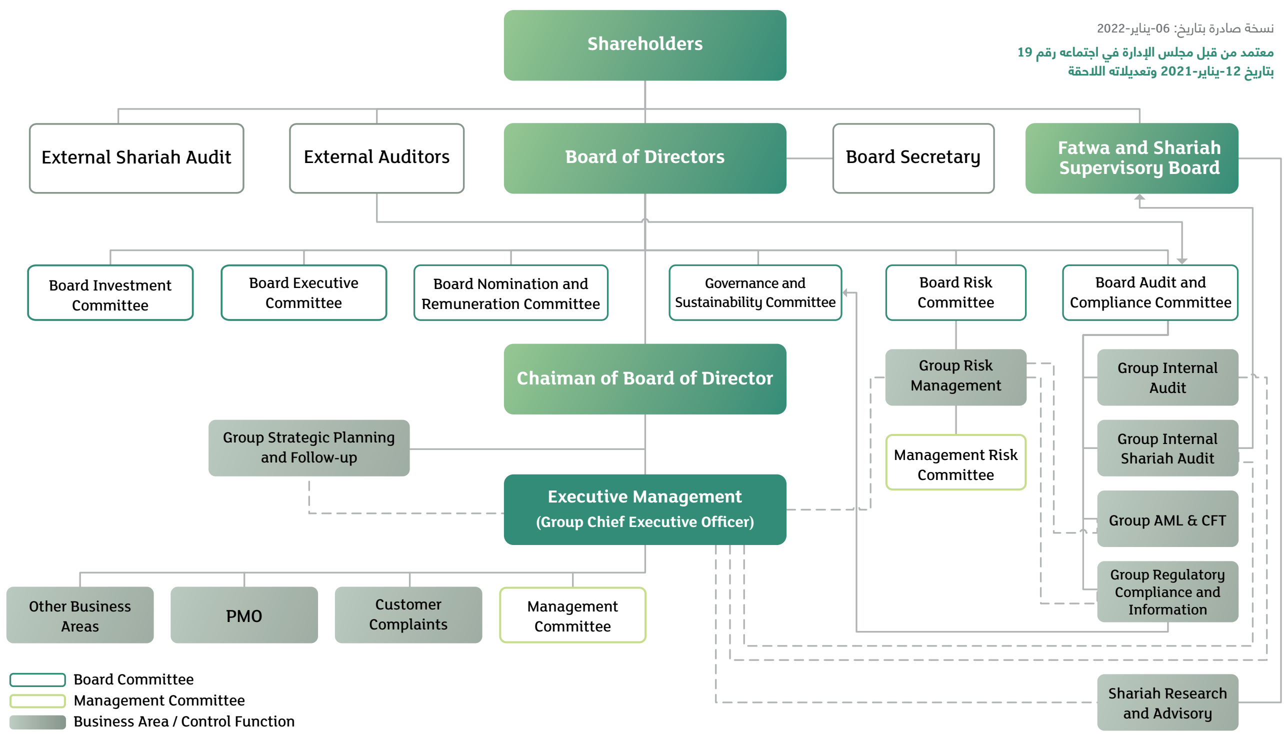
Board structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise 14 members including a number of independent members, The number of independent members shall not be less than 4 members and not more than half of the number of 6 members of the Board of Directors, and they shall be elected by the General Assembly using a secret electoral system.

Nominations were opened for Board membership on September 15, 2020. Shareholders during the General Assembly elected the Board members for three renewable years in the 15th term 2020/2022. The membership term of independent members shall not exceed two terms.

The current Board of Directors consists of Chairman, Vice Chairman and 10 Board members, including 2 independent members. This structure comprises a sufficient number of members that will enable the establishment of the required committees emanating from the Board of Directors, in compliance with the sound governance standard requirements as approved by the Central Bank of Kuwait.

KFH Board Governance Structure



1.2- Chairman's Role

Considering the significance of this role, Chairman shall ensure proper functioning of the Board, maintain mutual trust and collaboration among Board members, and ensure that the decision–making process is based on sound principles and information. He shall ensure exchange of viewpoints with Board members and ensure timely reporting of sufficient information to Board members and shareholders.

The Chairman shall also play a significant role in maintaining a constructive relationship between the Board and the Executive Management and ensure KFH has sound governance principles in place.

2- The Relationship between the Board and Executive Management

KFH maintains cooperation and clear segregation of powers between the Board of Directors and Executive Management, thus satisfying a fundamental requirement of governance. As such, the Board shall take responsibility to provide guidance and leadership, and adopt strategies, plans and policies, while the Executive Management shall take responsibility for implementing the strategies and policies approved by the Board while ensuring that the Board and its members are totally independent from the executive management. The Board shall also ensure that Executive Management is in strict compliance with the policies preventing and limiting the activities and relations which might affect sound principles of corporate governance i.e., Conflict of Interests and the Remuneration Policy.

3- Organizing Board Activities

The Board of Directors held (16) meetings during 2022 within the current 15th session which has started as per the Board resolution dated 15th of April 2020.

The Board members held (15) meetings in 2020. A meeting is called for whenever need arises. The number of meetings held exceeded regulatory requirements concerning corporate governance, which should not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted during Board meetings were binding and have become an integral part of KFH records.

In 2022, the Board adopted several resolutions recorded in (63) minutes of Board meetings issued by passing in 2022 while the committees made (23) minutes of resolutions by passing during 2022.

The Chairman discusses with Executive Management essential issues that are proposed to be entered in the agenda and provides the Board members with sufficient information in advance of making decisions. The Board secretary takes down all Board discussions, recommendations and voting results in the meeting. The responsibilities of the chairman and members of the Board are set in writing and determined as per related legislations and regulations.

4- Board Meetings

Date of meeting	10 jan	14 Feb	6 Mar	14 Mar	11 Apr	15 May	24 May	15 Jun	6 Jul	27 Jul	12 Sep	11 Oct	31 Oct	7 Nov	13 Nov	8 Dec	Attendance %	Absence %	Total of meeting
Names of Board Members and number of meetings held in 2022	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16			
Mr. Hamad Abdul Mohsen Al-Marzouq	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Abdul Aziz Yacoub Al-Nafisi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Khaled Salem Al-Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Muaz Saud Al-Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Ms. Hanan Yousif Ali Yousif	√	X	√	√	√	√	X	X	√	√	√	√	√	√	√	√	13	3	16
Mr. Fahad Al-Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	√	√	X	√	√	√	√	√	√	15	1	16
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Hamad Abdullateef Al-Barjas	√	√	√	√	√	√	√	√	√	X	√	√	√	√	√	√	15	1	16
Mr. Mohammed Nasser Al-Fouzan	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16
Mr. Ahmed Meshari Al-Faris	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16	0	16

√ Attended X Absent

5- Board Committees

KFH Board of Directors formed subcommittees to assist in carrying out the bank activities and enhancing control on the bank's core operations. The committees were formed based on KFH various lines of business. All Board members are fully involved in these committees. The Board has also endorsed the sub-committees' covenants, highlighting responsibilities, duties, and scope of these committees' functions.

The Board sub-Committees are:

- Audit and Compliance Committee
- Nominations and Remuneration Committee
- Risk Committee
- Governance and Sustainability Committee
- Executive Committee
- Investment Committee

		Board sub- committees					
Board of Directors		Executive	Audit & Compliance	Nominations& Remunerations	Risk	Governance	Investment
Chairman	Mr. Hamad Abdul Mohsen Al-Marzouq	●				●	
Vice Chairman	Mr. Abdul Aziz Yacoub Al-Nafisi	●		●			
Board Members	Mr. Fahad Ali Al-Ghanim	●	●				●
	Mr. Muaz Saud Al-Osaimi	●			●		●
	Mr. Khaled Salem Al-Nisf	●			●		●
	Mr. Noorur Rahman Abid		●	●			
	Ms. Hanan Yousif Ali Yousif				●	●	
	Mr. Hamad Abdullateef Al-Barjas		●	●		●	
	Mr. Salah Abdulaziz Al-Muraikhi		●			●	●
	Mr. Motlaq Mubarak Al-Sanei	●		●	●		
	Mr. Mohammed Nasser Al-Fouzan		●				●
	Mr. Ahmed Meshari Al-Faris				●	●	

6.1- Audit and Compliance Committee

The Audit and Compliance Committee was formed to assist the Board in fulfilling its supervisory responsibilities over the bank's accounting operations, financial control systems, internal audit function, compliance, AML and Terrorism Financing Risks and the management of financial reports in coordination with internal and external auditors to ensure compliance with regulatory requirements.

The Audit Committee comprises five Board members and shall be chaired by one of the independent members. At least two of the members must have knowledge in financial matters to perform their duties as members of the committee. Their membership in this Committee coincides with their Board membership.

In 2022, the Committee held (5) meetings and issued (4) resolutions by passing.

The Audit and Compliance Committee's duties and responsibilities include supervising financial control rules and regulations in KFH and reporting as follows:

- Provide recommendations concerning external auditors' appointment, dismissal, fees, qualifications, and objectivity of their professional opinion and circulate auditing partners in accordance with regulatory requirements.
- Discuss the results of the interim and final audits with external auditors and the resulting considerations along with any other issues external auditors wish to discuss.
- Set appropriate standards to ensure completion of external audit activities.
- Review and discuss appointment or dismissal of the head of internal audit, head of compliance and head of anti-money laundering and combating the financing of terrorism and make recommendations to the Board in this respect
- Assess the performance of the internal audit, regulatory compliance and anti-money laundering, and making recommendations on the remunerations of the persons heading those departments.
- Ensure that external auditors issue a statement on the Bank's compliance with the governance rules and regulations issued by CBK as part of the annual report submitted to CBK.
- Review accounting documents, reports, and information regularly and review financial statements with the Executive Management and external auditor before submitting the same to the Board.
- Review accounting issues having significant impact on the financial statements.
- Supervise KFH's internal controls and systems and ensure sufficiency of human resources required for control functions.
- Review provisions required and ensured adequacy thereof as per the financial statements duly approved by executive management.
- Carry out any other activities in line with KFH Articles of Association, applicable laws and Board instructions.

Names of Board Members in Audit and Compliance and number of meetings held in 2022

Date of meeting	9 Jan	10 Apr	6 July	10 Oct	6 Dec	Attendance%	Absence%	Total of meetings
Name/ Number of meetings	1	2	3	4	5			
Mr. Noorur Rahman Abid	√	√	√	√	√	5	0	5
Mr. Fahad Ali Al-Ghanim	√	√	√	√	√	5	0	5
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	5	0	5
Mr. Mohammed Nasser Al-Fouzan	√	√	√	√	√	5	0	5
Mr. Hamad Abdullateef Al-Barjas	√	√	√	√	√	5	0	5

√ Attended   X Absent

The Audit and Compliance Committee is authorized to acquire any information from the Executive Management. Also, it is entitled to invite, through official channels, any executive or Board member to attend its meetings. The committee shall monitor the adequacy of internal controls at KFH.

6.2- Nomination and Remuneration Committee

The key role of the Nomination and Remuneration Committee is to assist the Board of Directors in meeting its obligations regarding the selection of qualified individuals for the Board and Senior Management membership and assess the performance of the Board and its committees. Also, the committee shall assist the Board in supervising short- and long-term remuneration systems. The committee shall recommend the Board of Directors' remunerations in accordance with Shari'a laws and best international practices. The nominations and remunerations committee shall comprise 4 members, chaired by one of the independent members.

The Committee shall hold its meetings whenever needed but not less than twice a year.

The Committee held (6) meetings during 2022.

The key functions of the Nomination and Remunerations Committee include but not limited to the following:

- Recommend nomination of persons qualified to act as Board members based on CBK approved policies, standards, and instructions regarding membership nominations. Nomination recommendations cover all candidates including those who are not recommended by the committee based on sound and objective justifications.
- Recommendations to appoint the CEO and his deputies, Chief Financial Control Officer and any other director reporting directly to CEO except the Chief Risk Management who shall be elected by the Risk Committee and the Chief of Audit and Chief of Compliance who shall be elected by the Audit and Compliance Committee as well as the Customer Complaints Manager.
- Annual review of the required Board membership skills, and determining the skills to be enjoyed by the Board members and committees and present suggestions on the Board structure that serves the best interests of the bank.
- Annual evaluation of the overall performance of the Board and the performance of members individually.
- Determine the authorities and functions of each executive or leading position at the Bank and set required job responsibilities and qualifications in cooperation with Human Resources and concerned departments.
- Provide suggestions on Bank fixed and variable remuneration policy structure and raise the same to the Board for approval.
- Conduct periodical review on the remuneration policy or when recommended by the Board and present recommendations to the Board to amend/ update such policy.
- Conduct a periodic assessment of the adequacy and effectiveness of the remuneration policy to ensure the achievement of its declared objectives.
- Provide the necessary recommendation to the Board regarding Board members' remuneration.
- Review financial remuneration plan structures related to share options & obtain Board's approval.
- Study remuneration recommendations presented by Executive Management concerning remuneration, CEO and Executive Management remuneration.
- Cooperate with the Risk Committee to evaluate suggested incentives under the remuneration system.
- Conduct independent annual revision of the remuneration system to evaluate the Bank's compliance with the financial remuneration practices, either through internal Audit Department or an outsource consultancy bureau.
- Evaluate all remunerations granted to Bank representatives in subsidiaries.
- Study and prepare, on annual basis, the projected replacement plan at the bank, apply election and evaluations standards for possible replacements of high officials at the bank including changes in emergency cases and in case of any vacant posts and present the same to the Board of Directors for approval.
- Recommend to the Board of Directors, the nomination, renomination or membership cancellation in the Fatwa and Shari'a Supervisory Board and ensure transparency of appointment and reappointment of the members of Fatwa and Shari'a Supervisory Board.

Names of the Nomination and Remuneration Committee Members and Number of Meetings held in 2022

Date of meeting	7 Jan	13 Feb	7 Apr	6 Jul	10 Oct	7 Dec	Attendance%	Absence%	Total of meetings
Name/ Number of meetings	1	2	3	4	5	6			
Mr. Noorur Rahman Abid	√	√	7	√	√	√	6	0	6
Mr. Abdulaziz Yacoub Al-Nafisi	√	√	√	√	√	√	6	0	6
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	6	0	6
Mr. Hamad Abdullateef Al-Barjas	√	√	√	√	√	√	6	0	6

√ Attended X Absent

6.3- Risk Committee

The key role of the Risk Committee is to assist the Board of Directors in meeting its obligations in terms of overall supervision on the current risk conditions, risk strategies and the bank's appetite towards credit, banking, real estate, and investment activities risks, as well as all related policies and procedures. The committee comprises 5 members and chaired by one of the independent members. The Committee held (5) meetings in 2022 and issued (4) resolutions by passing.

The Committee performs several duties and responsibilities as follows:

- Review and evaluate the policies and frameworks of risk management and ensure the implementation thereof in a Shari'a compliant manner.
- Review capability and effectiveness of risk management in the risk management program with the institutions whom the Bank deals with.
- Ensure adequacy of risk appetite adopted by the Bank and the Board's tendency in this respect and ensure identification of key risks.
- Review adequacy of Bank's risk management practices on at least quarterly basis.
- Review risk management standards and internal controls to ensure proper management of material risks in Bank businesses and provide supervision over credit risk, capital market risk, liquidity risk, asset and liability management, legal risk and all relevant risks.
- Review standards and trends of risk-based capital adequacy.
- Review new regulatory instructions in capital markets and amendments made on accounting standards and other developments.
- Review Risk Department structure, duties and responsibilities and supervise risk management and annual assessment of the head of risks.

Names of Board Members in the Risk Committee and the Number of Meetings held in 2022

Date of meeting	23 Jan	27 Mar	24 Apr	21 Jul	6 Nov	Attendance%	Absence%	Total of meetings
Name/ Number of meetings	1	2	3	4	5			
Mr. Ahmed Meshari Al-Faris	√	√	√	√	√	5	0	5
Mr. Khaled Salem Al-Nisf	√	√	√	√	√	5	0	5
Mr. Muaz Saud Al-Osaimi	√	√	√	√	√	5	0	5
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	5	0	5
Ms. Hanan Yousif Ali Yousif	√	√	√	√	√	5	0	5

√ Attended X Absent

6.4- Governance and Sustainability Committee

Governance and Sustainability Committee's main task is to assist the Board of Directors in performing its duties in supervising the implementation of sound governance policies and procedures and the development of a set of governance guidelines and policies. The committee shall monitor compliance with governance policies and Governance Guide adopted by the Board and its committees and Executive Management.

The Board Governance and Sustainability Committee comprises five Board members including two independent members and is chaired by the Chairman of the Board.

The Committee shall convene its meetings whenever required, provided that the number of meetings shall not be less than two meetings per year. In 2022, the Committee held (3) meetings and issued (1) minutes by passing.

The Governance and Sustainability Committee duties include the following:

- Develop the comprehensive Governance Manual and framework and provide suggestions on revision and updating.
- Review Bank policies and practices to ensure their adequacy in terms of governance standards.
- Review and assess professional code of ethics, code of conduct and other approved policies and guidelines in the Bank.
- Review key issues related to shareholders' relations and the Bank contributions to charity works.
- Review the Corporate Governance section in the Annual Report.
- Annual evaluation of performance in terms of the Governance and Sustainability Committee and its duties as well as the annual revision of the Committee's authorities and functions.
- Supervise the execution of the Bank's sustainability strategy.

Names of Board Members in the Governance Committee and the Number of Meetings held in 2022

Date of meeting	23 Jan	3 Jul	3 Nov	Attendance%	Absence%	Total of meetings
Name/ Number of meetings	1	2	3			
Mr. Hamad Abdul Mohsen Al-Marzouq	√	√	√	3	0	3
Ms. Hanan Yousif Ali Yousif	√	X	√	2	1	3
Mr. Hamad Abdullateef Al-Barjas	√	√	√	3	0	3
Mr. Ahmed Meshari Al-Faris	√	√	√	3	0	3
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	3	0	3

√ Attended X Absent

6.5- Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling its obligations regarding investment and banking activities according to the authorities delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may assist the Board in performing its duties and responsibilities. The Executive Committee comprises six members. It held (10) meetings in 2022 and issued (14) minutes of meeting by passing.

The key duties of the Executive Committee include but not limited to the following:

- Supervise strategy implementation mechanism and the Bank action plan, monitor performance efficiency, review performance reports and submit the necessary recommendations to the Board in this respect.
- Review and approve finance transactions and investment offers presented by Executive Management according to the authorization and delegation protocols set by the Board.
- Approve or reject any suggestions related to finance, liquidity and/or market risks based on the financial authorities and limits approved by the Board regarding single customer credit concentration limits.
- Review management strategy regarding proposed provisions and management plan to retrieve bad debts (if any).
- Periodic revision of the diversity and solidity of the finance portfolio.
- Coordination with the Risk Committee to prepare periodic reports for updating risk limits and possible increase of risks.
- Executive Committee may make exceptions in timings between the Board meetings to take the following decisions:
  1. Grant, renew or extend credit facilities, regular review thereof, and amend the granting conditions to customers whether retail, corporate or institutions regarding amounts exceeding the Executive Committee authorities.
  2. Approve entry, exit, and settlement of KFH investments or transfer of assets at the Group level.
  3. View and endorse periodical reports presented by the Executive Management.
  4. Sale and purchase of treasury shares.
  5. Appoint KFH representatives in the Boards of Directors of subsidiaries and associates.

Names of Executive Committee Members and Number of Meetings held in 2022

Date of meeting	24 Feb	25 Mar	21 Apr	29 May	29 Jun	27 Jul	21 Sep	05 Oct	04 Dec	21 Dec	Attendance %	Absence %	Total of meeting
Name/ Number of meetings	24	25	26	27	28	29	30	31	32	33			
Mr. Hamad Abdul Mohsen Al-Marzouq	√	X	√	√	√	√	√	√	√	√	9	1	10
Mr. Abdul Aziz Yacoub Al-Nafisi	√	√	√	√	√	√	√	√	√	√	10	0	10
Mr. Khaled Salem Al-Nisf	√	√	√	√	√	√	√	√	√	√	10	0	10
Mr. Muaz Saud Al-Osaimi	√	√	√	√	√	√	√	√	√	√	10	0	10
Mr. Fahad Al-Ghanim	√	√	√	√	√	√	√	√	√	√	10	0	10
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	√	√	√	10	0	10

6.6- Investment Committee

The main function of the investment committee is to assist the Board in setting up and laying the general principles of investment, supervise the investment activities of the Bank and its subsidiaries as per the authorities assigned by the Board, and verify compliance with the Bank's investment objectives.

Investment Committee comprises (4) members. The committee held (4) meetings during 2022.

The main functions of the Investment Committee include but not limited to the following:

- Assist the bank's Board to execute its supervisory responsibilities over the bank's investment assets including investment funds and portfolios and raise its recommendations to the Board and follow up investments as per approved policies and procedures.
- Review reports related to the developments and changes on the Bank's investments, conditions of the local and international financial markets and provide as well as study all information that would enable the Committee to perform its responsibilities professionally and efficiently.
- Update the Board on any substantial changes on the Bank's investments.
- Follow up the implementation of strategic policies and goals set by the Board regarding all investment activities.
- View all newly proposed investments and verify their conformity with the Board plans and raise a recommendation to the Board in this respect.
- Outsource consultant to assist the committee in performing its missions.
- Submit recommendations to the Board regarding any subject it may deem suitable.
- Acquire any information required regarding the status of investment portfolio through the CEO.
- Review Executive Management recommendations regarding the decisions for merging current investments and raise the same to the Board.
- The committee shall practice any responsibilities and duties assigned by the Board.
- The committee shall make to the Board a recommendation to increase or decrease the capital of the companies in which the bank is a shareholder.
- These functions shall be reviewed and updated when required, taking into consideration any changes in the Bank's business governance framework, authorities, strategies, regulations, policies, or any other material factors. Amendments and updates made on the regulations must be approved by the Board.

Names of Investment Committee Members and Number of Meetings held in 2022

Date of meeting	7 Feb	29 May	02 Nov	28 Dec	Attendance%	Absence%	Total of meetings
Name/ Number of meetings	9	10	11	12			
Mr. Fahad Ali Al-Ghanim	√	√	√	√	4	0	4
Khaled Salem Al-Nisf	√	√	√	√	4	0	4
Mr. Muaz Saud Al-Osaimi	√	√	√	√	4	0	4
Mr.Salah Abdulaziz Al-Muraikhi	√	√	√	√	4	0	4
Mr. Mohammed Nasser Al-Fouzan	√	√	√	√	4	0	4

√ Attended   X Absent

Meetings of Fatwa & Shari'a Supervisory Board **during 2022**

The General Assembly of KFH appointed the honorable members of the Fatwa & Shari'a Supervisory Committee for the year 2022. The Committee consists of (5) members. The Committee issues Shari'a opinions and decisions and ensures KFH compliance with Shari'a regulations. During 2022, the Fatwa & Shari'a Supervisory Committee held (27) meetings.

Names of Members of the Fatwa and Shari'a Supervisory Committee and No. of Meetings held during 2022

Meetings During 2022		
Board Members	Attendance Frequency	Attendance Percentage
Sheikh/ Professor Dr Sayyid Mohammad Al- Sayyid Abdul Razzaq Al-Tabtaba'e Chairman, Fatwa & Shari'a Supervisory Board	**27**	**100**
Sheikh/ Dr. Anwar Shuaib Al-Abdulsalam Member, Fatwa & Shari'a Supervisory Board	**27**	**100**
Sheikh/ Professor Dr. Mubarak Jeza Al-Harbi Member, Fatwa & Shari'a Supervisory Board	**25**	**92.6**
Sheikh/ Dr. Esam Abdulrahim Al-Ghareeb Member, Fatwa & Shari'a Board Member	**26**	**96.2**
Sheikh/ Dr. Khaled Shujaa' Al-Otaibi Member, Fatwa & Shari'a Board Member	**26**	**96.2**

Financing value received by members of the Fatwa & Shari'a Supervisory Board comprise the following:

- Financing Facilities: KD 322,071

- Credit Cards: KD 1,048

The External Shari'a Audit Office Report of Kuwait Finance House (KFH)

Messrs. Shareholders of Kuwait Finance House (KFH)

Peace, Mercy & Blessings of Allah be upon you:

KFH External Shari'a Audit Report

As of the fiscal year ending on 2022/12/31

Responsibility of the External Shari'a Audit Office

Based on the contract concluded and signed by us, the External Shari'a Audit Office is responsible for monitoring and auditing all transactions and dealings to ensure the extent of KFH's commitment to the provisions of Islamic Shari'a in accordance with the Resolutions and Fatwas issued by the Fatwa and Shari'a Supervisory Board.

Responsibility of Kuwait Finance House

The Bank is responsible for achieving compliance with the provisions of Islamic Shari'a in accordance with the Resolutions and Fatwas issued by the Fatwa and Shari'a Supervisory Board, and providing all necessary information to conduct the External Shari'a Audit on all transactions and dealings.

Procedures & Findings of External Shari'a Audit

The minutes of meetings and reports of the Fatwa and Shari'a Supervisory Board, the plan and reports of the Internal Shari'a Audit Department are reviewed, and the Shari'a approvals on policies and procedures manuals and their amendments for all departments of the bank are reviewed.

In addition, investments, contracts, banking and commercial transactions, their products and stages of completion are examined and reviewed in order to ensure that the concerned bodies in the bank have implemented such transactions in accordance with Resolutions and Fatwas issued by the Fatwa and Shari'a Supervisory Board.

Field Visits and Findings

The bank's executive management is communicated through holding several meetings, and correspondence is conducted via e-mail, and the findings of such meetings are recorded, as about ten face-to-face meetings are held.

Compliance with Acquisition Plan and Fatwa and Shari'a Supervisory Board Instructions

The minutes of meeting of acquisition process and the instructions issued by the Fatwa and Shari'a Supervisory Board related to assets and liabilities, claims, bond portfolio, hedging contracts, off-balance sheet items, and applicable contracts under implementation are reviewed.

Final Independent Opinion

We believe that the audit completed on the bank's business for the period as of 2022/01/01 to 2022/12/31 provides an appropriate basis for expressing our independent opinion, according to information, clarifications and assurances that we have obtained and which we deem necessary to provide us with sufficient evidence to give reasonable assurance that the bank's executive management has complied with the Resolutions and Fatwas issued by the Fatwa and Shari'a Supervisory Board. As referred to above, the External Shari'a Audit Office has reached the final opinion that KFH has complied with the provisions and principles of Islamic Shari'a in accordance with the Resolutions and Fatwas issued by the Fatwa and Shari'a Supervisory Board.

External Shari'a Auditor
Dr. Abdulaziz Khalaf Jarallah

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board acknowledges the value of strong internal control systems to the effectiveness and efficiency of operations, quality of internal and external reporting, compliance with the applicable laws and regulations and to KFH Group's overall governance. The Board has established an organization structure that sets clearly the lines of authorities. Senior Management is responsible for establishing and operating the internal control systems to ensure the risks are managed and KFH Group's objectives are achieved. However, such internal control system is designed to provide a reasonable assurance against the risk of material loss.

The Board, through its Committees, reviews regularly the effectiveness of the internal control systems as assessed by the various internal control functions. The Board also ensures that these functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

The Board played an active oversight role in crisis management to ensure that the executive management had put in place the required controls that instill the bank's resilience to the changing environment and secure the business continuity to the best interests of the stakeholders.

The Board also reviews the management letters issued by the bank's external auditors and reviews the report on Accounting and Other Records and Internal Control System (ICR) issued by the ICR auditors. The ICR auditors' opinion in this respect is included in the Annual Report.

The Board believes that the internal control systems adopted and operated during the year ended 31 December 2022 are adequate to provide reasonable assurance regarding the achievement of KFH Group's objectives.

External Auditor Report about internal Controlling Systems

RSM

27 June 2022
Board of Directors
Kuwait Finance House K.S.C.P.
State of Kuwait

Subject: Report on Internal Controls Review for the year ended 31 December 2021

Purpose of this Report

In accordance with our letter of engagement dated 27 February 2022, we have examined and evaluated the internal control systems of Kuwait Finance House K.S.C.P, referred to as "the Bank" or the "Group" and its banking and financial subsidiaries, which were applied during the year ended December 31, 2021.

We covered the following departments / areas of the Bank:

- Corporate Governance
- Treasury and Financial Institutions
- Retail and Private Banking
- Group Financial Control
- Information Technology
- Operations
- Human Resources
- Anti-Money Laundering and Combating Financing of Terrorism
- Legal
- Internal Audit
- Strategic Planning and Follow-up
- Group Internal Shari'a Audit
- Customer Complaints Unit
- Fraud
- Risk Management
- Compliance and Regulatory Information
- Group Corporate Banking
- Financial Securities Activities
- Investment

In addition to the above, we have also covered the following banking and financial subsidiaries of Kuwait Finance House K.S.C as follows:

- Kuwait Finance House, Bahrain (B.S.C.C)
- Kuwait Finance House (Malaysia - Berhad)
- Kuwait Turkish Participation Bank Inc.
- KFH Capital Investment Company (K.S.C.C)
- E'AMAR
- Saudi Kuwait Finance House S.A.S. (closed)
- KFH Private Equity Ltd.

Our approach and procedures carried out in accordance with the requirements of the letter issued by the Central Bank of Kuwait (CBK) to the bank dated 19 January 2022 and CBK requirements contained in the manual of General Directives concerning Internal Controls Review (ICR) issued by the CBK dated 15 June 2003 and guidelines relating to corporate governance issued by the CBK on 20 June 2012, and updated on 10 September 2019, instructions dated 14 May 2019 concerning anti money laundering and combating financing of terrorism related, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank.

Responsibilities of Bank

We would like to point out that among the responsibilities of the Board of Directors and the Bank management is to establish appropriate internal control systems at the level of the Bank, and in order to undertake these responsibilities, judgments and estimates will be made to assess the expected benefits and costs related to management information and control procedures.

Kuwait Finance House (K.S.C.P.) and Subsidiaries
Annual Report 2022
External Auditor Report about internal Controlling Systems

RSM

Our Responsibilities

The aim is to provide a reasonable, but not absolute, and here for example assurance that the assets are protected from any losses arising from the unauthorized use or disposal of those assets, and that risks are adequately monitored and evaluated, and that the transactions are carried out in accordance with the approved policies and procedures, and that they are appropriately recorded, and the work is carried out properly.

Because of inherent limitations in control system, and despite the levels of controls identified, there are still instances where these may not always be effective, and errors or irregularities may nevertheless occur and not be detected or traced. This may be due to human error, incorrect management judgment, management override, controls being by-passed or a reduction in compliance.

Our report is based on the findings and conclusion from the work undertaken, the scope of which has been agreed with the management, Also, projection of any evaluation of the systems to future periods is subject to the risk that information from management and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

The factors which are considered which may influence our report are:

- Inherent risk in the areas being examined/evaluated;
- Limitations in the individual area being examined/evaluated;
- The adequacy and effectiveness of the risk management and governance control framework;
- The impact of weakness identified.
- The level of risk exposure; and
- The response to management actions raised and timeliness of actions taken.

Procedures and Findings

In regard to the nature and scale of its business, during the year ended December 31, 2021, the internal control systems in the areas examined by us were evaluated and maintained in proportion to the size of the risks and business in Bank, except for the matters specified in the report presented to the Board of Directors.

The findings raised do not have a material impact on the fair presentation of the financial statements of the bank for the year ended 31st December 2021, and the actions taken by the bank to address the findings referred in the report are considered satisfactory.

Yours faithfully,

Albazie & Co.
RSM

Dr. Shuaib Abdullah Shuaib
License No. 33 "A"
RSM Albazie and Co.

Remuneration Report

Remuneration Policy :

KFH's Remuneration Policy is in line with its strategies and objectives and the Kuwaiti Labor Law in the private sector, and incorporates all the requirements of the CBK Corporate Governance Instructions issued in June 2012. The employees' remuneration includes both fixed and variable components, which include their current and deferred remunerations, short-term and long-term incentives and end of service indemnity. The policy is designed to attract, retain and competitively reward those individuals with experience, skill, values and behaviors in order to achieve the Bank's overall goals.

Rewarding employees is directly linked to the Bank's short / long term performance. It also aligns the components of the remuneration packages with the Bank's short/long-term risk appetite. The policy has mechanisms in place to control the total remuneration based on the financial performance of the Bank, and in the case of poor performance, implementing a Claw Back mechanism in order to safeguard the Bank's interests.

The Bank's Board of Directors, with the assistance of the Remuneration and Nominations Committee, approves the Bank's remuneration policy design and its modifications, and periodically reviews the process of its implementation and effectiveness to ensure that it is operating as intended.

Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade in the Bank and the job function as well as market practice. The employee remuneration components are:

a. Basic salary.
b. Benefits and allowances.

The salaries reflect the individuals' skills and experience and are reviewed annually in the context of annual performance assessment. The salary packages are periodically benchmarked against comparable roles in other banks and other financial institutions. They are increased, where justified, by role change, increase in responsibility or where justified by the latest available market data. Salaries may also be increased in line with local regulations.

The Bank has a formal performance management process for evaluating and measuring staff performance at all levels. In the beginning of the year, the staff and their superiors plan and document the annual performance goals, required competencies and personal development plans for the staff. At the annual performance appraisal interview, the superiors of the staff and the reviewers evaluate and document performance against the documented goals. Decisions on adjustment of the employee's fixed salary and on performance-based incentives are made on the basis of annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical / life insurance, annual tickets, and allowances are provided on the basis of individual employment contracts, local market practice and applicable laws.

First: Remuneration Disclosures as per the CBK Corporate Governance Instructions

As per the CBK's Corporate Governance Instructions, we have disclosed the remuneration cost of certain staff categories and the amounts cost to each category. The analyses include the fixed and variable parts of the remuneration package and methods of payment.

The financial remunerations cost of the Board of Directors are disclosed in Note (29) of the Annual Financial Statements.

Second: Remuneration of the Highest Paid Executives at Kuwait Finance House

As per the CBK Corporate Governance Instructions, this section must include the total remuneration charged for the year 2022 to the 5 highest paid senior executive officers, which includes their salaries and short and long-term incentives for the year. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5.

Hence, this section includes the total remuneration cost in 2022 of the top 5 highest executives at KFH as well as 2 mandatory positions which were not part of the top 5. The total for this group (top 5+2) amounted to KD 2,636,197 The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

Third: Remuneration by Specific Staff Categories at Kuwait Finance House

• CEO and his deputies and/or other Senior Executives whose appointment is subject to the approval of the regulatory and supervisory authorities:

For 13 respective executives, the total remuneration charged for the year 2022 to this category amounted to KD 4,120,510. The remuneration package of each executive in this category included fixed and variable pay components including salaries (basic and cash / non-cash benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

• Financial Control and Risk Staff:

For 142 respective staff, the total remuneration charged for the year 2022 to this category amounted to KD 5,629,948 The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable components including salaries (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and end of service benefits.

• Material Risk Takers:

For 5 respective executives, the total remuneration charged for the year 2022 to this category amounted to KD 1,993,242 The category includes the top management and the divisional heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

Risk Management and Governance Requirements

KFH has given special consideration and care to risk management and governance requirements as it is considered one of the most significant pillars of prudent management in banking. The Group's risk department has made a clear imprint at KFH as it plays a vital role in decision making driven by the principle of risk and return trade off. The Group's risk department has the primary role in identifying, evaluating, and mitigating risks. Considering the continued and increasing challenges emanating from the current political and economic conditions, the proper practice and care of risk management in the Group play a significant role at KFH Group level.

The geopolitical developments represented in the Russian-Ukrainian war this year continued to dominate the public scene. Tremendous fluctuations were noticed in the fundamental risk factors of the global economy. Nonetheless, the Group's risk department has succeeded in completing its strategic initiatives to enhance the Group's capital and improve its assets quality.

Risks at the Group are managed in a predetermined and integrated manner by applying best practices in identifying, measuring and mitigating both financial and non-financial risks. As per the group governance frameworks, all risks are followed up, analyzed, and discussed with executive management (through Risk Management Committee), Board Risk committee, and the Board of Directors to ensure that the three lines of defense principle is applied starting from the responsibility of each employee to identify, evaluate, and control prospected risks while carrying out his or her duties.

The main responsibility of the risk department is to drive continuous improvements in the field of risk management and development of business practices at KFH group level to cope with the accelerating changes in the regulatory requirements and best practices. Accordingly, the group risk department has adopted significant and effective procedures by applying unified methodical and standard business frameworks, updating measurement systems, risks predicting models, and automation reporting systems and follow up. The Group's risk department has also conducted, on regular basis, stress tests, and capital adequacy estimations at KFH Group and continued development of stress test methods in the most conservative ways to calculate prospected financial and non-financial risks considering the changes in the economic variables. In addition, the department has updated the group risk appetite and increased the number of main risk indicators control reports to ensure comprehensive risk controls at the group level.

Building an adequate capital base to enhance business growth, absorb unexpected losses and comply with regulatory requirements is considered as one of the main pillars of risk strategy at KFH. Based on this concept, the Group's risk department sustained the capital management program which includes internal initiatives to assess risk weighted assets and improve Capital ratio through internal or external levers in line with the Group's strategy and plans. At the end of the year, capital adequacy ratio reached 17.66% i.e. higher than the regulatory minimum.

The market and liquidity risks are governed by the Assets/Liabilities Committee. Reports in this respect are issued at the group level to ensure compliance with liquidity ratios namely the Net Stable Funding Ratio and Liquidity Coverage Ratio to achieve regulatory compliance and the ability to safeguard depositors'.

Credit risk department has succeeded in dealing with the unprecedented crisis and the related financial risks by adopting the best practices and processes in accordance with international credit risk measurement, management and mitigation practices and standards. As a result, the group asset quality level was improved.

KFH lays great emphasis on the significance of complying with the laws and instructions issued by regulatory authorities. In this respect, KFH has an independent department, reporting to the Audit and Compliance Committee, to ensure that all business and services are executed in accordance with the regulatory authorities' instructions.

Group Compliance and Regulatory Information Department has worked in 2022 side by side with other business departments to provide consultations on the new products and services provided to KFH customers and ensure that they are approved by regulatory authorities. In addition, the department has ensured that KFH various activities are being performed in accordance with the regulatory authorities' instructions through a predetermined plan to examine the functions of the concerned departments, provide necessary support and take any necessary actions to protect KFH and its shareholders.

Compliance and Regulatory Information Department has followed up the flow of KFH Group activities through the reports presented by subsidiaries to ensure that KFH Group has complied with the regulatory authorities' instructions in various countries where KFH operates.

KFH has anchored several functions under the umbrella of non-financial risks in accordance with KFH Group Risk Strategy and business framework. Non-financial risks include several specialized departments e.g., operational risk department, business continuity department, IT risk department and cyber security risk department.

Non-financial risk responsibilities include supervising the development and execution of business frameworks related to non-financial risks at KFH sectors level. These include the responsibility to identify non-financial risks, verify efficiency of control factors and business flexibility and prepare necessary administrative reports in accordance with industry standards and best practices.

Operational risks department focuses on enhancing the ability to manage and identify main risks at KFH group level. Possible weakness areas are identified, and appropriate plans and regulations are put in place to process and mitigate excessive risks.

IT risk department works on achieving extreme efficiency of IT services and ensures implementation of compliance requirements within an effective internal control environment.

Business continuity department is actively involved in the development and implementation of the business continuity frameworks including business recovery strategies, crisis management plans and business resilience programs to provide the ability to effectively respond to disruptive events whilst protecting the interests of the bank, its customer, and shareholders. Furthermore, the crisis management plan was aligned with CBK Cyber Security framework requirements with regards to cyber security crisis management.

Concerning the management of the cyber security and information security risks, the unit is carrying out high level independent oversight over information security management across the Bank. The unit focused its efforts on compliance with CBK Cyber Security Framework by developing the procedures and methodologies required for cyber security risk management, assessing existing cyber security posture, determining current maturity levels and planning to strengthen the posture to an optimized level. Accordingly, in coordination with Business Continuity Management, a cyber security crisis management simulation exercise has been planned and were conducted as a continuous activity aiming to enhance the Bank's preparedness and response capabilities to cyber security incidents in dealing with this type of crisis as well to ensure that reliable framework and robust infrastructure are in place.

Likewise, KFH has a strong and comprehensive framework for Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") to ensure compliance with the related laws and regulatory authorities' instructions.

Capital Adequacy Disclosures

Basel III

Capital Adequacy Disclosures

Qualitative and quantitative disclosures related to Capital Adequacy Standard under Basel III have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per their circular **2/RB, RBA/336/2014 dated 24 June 2014**. General disclosures related to Capital Adequacy Standard under Basel III rely on calculating the minimum capital required to cover credit and market risks using the Standardized Approach and the minimum capital required to cover operational risk using the Basic Indicator Approach.

First: Group Structure

Kuwait Finance House Group comprises the bank head office in Kuwait in addition to banking and non-banking (Wholly or partially owned) subsidiaries. The bank owns certain other strategic investments. The subsidiaries are fully consolidated into the Bank's financial statements. Unaffiliated companies are disclosed as investments or associates' activities in the financial statements. Details about subsidiaries and associates are as follows:

1. Principal operating material subsidiaries:

1.1 **Kuwait Turkish Participation Bank:** is a 62% (2021: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis.

1.2 **Ahli United Bank B.S.C. (AUB):** is a 100% (2021: -%) newly acquired subsidiary during the year. AUBUK, AUBK, AUBE, and CBIQ are indirectly held subsidiaries through AUB.

1.3 **Kuwait Finance House B.S.C.:** is a 100% (2021: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing Sharia compliant products and banking services, management of investment accounts on profit sharing basis and corporate finance.

1.4 **Kuwait Finance House (Malaysia) Berhad:** is a 100% (2021: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.5 **Saudi Kuwaiti Finance House S.S.C. (Closed):** is a 100% (2021: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.6 **Kuwait Finance House Capital Investment Company K.S.C. (Closed)*:** is a 99.9% (2021: 99.9%) owned Investment Company. Its activities comply with Islamic Shari'a including investments, Islamic finance services, equity trading, private equity investments, real estate investments and asset management services.

1.7 **KFH Real Estate Company K.S.C (Closed)*:** is a 99.9% (2021: 99.9%) owned subsidiary. The company's activities include the provision of real estate rental and development services.

1.8 **Al Enma'a Real Estate Company K.S.C.P:** is a 56% (2021: 56%) owned subsidiary. The company's main activities include real estate development investment and trading.

1.9 **Baitak Real Estate Investment Company S.S.C.:** is a 100% (2021: 100%) owned real estate Investment Company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.10 **International Turnkey Systems Company K.S.C. (Closed):** is a 98% (2021: 98%) owned subsidiary whose activities include hardware and software maintenance and provision of specialized technical consultancies.

1.11 **Al Salam Hospital K.S.C. (Closed):** is a 76% (2021: 76%) owned subsidiary engaged in completing all activities related to the field of healthcare services.

1.12 **Ahli United Bank (U.K.) PLC ("AUBUK"):** is a 100% (2021: -%) newly acquired bank registered in the United Kingdom since 1966. Its activities include providing banking services, management of investment accounts and corporate finance.

1.13 **Ahli United Bank K.S.C.P. ("AUBK")**:** is a 67.3% (2021: -%) newly acquired Islamic bank registered in Kuwait since 1971. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.14 **Ahli United Bank (Egypt) S.A.E. ("AUBE"):** is a 95.7% (2021: -%) newly acquired bank registered in the Arab Republic of Egypt since 1978 "Delta Bank previously". Its activities include providing banking services, management of investment accounts and corporate finance.

1.15 **Commercial Bank of Iraq P.S.C. ("CBIQ"):** is an 80.3% (2021: -%) newly acquired bank registered in the Republic of Iraq. Its activities include providing banking services, management of investment accounts and corporate finance.

* Effective Ownership is 100% (2021: 100%).

** Effective ownership percentage is 74.9%.

2. Major associates of the group:

2.1 **Sharjah Islamic Bank P.J.S.C.:** is a 18% (2021: 18%) owned bank registered in Sharjah – United Arab Emirates since 1975. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.2 **Ahli Bank S.A.O.G. (ABO):** is a 35% (2021: -%) owned bank registered in Sultanate of Oman. Its main activities include providing a variety of investment products and services including the issuance of Islamic bonds, wealth management, treasury investments and investments in various economic sectors.

2.3 **Aviation Lease and Finance Company K.S.C.P. (ALAFCO):** is a 46% (2021: 46%). Its main activities Include aircraft leasing and financing services.

Second: Regulatory Capital Structure and Balance Sheet Reconciliation

A. Regulatory Capital Structure

The Bank's regulatory capital comprises the following:

1. **Tier 1 (T1) capital, which comprises:**
   - Common Equity Tier 1 (CET1) – comprising shareholder's equity, retained earnings, reserves, and eligible portion of non-controlling interests.
   - Additional Tier 1 (AT1) – comprising eligible Tier1 perpetual SUKUK and eligible portion of non-controlling interests.
2. **Tier 2 (T2) capital** – comprises of eligible portion of non-controlling interests and eligible portion of general provisions (limited to maximum of 1.25% of credit risk-weighted assets).

As of 31 December 2022, Tier (1) "Core Capital" amounted KD 3,605,225 thousand (2021: 2,300,266 thousand), Tier (2) "Supplementary Capital" amounted KD 377,993 thousand (2021: 204,228 thousand).

KD 000's

Regulatory Capital Components	2022	2021
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	5,763,571	2,196,981
Regulatory Adjustments for CET1	2,704,295	160,532
Total Common Equity Tier 1 (CET1)	**3,059,276**	**2,036,449**
Additional Tier 1 Capital (AT1)	545,949	263,817
Total Tier 1 (T1=CET1+AT1)	**3,605,225**	**2,300,266**
Tier 2 Capital (T2)	377,993	204,228
Total Capital (TC=T1+T2)	**3,983,218**	**2,504,494**
Total Risk Weighted Assets	**22,552,464**	**13,402,087**
Capital Adequacy Ratios		
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.57%	15.20%
Tier 1 (as percentage of risk-weighted assets)	15.99%	17.16%
Total capital (as percentage of risk-weighted assets)	17.66%	18.69%
Minimum capital ratio		
Common Equity Tier 1 minimum ratio	10.0%	9.0%
Tier 1 minimum ratio	11.5%	10.5%
Total capital minimum ratio	13.5%	12.5%

B. Reconciliation of Regulatory Capital:

1. Common Disclosure Template:

The below table serves as a detailed breakdown of the bank's regulatory capital in a clear and consistent format.

KD 000's

Ser.	Common Equity Tier 1 capital: instruments and reserves	2022	2021
1	Directly issued qualifying common share capital plus related stock surplus	4,953,988	1,564,488
2	Retained earnings	277,331	173,511
3	Reserves	155,423	282,230
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	242,607	92,336
6	Proposed issue of bonus shares	134,222	84,416
	Common Equity Tier 1 capital before regulatory adjustments	**5,763,571**	**2,196,981**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	2,127,198	-
9	Other intangibles (net of related tax liability)	335,427	32,351
10	Proposed Cash dividends	199,907	100,442
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
12	Cash-flow hedge reserve		
13	Shortfall of provisions to expected losses		
14	Taskeek gain on sale (as set out in para 72 of these guidelines)		
15	Gains and losses due to changes in own credit risk on fair valued liabilities		
16	Defined-benefit pension fund net assets (para 68)		
17	Investments in treasury shares (if not already netted off paid-in capital on reported balance sheet)	41,763	27,739
18	Reciprocal cross-holdings in common equity		
19	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)		
20	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)		
21	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)		
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
23	Amount exceeding the 15% threshold		
24	of which: significant investments in the common stock of financials		
25	of which: mortgage servicing rights		

26	of which: deferred tax assets arising from temporary differences		
27	National specific regulatory adjustments		
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
29	Total regulatory adjustments to Common equity Tier 1	2,704,295	160,532
	Common Equity Tier 1 capital (CET1)	**3,059,276**	**2,036,449**
	Additional Tier 1 Capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	501,666	226,875
31	of which: classified as equity under applicable accounting standards	501,666	226,875
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	44,283	36,942
35	of which: instruments issued by subsidiaries subject to phase-out		
	Additional Tier 1 capital before regulatory adjustments	**545,949**	**263,817**
	Additional Tier 1 Capital: Regulatory Adjustments		
36	Investments in own Additional Tier 1 instruments		
37	Reciprocal cross-holdings in Additional Tier 1 instruments		
38	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
39	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
40	National specific regulatory adjustments		
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
	Total regulatory adjustments to Additional Tier 1 capital		
	Additional Tier 1 capital (AT1)	**545,949**	**263,817**
	Tier 1 capital (T1 = CET1 + AT1)	**3,605,225**	**2,300,266**
	Tier 2 Capital: Instruments and Provisions		
42	Directly issued qualifying Tier 2 instruments plus related stock surplus		
43	Directly issued capital instruments subject to phase-out from Tier 2		
44	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	126,866	52,959
45	of which: instruments issued by subsidiaries subject to phase-out		
46	General provisions included in Tier 2 capital	251,127	151,269
	Tier 2 capital before regulatory adjustments	**377,993**	**204,228**
	Tier 2 Capital: Regulatory Adjustments		

47	Investments in own Tier 2 instruments		
48	Reciprocal cross-holdings in Tier 2 instruments		
49	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		
50	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
51	Significant investments in the capital banking, financial and insurance		
	entities that are outside the scope of regulatory consolidation (net of		
	eligible short positions)	**377,993**	**204,228**
	Total capital (TC = T1 + T2)	**3,983,218**	**2,504,494**
	Total risk weighted assets (after applying 50% additional weighting)	**22,552,464**	**13,402,087**
	Capital Ratios and Buffers		
52	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.57%	15.20%
53	Tier 1 (as a percentage of risk weighted assets)	15.99%	17.16%
54	Total capital (as a percentage of risk weighted assets)	17.66%	18.69%
55	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	10.0%	9.0%
56	of which: capital conservation buffer requirement	1%	-%
57	of which: bank specific countercyclical buffer requirement		
58	of which: D-SIB buffer requirement	2.0%	2.0%
59	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.57%	8.20%
	Minimum Capital Ratios		
60	Common Equity Tier 1 minimum ratio	10.0%	9.0%
61	Tier 1 minimum ratio	11.5%	10.5%
62	Total capital minimum ratio	13.5%	12.5%
	Amounts below the thresholds for deduction (before risk weighting)		
63	Non-significant investments in the capital of other financials		
64	Significant investments in the common stock of financials		
65	Mortgage servicing rights (net of related tax liability)		
66	Deferred tax assets arising from temporary differences (net of related tax liability)	28,945	50,885
	Applicable caps on the inclusion of provisions in Tier 2		
67	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	695,261	510,952
68	Cap on inclusion of provisions in Tier 2 under standardized approach	251,127	151,269
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
70	Cap for inclusion of provisions in Tier 2 under internal ratings-based		

2. Reconciliation Requirements Form:

A full reconciliation of all regulatory capital elements with the audited financial statements.

Step 1

For the year ended 31-12-2022: KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	2022	**2022**	
Assets			
Cash and balances with banks and financial institutions	3,155,813	3,155,813	
Due from banks	3,869,894	3,869,894	
Financing receivables	18,839,684	18,839,684	
of which: General Provisions (netted above) capped for Tier 2 inclusion	251,127	251,127	A
Investment in debt securities	6,085,453	6,085,453	
Trading properties	95,110	95,110	
Investments	246,641	246,641	
Investment in associates and joint ventures	519,656	519,656	
Investment properties	384,142	384,142	
Other Assets	975,824	975,824	
Intangible assets and goodwill	2,462,625	2,462,625	
of which: goodwill	2,127,198	2,127,198	B
of which: other intangibles	335,427	335,427	C
Property and equipment	334,603	334,603	
Total Assets	**36,969,445**	**36,969,445**	
Liabilities			
Due to banks and financial institutions	6,180,795	6,180,795	
Sukuk Payable and term financing	784,191	784,191	
Depositors' accounts	22,482,916	22,482,916	
Other liabilities	1,235,442	1,235,442	
Total Liabilities	**30,683,344**	**30,683,344**	
Equity Attributable to the shareholders of the bank			
Share Capital	1,342,223	1,342,223	D
Share premium	3,611,765	3,611,765	E
Treasury shares	(41,763)	(41,763)	F
Proposed issue of bonus shares	134,222	134,222	G
Reserves	111,451	111,451	
of which: statutory reserve	403,348	403,348	H
of which: voluntary reserve	251,206	251,206	I
of which: treasury share reserve	15,028	15,028	J
of which: Fair Value Reserve	47,135	47,135	
of which: eligible as CET1 Capital	44,176	44,176	K
of which: eligible as depositors accounts	2,959	2,959	
of which: Foreign Currency Translation Reserve	(603,493)	(603,493)	
of which: eligible as CET1 Capital	(540,225)	(540,225)	L
of which: eligible as depositors accounts	(63,268)	(63,268)	
of which: Other Reserves	(31,381)	(31,381)	
of which: eligible as CET1 Capital	(18,110)	(18,110)	M
of which: eligible as depositors accounts	(13,271)	(13,271)	
of which: Retained Earnings	29,608	29,608	
of which: Modification loss on financing receivables	(47,816)	(47,816)	
of which: Retained earnings of previous years	77,424	77,424	N
Proposed Cash Dividends	199,907	199,907	O
Total Equity Attributable to the Shareholders of the Bank	5,357,805	5,357,805	
Perpetual Capital Securities and Sukuk – Tier1	501,666	501,666	P
Non-controlling interests	426,630	426,630	
Non-controlling interests eligible as CET1 capital	242,607	242,607	Q
Non-controlling interests eligible as AT1 capital	44,283	44,283	R
Non-controlling interests eligible as Tier 2 capital	126,866	126,866	S
Total Equity	**6,286,101**	**6,286,101**	
Total Liabilities and Equity	**36,969,445**	**36,969,445**	

For the year ended 31-12-2021: KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	2021	**2021**	
Assets			
Cash and balances with banks and financial institutions	2,325,092	2,325,092	
Due from banks	3,349,685	3,349,685	
Financing receivables	11,355,363	11,355,363	
of which: General Provisions (netted above) capped for Tier 2 inclusion	151,269	151,269	A
Investment in debt securities	2,734,922	2,734,922	
Trading properties	96,304	96,304	
Investments	218,754	218,754	
Investment in associates and joint ventures	491,703	491,703	
Investment properties	325,128	325,128	
Other Assets	654,468	654,468	
Intangible assets and goodwill	32,351	32,351	
of which: goodwill	0	0	B
of which: other intangibles	32,351	32,351	C
Property and equipment	204,442	204,442	
Total Assets	**21,788,212**	**21,788,212**	
Liabilities			
Due to banks and financial institutions	2,594,754	2,594,754	
Sukuk Payable and term financing	216,717	216,717	

Depositors' accounts	15,866,901	15,866,901	
Other liabilities	802,658	802,658	
Total Liabilities	**19,481,030**	**19,481,030**	
Equity Attributable to the shareholders of the bank			
Share Capital	844,155	844,155	D
Share premium	720,333	720,333	E
Treasury shares	(27,739)	(27,739)	F
Proposed issue of bonus shares	84,416	84,416	G
Reserves	209,996	209,996	
of which: statutory reserve	365,663	365,663	H
of which: voluntary reserve	233,723	233,723	I
of which: treasury share reserve	15,028	15,028	J
of which: Fair Value Reserve	57,001	57,001	
of which: eligible as CET1 Capital	54,042	54,042	K
of which: eligible as depositors accounts	2,959	2,959	
of which: Foreign Currency Translation Reserve	(439,587)	(439,587)	
of which: eligible as CET1 Capital	(376,319)	(376,319)	L
of which: eligible as depositors accounts	(63,268)	(63,268)	
of which: Other Reserves	(23,178)	(23,178)	
of which: eligible as CET1 Capital	(9,907)	(9,907)	M
of which: eligible as depositors accounts	(13,271)	(13,271)	
of which: Retained Earnings	1,346	1,346	
of which: Modification loss on financing receivables	(71,723)	(71,723)	
of which: Retained earnings of previous years	73,069	73,069	N
Proposed Cash Dividends	100,442	100,442	O
Total Equity Attributable to the Shareholders of the Bank	1,931,603	1,931,603	
Perpetual Capital Securities and Sukuk – Tier1	226,875	226,875	P
Non-controlling interests	148,704	148,704	
Non-controlling interests eligible as CET1 capital	92,336	92,336	Q
Non-controlling interests eligible as AT1 capital	36,942	36,942	R
Non-controlling interests eligible as Tier 2 capital	52,959	52,959	S
Total Equity	**2,307,182**	**2,307,182**	
Total Liabilities and Equity	**21,788,212**	**21,788,212**	

Step 2 of Reconciliation requirements

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital 2022	Component of regulatory capital 2021	Source based on reference letters of the balance sheet from step 1
1	Directly issued qualifying common share capital plus related stock surplus	4,953,988	1,564,488	D + E
2	Retained earnings	277,331	173,511	N + O
3	Reserves	155,423	282,230	H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	242,607	92,336	Q
5	Proposed issue of bonus shares	134,222	84,416	G
6	**Common Equity Tier 1 capital before regulatory adjustments**	**5,763,571**	**2,196,981**	
	Common Equity Tier 1 capital: regulatory adjustments			
7	Goodwill	(2,127,198)	-	B
8	Other intangible assets	(335,427)	(32,351)	C
9	Treasury shares	(41,763)	(27,739)	F
10	Proposed Cash dividends	(199,907)	(100,442)	O
11	**Total regulatory adjustments to Common Equity Tier1**	**(2,704,295)**	**(160,532)**	
12	**Common Equity Tier 1 capital (CET1)**	**3,059,276**	**2,036,449**	
	Additional Tier 1 capital: instruments			
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	44,283	36,942	R
14	Perpetual Capital Securities and Sukuk – Tier1	501,666	226,875	P
15	**Total Tier 1 capital**	**3,605,225**	**2,300,266**	
	Tier 2 capital: instruments and provisions			
16	Common share capital issued by subsidiaries and held by third parties (minority interest)	126,866	52,959	S
17	General Provisions included in Tier 2 Capital	251,127	151,269	A
18	**Total Tier 2 capital**	**377,993**	**204,228**	
	Total capital	**3,983,218**	**2,504,494**	

3. Main Features Template:

	Disclosure template for main features of regulatory capital instruments			
1	Issuer	Kuwait Finance House Tier 1 Sukuk Limited	Ahli United Bank K.S.C.P.	Ahli United Bank B.S.C.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS2338912665	XS2342243875	XS1133289832
3	Governing law(s) of the instrument	English law	English law	English law
	Regulatory treatment			
4	Type of Capital (CET1, AT1 or T2)	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Eligible at solo/group/group and solo	Group and Solo	Group and Solo	Group and Solo
6	Instrument type	Subordinated Debt – Mudaraba Sukuk	Subordinated Debt - Mudaraba Sukuk	Perpetual Capital Instruments
7	Amount recognized in regulatory capital	USD 750 million (KWD 225.408 million)	USD 600 million (KWD 158.332 million)	USD 400 million (KWD 117.926 million)
8	Par value of instrument	USD 1,000/-	USD 1,000/-	USD 1,000/-
9	Accounting classification	Equity Tier 1	Equity Tier 1	Equity Tier 1
10	Original date of issuance	30 June 2021	17 June 2021	29 April 2015
11	Perpetual or dated	Perpetual	Perpetual	Perpetual
12	Original maturity date	No maturity	No maturity	No maturity
13	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	30 June 2026	17 June 2026	Any Periodic Distribution
15	Subsequent call dates, if applicable	30 June beginning from 30 June 2026 or on any Periodic Distribution	17 June and 17 December beginning from 17 June 2026	Any Periodic Distribution
	Coupons/ dividends			
16	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
17	Coupon rate and any related index	3.6%	3.875%	5.839%
18	Existence of a dividend stopper	Yes	Yes	Yes
19	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary
20	Existence of step up or other incentive to redeem	No	No	No
21	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
22	Convertible or non-convertible	non-convertible	non-convertible	non-convertible
23	If convertible, conversion trigger (s)	Not applicable	Not applicable	Not applicable
24	If convertible, fully or partially	Not applicable	Not applicable	Not applicable
25	If convertible, conversion rate	Not applicable	Not applicable	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable	Not applicable
29	Write-down feature	Yes	Yes	Yes
30	If write-down, write-down trigger (s)	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.
31	If write-down, full or partial	Partially/Fully	Partially/Fully	Partially/Fully
32	If write-down, permanent or temporary	Permanent	Permanent	Permanent
33	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable	Not applicable
34	Position in subordination hierarchy in liquidation (specify instrument type	Deeply subordinated, senior to ordinary shares, and Liabilities related to Common Equity Tier 1 Capital	Deeply subordinated, senior to ordinary shares, and Liabilities related to Common Equity Tier 1 Capital	Deeply subordinated, senior to ordinary shares, and Liabilities related to Common Equity Tier 1 Capital
35	Non-compliant transitioned features	No	No	No
36	If yes, specify non-compliant features	Not applicable	Not applicable	Not applicable

Third: Risk weighted assets and Minimum Capital Requirement

a) Credit Risk

KFH credit risk management follows a specific framework to ensure that:

- Clearly defined credit policies for financing different types of corporate and individual clients which cover all economic sectors such as real estate, shares, and financial or commercial entities. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation.
- A system of credit authority matrix that ensures (1) authorities are commensurate with the experience and job levels for employees and managers, (2) the risk Management department reviews and challenges credit requests, (3) significant credit exposures are approved by credit committees or the Board and its committees as per Delegation of Authority matrix. (4) risk management reviews and studies subsequently implemented credit applications and periodically reviews credit portfolios to ensure that they comply with the instructions of the Central Bank of Kuwait and the credit approvals that have been made and to ensure that they do not violate any of the credit policies or the approved delegation of authority, and that there are no expired credit limits and/ or exposures, and that the reasons for the arrears in payments, if any, are identified and specifies ways to treat them.
- A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.
- A system of limits to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.
- A process to ensure credit policies are complied with regulatory requirements by making sure that the required data and documentation are in place and the required approvals are obtained.
- Effective follow-up processes to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits.

KFH's approach, when granting credit facilities, is based primarily on an assessment of the customers' capacity to repay, with supplementary support from credit risk mitigation. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms as approved by CBK. The bank's policy for collaterals defines the list of accepted collaterals and the protection of credits. The collaterals used by the bank include financial collaterals (cash and securities) and non-financial (real estate, bank guarantees, and third-party agreements).

KFH has reviewed and enhanced its corporate financing credit process. The main enhancements to the process include:

(a) Streamlining of the process itself to ensure efficient and effective decision-making process and clear assignment of responsibilities.

(b) Enhancing and realigning the credit authority matrix to ensure proper and clear escalation of decisions and the involvement of all relevant parties from the business, risk, and the Board.

(c) Activate the Credit Committee with the adequate level of membership and authority level to review and approve or recommend credit requests of the Board and higher-level committees.

KFH has adopted the standardized approach to measuring the capital required for credit risk under Pillar 1. However, credit risk arising from name concentration, sector concentration, and those remaining from credit mitigation techniques are captured under Pillar 2 as they are not covered under Pillar 1.

KFH relies on Moody's rating system for internal credit ratings.

1- Credit Risk Capital Requirements:

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Total Exposures	Net Exposures	Risk Weighted Assets	Required Capital
1	Cash item	252,524	252,524	-	-
2	Claims on sovereigns	7,621,901	7,621,901	2,539,189	342,791
3	Claims on public sector entities	1,396,756	1,392,644	494,122	66,706
4	Claims on MDBs	121,109	121,109	835	113
5	Claims on banks	4,805,434	4,805,434	1,215,294	164,065
6	Claims on corporates	11,058,292	10,038,104	7,860,316	1,061,143
7	Regulatory retail exposure	5,910,823	5,709,803	4,044,328	545,984
8	Qualifying residential housing financing facilities	442,200	302,275	83,107	11,219
9	Past due exposures	371,999	298,604	139,450	18,826
10	Inventory and commodities	17,025	17,025	25,076	3,385
11	Real estate investments	1,362,391	543,195	853,403	115,209
12	Investment and financing with customers	891,077	717,468	837,902	113,117
13	Other exposures	1,569,859	1,569,859	1,553,015	209,657
	Total	**35,821,390**	**33,389,945**	**19,646,037**	**2,652,215**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Total Exposures	Net Exposures	Risk Weighted Assets	Required Capital
1	Cash item	203,817	203,817	-	-
2	Claims on sovereigns	5,506,488	5,506,488	1,671,934	208,992
3	Claims on public sector entities	681,126	681,126	78,381	9,798
4	Claims on MDBs	33,745	33,745	1,675	209
5	Claims on banks	2,867,739	2,867,739	656,279	82,035
6	Claims on corporates	4,164,452	3,848,900	3,064,739	383,092
7	Regulatory retail exposure	4,417,134	4,264,008	3,066,594	383,324
8	Qualifying residential housing financing facilities	492,934	359,304	100,507	12,563
9	Past due exposures	373,410	308,434	147,426	18,428
10	Inventory and commodities	18,359	18,359	27,512	3,439
11	Real estate investments	1,269,459	481,096	769,001	96,125
12	Investment and financing with customers	758,362	642,572	760,780	95,098
13	Other exposures	1,461,802	1,461,802	1,396,976	174,622
	Total	**22,248,827**	**20,677,390**	**11,741,804**	**1,467,725**

2- Total Credit Risk exposures classified as "Self-Financed or Financed from Investment Accounts":

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Total Exposures	Self-Financed	Finance form Investment Accounts
1	Cash item	252,524	153,181	99,343
2	Claims on sovereigns	7,621,901	4,623,431	2,998,470
3	Claims on public sector entities	1,396,756	847,270	549,486
4	Claims on MDBs	121,109	73,464	47,645
5	Claims on banks	4,805,434	2,914,968	1,890,466
6	Claims on corporates	11,058,292	6,707,940	4,350,352
7	Regulatory retail exposure	5,910,823	3,585,494	2,325,329
8	Qualifying residential housing financing facilities	442,200	268,237	173,963
9	Past due exposures	371,999	225,654	146,345
10	Inventory and commodities	17,025	10,328	6,697
11	Real estate investments	1,362,391	826,424	535,967
12	Investment and financing with customers	891,077	540,526	350,551
13	Other exposures	1,569,859	952,273	617,586
	Total	**35,821,390**	**21,729,190**	**14,092,200**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Total Exposures	Self-Financed	Finance form Investment Accounts
1	Cash item	203,817	131,951	71,866
2	Claims on sovereigns	5,506,488	3,564,900	1,941,588
3	Claims on public sector entities	681,126	440,961	240,165
4	Claims on MDBs	33,745	21,846	11,899
5	Claims on banks	2,867,739	1,856,574	1,011,165
6	Claims on corporates	4,164,452	2,696,066	1,468,386
7	Regulatory retail exposure	4,417,134	2,859,653	1,557,481
8	Qualifying residential housing financing facilities	492,934	319,126	173,808
9	Past due exposures	373,410	241,746	131,664
10	Inventory and commodities	18,359	11,886	6,473
11	Real estate investments	1,269,459	821,848	447,611
12	Investment and financing with customers	758,362	490,963	267,399
13	Other exposures	1,461,802	946,370	515,432
	Total	**22,248,827**	**14,403,890**	**7,844,937**

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3- Net Credit Exposures classified as Rated or Unrated

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	252,524	252,524	-
2	Claims on sovereigns	7,621,901	7,621,901	-
3	Claims on public sector entities	1,392,644	1,378,536	14,108
4	Claims on MDBs	121,109	121,109	-
5	Claims on banks	4,805,434	4,555,036	250,398
6	Claims on corporates	10,038,104	850,065	9,188,039
7	Regulatory retail exposure	5,709,803	-	5,709,803
8	Qualifying residential housing financing facilities	302,275	-	302,275
9	Past due exposures	298,604	-	298,604
10	Inventory and commodities	17,025	-	17,025
11	Real estate investments	543,195	-	543,195
12	Investment and financing with customers	717,468	-	717,468
13	Other exposures	1,569,859	-	1,569,859
	Total	**33,389,945**	**14,779,171**	**18,610,774**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	203,817	203,817	-
2	Claims on sovereigns	5,506,488	5,506,488	-
3	Claims on public sector entities	681,126	681,126	-
4	Claims on MDBs	33,745	33,745	-
5	Claims on banks	2,867,739	2,795,705	72,034
6	Claims on corporates	3,848,900	23,044	3,825,856
7	Regulatory retail exposure	4,264,008	-	4,264,008
8	Qualifying residential housing financing facilities	359,304	-	359,304
9	Past due exposures	308,434	-	308,434
10	Inventory and commodities	18,359	-	18,359
11	Real estate investments	481,096	-	481,096
12	Investment and financing with customers	642,572	-	642,572
13	Other exposures	1,461,802	-	1,461,802
	Total	**20,677,390**	**9,243,925**	**11,433,465**

4- Average Credit Risk exposures, average Self-Financed Assets and average Assets Financed from Investment Accounts on quarterly basis:

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance form Investment Accounts
1	Cash item	215,192	137,229	77,963
2	Claims on sovereigns	6,220,506	3,964,326	2,256,180
3	Claims on public sector entities	871,928	551,915	320,013
4	Claims on MDBs	61,212	38,523	22,689
5	Claims on banks	3,169,309	2,009,100	1,160,209
6	Claims on corporates	6,212,131	3,920,998	2,291,133
7	Regulatory retail exposure	4,991,130	3,183,427	1,807,703
8	Qualifying residential housing financing facilities	433,078	276,915	156,163
9	Past due exposures	349,219	223,138	126,081
10	Inventory and commodities	16,957	10,847	6,110
11	Real estate investments	1,300,572	831,401	469,171
12	Investment and financing with customers	865,369	553,389	311,980
13	Other exposures	1,441,649	920,773	520,876
	Total	**26,148,252**	**16,621,981**	**9,526,271**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance form Investment Accounts
1	Cash item	239,921	155,666	84,255
2	Claims on sovereigns	5,949,606	3,855,977	2,093,629
3	Claims on public sector entities	653,838	423,692	230,146
4	Claims on MDBs	27,670	17,947	9,723
5	Claims on banks	2,473,639	1,602,863	870,776
6	Claims on corporates	4,220,945	2,735,338	1,485,607
7	Regulatory retail exposure	4,181,868	2,709,922	1,471,946
8	Qualifying residential housing financing facilities	546,304	354,093	192,211
9	Past due exposures	422,825	274,078	148,747
10	Inventory and commodities	18,996	12,312	6,684
11	Real estate investments	1,286,548	833,773	452,775
12	Investment and financing with customers	739,581	479,232	260,349
13	Other exposures	1,405,377	910,743	494,634
	Total	**22,167,118**	**14,365,636**	**7,801,482**

5- Excess Risk Concentrations

Concentration risks arise when several counterparties are engaged in similar activities in the same geographical area or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations indicate relative sensitivity of the Group's performance to developments affecting a particular industry sector or geographical location.

To avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified financial portfolios, thus establishing control over certain credit risk concentrations. Credit mitigation techniques are used by the Bank to manage risk concentrations both at the relationship and industry levels.

a. Geographical Distributions for Credit Risk Exposure

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	111,402	-	130,893	436	9,793	252,524
2	Claims on sovereigns	4,329,112	6,126	2,417,210	496,298	373,155	7,621,901
3	Claims on public sector entities	1,371,521	-	-	-	25,235	1,396,756
4	Claims on MDBs	41,050	-	-	-	80,059	121,109
5	Claims on banks	2,662,723	595,933	1,292,442	212,346	41,990	4,805,434
6	Claims on corporates	6,544,607	337,235	2,810,014	513,688	852,748	11,058,292
7	Regulatory retail exposure	4,723,204	-	1,033,446	125,419	28,754	5,910,823
8	Qualifying residential housing financing facilities	209,642	-	164,526	68,032	-	442,200
9	Past due exposures	324,418	-	16,523	21,527	9,531	371,999
10	Inventory and commodities	17,025	-	-	-	-	17,025
11	Real estate investments	1,324,309	3,746	1,718	29,340	3,278	1,362,391
12	Investment and financing with customers	874,686	-	16,391	-	-	891,077
13	Other exposures	1,200,763	20,387	305,645	2,602	40,462	1,569,859
	Total	**23,734,462**	**963,427**	**8,188,808**	**1,469,688**	**1,465,005**	**35,821,390**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	78,404	-	124,929	484	-	203,817
2	Claims on sovereigns	3,013,902	-	2,201,655	290,931	-	5,506,488
3	Claims on public sector entities	681,126	-	-	-	-	681,126
4	Claims on MDBs	33,745	-	-	-	-	33,745
5	Claims on banks	1,972,115	283,352	594,109	10,978	7,185	2,867,739
6	Claims on corporates	1,902,129	34,524	2,061,238	147,807	18,754	4,164,452
7	Regulatory retail exposure	3,554,641	-	738,624	123,869	-	4,417,134
8	Qualifying residential housing financing facilities	169,027	-	257,614	66,293	-	492,934
9	Past due exposures	309,597	-	39,051	24,762	-	373,410
10	Inventory and commodities	18,359	-	-	-	-	18,359
11	Real estate investments	1,219,668	17,569	1,661	30,561	-	1,269,459
12	Investment and financing with customers	741,121	-	17,241	-	-	758,362
13	Other exposures	1,038,882	66,653	349,578	5,522	1,167	1,461,802
	Total	**14,732,716**	**402,098**	**6,385,700**	**701,207**	**27,106**	**22,248,827**

b. Maturities of total Credit Risk exposures

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	252,524	-	-	252,524
2	Claims on sovereigns	4,579,881	935,376	2,106,644	7,621,901
3	Claims on public sector entities	340,957	265,557	790,242	1,396,756
4	Claims on MDBs	-	10,423	110,686	121,109
5	Claims on banks	3,023,599	908,281	873,554	4,805,434
6	Claims on corporates	2,809,578	2,232,649	6,016,065	11,058,292
7	Regulatory retail exposure	507,048	893,318	4,510,457	5,910,823
8	Qualifying residential housing financing facilities	8,370	10,103	423,727	442,200
9	Past due exposures	93,302	74,879	203,818	371,999
10	Inventory and commodities	-	-	17,025	17,025
11	Real estate investments	11,521	306,614	1,044,256	1,362,391
12	Investment and financing with customers	416,682	292,281	182,114	891,077
13	Other exposures	138,660	46,677	1,384,522	1,569,859
	Total	**12,182,122**	**5,976,158**	**17,663,110**	**35,821,390**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	203,817	-	-	203,817
2	Claims on sovereigns	4,071,327	539,387	895,774	5,506,488
3	Claims on public sector entities	278,860	294,662	107,604	681,126
4	Claims on MDBs	-	15,729	18,016	33,745
5	Claims on banks	1,970,255	551,292	346,192	2,867,739
6	Claims on corporates	1,164,383	1,230,801	1,769,268	4,164,452
7	Regulatory retail exposure	173,526	255,893	3,987,715	4,417,134
8	Qualifying residential housing financing facilities	2,408	10,820	479,706	492,934
9	Past due exposures	85,023	38,516	249,871	373,410
10	Inventory and commodities	-	-	18,359	18,359
11	Real estate investments	71,042	540,803	657,614	1,269,459
12	Investment and financing with customers	157,581	362,051	238,730	758,362
13	Other exposures	27,257	25,304	1,409,241	1,461,802
	Total	**8,205,479**	**3,865,258**	**10,178,090**	**22,248,827**

c. Main sectors of total Credit Risk exposures

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Manufacturing & Trade	Banks and financial institutions	Construction & Real estate	Government	Others	Total
1	Cash item	-	252,524	-	-	-	252,524
2	Claims on sovereigns	-	-	-	7,621,901	-	7,621,901
3	Claims on public sector entities	842,448	11,380	3,876	-	539,052	1,396,756
4	Claims on MDBs	-	121,109	-	-	-	121,109
5	Claims on banks	-	4,805,434	-	-	-	4,805,434
6	Claims on corporates	3,614,697	1,205,819	3,781,446	-	2,456,330	11,058,292
7	Regulatory retail exposure	378,280	-	385,960	-	5,146,583	5,910,823
8	Qualifying residential housing financing facilities	-	-	-	-	442,200	442,200
9	Past due exposures	5,598	-	265,010	-	101,391	371,999
10	Inventory and commodities	-	-	-	-	17,025	17,025
11	Real estate investments	-	-	500,996	-	861,395	1,362,391
12	Investment and financing with customers	-	16,391	765,828	-	108,858	891,077
13	Other exposures	368,637	461,014	156,236	-	583,972	1,569,859
	Total	**5,209,660**	**6,873,671**	**5,859,352**	**7,621,901**	**10,256,806**	**35,821,390**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Manufacturing & Trade	Banks and financial institutions	Construction & Real estate	Government	Others	Total
1	Cash item	-	203,817	-	-	-	203,817
2	Claims on sovereigns	-	-	-	5,506,488	-	5,506,488
3	Claims on public sector entities	-	-	-	-	681,126	681,126
4	Claims on MDBs	-	33,745	-	-	-	33,745
5	Claims on banks	-	2,867,739	-	-	-	2,867,739
6	Claims on corporates	1,351,281	681,107	1,097,279	-	1,034,785	4,164,452
7	Regulatory retail exposure	332,449	1,499	184,992	-	3,898,194	4,417,134
8	Qualifying residential housing financing facilities	-	-	-	-	492,934	492,934
9	Past due exposures	21,289	133	275,698	-	76,290	373,410
10	Inventory and commodities	-	-	-	-	18,359	18,359
11	Real estate investments	-	-	442,176	-	827,283	1,269,459
12	Investment and financing with customers	-	17,724	682,858	-	57,780	758,362
13	Other exposures	120,165	298,948	322,317	-	720,372	1,461,802
	Total	**1,825,184**	**4,104,712**	**3,005,320**	**5,506,488**	**7,807,123**	**22,248,827**

6- Past due and impairment provisions

Credit facilities are classified as "past-due" if the profit or principal instalment is past due 1 - 90 days. A credit facility is considered as "past-due and impaired" if the profit or a principal instalment is past due for more than 90 days.

"Past due and impaired" facilities are classified into the following four categories which are then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days
Substandard	Irregular for a period between 91 and 180 days
Doubtful	Irregular for a period between 181 days and 365 days
Bad	Irregular for a period exceeding 365 days

The Group may also include a credit facility in one of the above categories based on management's judgment of a customer's financial and/or non-financial circumstances.

As at 31 December 2022, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 271,274 thousand (2021: KD 204,408 thousand). A specific provision of KD 206,745 thousand (2021: KD 150,184 thousand) has been made, as detailed below:

a. Exposures based on standard portfolios

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Claims on Sovereigns	-	-	-	21,664
2	Claims on corporate	193,692	182,313	24,173	364,858
3	Regulatory retail exposure	28,245	20,753	13,026	118,936
4	Qualifying residential housing financing Facilities	4,150	1,507	968	22,036
5	Investments Properties	-	-	-	35,157
6	Investment and financing with customers	45,187	2,172	1,520	59,382
	Total	**271,274**	**206,745**	**39,687**	**622,033**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Claims on Sovereigns	-	-	-	35,210
2	Claims on corporate	98,062	129,109	30,585	411,550
3	Regulatory retail exposure	17,628	17,972	24,622	119,047
4	Qualifying residential housing financing Facilities	2,350	662	2,230	17,446
5	Investments Properties	-	-	-	9,631
6	Investment and financing with customers	86,367	2,441	1,673	210,781
	Total	**204,408**	**150,184**	**59,110**	**803,665**

b. Exposures based on geographical

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Middle East & North Africa	226,372	119,011	39,342	554,237
2	Europe	32,932	83,260	9	26,513
3	Asia	11,970	4,474	336	41,283
	Total	**271,274**	**206,745**	**39,687**	**622,033**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Middle East & North Africa	136,235	41,012	42,352	737,671
2	Europe	55,564	104,489	13,887	43,776
3	Asia	12,609	4,683	2,871	22,218
	Total	**204,408**	**150,184**	**59,110**	**803,665**

c. Exposures based on Industrial

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Manufacturing and Trade	31,496	45,999	18,286	134,510
2	Banks and financial institutions	125	2,260	-	11
3	Constructions & real estate	117,296	67,590	2,803	129,487
4	Others	122,357	90,896	18,598	358,025
	Total	**271,274**	**206,745**	**39,687**	**622,033**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Manufacturing and Trade	37,318	54,436	29,740	171,151
2	Banks and financial institutions	232	5,815	-	1,887
3	Constructions & real estate	125,183	45,238	-	257,600
4	Others	41,675	44,695	29,370	373,027
	Total	**204,408**	**150,184**	**59,110**	**803,665**

d. General Provision Allocation

KD 000's

Ser.	Credit Risk Exposures	2022	2021
1	Claims on sovereigns	7,082	322
2	Claims on PSEs	27,426	8,608
3	Claims on banks	21,871	16,710
4	Claims on corporates	321,973	167,201
5	Regulatory retail exposures	231,203	228,329
6	Investment Properties	38,994	47,296
7	Investment and financing with customers	31,467	32,732
	Total	**680,016**	**501,198**

7- Applicable Risk Mitigation Methods

KFH ensures the diversification of exposures according to the standard portfolios, business sectors, and geographical distributions borders. In addition, it ensures the continuous evaluation of risk mitigation methods against finance obligations and credit limits of the customer as per the analytical study of the customer's financial position.

Eligible collaterals and guarantees are calculated as per the CBK's instructions. Netting is applied for exchange of deposits with banks and financial institutions. Standard supervisory haircuts are applied on the eligible collaterals according to the CBK's regulations.

The Bank compliance with the credit concentration limits per customer and maintaining adequate ratios of liquid assets provides several methods to measure the quality and effectiveness of risk mitigation methods used to mitigate capital requirements.

Excessive Risk Resulting from Credit Risk Mitigation: The bank uses financial and nonfinancial collaterals as a credit risk mitigation method. In case of a default or rescheduling due to financial deterioration, provisions are generated to absorb future losses. The bank uses formulated models (used in calculating provisions as per IFRS9) to forecast the expected losses arising from cases in which existing collaterals and calculated provisions are not fully able to absorb losses under a conservative scenario to calculate the residual risk from credit risk mitigation.

Main Types of Collateral: KFH's credit policy has clearly stated all acceptable forms of collateral and the terms and conditions specific to each guarantee. The credit policy has also determined the rate of deduction of each collateral and the necessity of conducting evaluations regularly, according to the collateral's nature.

KFH only accept collaterals that are Shari'a compliant and has stated the acceptable forms of collateral which include:

- Cash Items: e.g., Hamish Jiddiyyah (collateral deposit, Urbūn, Musharakah investment accounts, or cash deposits in the bank).
- Securities: for listed and unlisted entities.
- Real Estate (Private Property): Real estate owned through issuing a document from the Department of Real Estate Registration in the Ministry of Justice. These include commercial, residential, investment, and industrial real estate.
- Real Estate (State Property): Real estate owned by the state but leased for industrial or agricultural use and is funded through the leased property's products. Examples include real estate leased from the Public Authority for Industry or the Public Authority for Agriculture and Fisheries. The only things considered as guarantees are buildings and the right to use them. The land, however, belongs to the state.
- Assignments of right and guarantees.
- Machinery and equipment.
- Cars/ vehicles.

Other forms of collateral other than the above mentioned may be accepted as initial collaterals but must be subject to the approval of the board risk committee.

a. Risk mitigation means of total credit risk exposures

For the year ended 31-12-2022: KD 000's

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals
1	Cash item	252,524	-
2	Claims on sovereigns	7,621,901	-
3	Claims on public sector entities	1,396,756	4,112
4	Claims on MDBs	121,109	-
5	Claims on banks	4,805,434	-
6	Claims on corporates	11,058,292	1,020,188
7	Regulatory retail exposure	5,910,823	201,020
8	Qualifying residential housing financing facilities	442,200	139,925
9	Past due exposures	371,999	73,395
10	Inventory and commodities	17,025	-
11	Real estate investments	1,362,391	819,196
12	Investment and financing with customers	891,077	173,609
13	Other exposures	1,569,859	-
	Total	**35,821,390**	**2,431,445**

For the year ended 31-12-2021: KD 000's

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals
1	Cash item	203,817	-
2	Claims on sovereigns	5,506,488	-
3	Claims on public sector entities	681,126	-
4	Claims on MDBs	33,745	-
5	Claims on banks	2,867,739	-
6	Claims on corporates	4,164,452	315,551
7	Regulatory retail exposure	4,417,134	153,126
8	Qualifying residential housing financing facilities	492,934	133,630
9	Past due exposures	373,410	64,976
10	Inventory and commodities	18,359	-
11	Real estate investments	1,269,459	788,363
12	Investment and financing with customers	758,362	115,790
13	Other exposures	1,461,802	-
	Total	**22,248,827**	**1,571,436**

b) Market risk

Market Risk Weighted Exposure during the financial year 2022 amounted KD 285,625 thousand (2021: KD 203,000 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 38,559 thousand (2021: KD 25,375 thousand).

One of the methods used to mitigate exchange rate risks for which the Islamic bank is exposed to, include netting of exchange of deposits transactions with banks and financial institutions.

c) Operational risk

Operational risk weighted exposures calculated during the year 2022 amounted to KD 2,620,802 thousand (2021: KD 1,457,283 thousand) as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 353,808 thousand (2021: KD 182,160 thousand).

KFH views the Internal Capital Adequacy Assessment Process (ICAAP), along with stress tests, as a major managerial tool for assessing the adequacy of capital against the different risks faced by KFH during normal and difficult conditions (stressful situations). The results of stress tests are used to help conduct an effective study to put risks and capital adequacy at the highest levels in the bank. KFH is working to implement an effective risk management framework to ensure an improved level of risk control and effective coordination of risk management activities and initiative at Group level. The ICAAP and stress testing process deals with KFH with its subsidiaries in its consolidated form.

Stress tests are applied on a subsidiary level as well as on a group level. As for Pillar 2 capital requirements, KFH uses 2 methods to consolidate Pillar 2 results on the group level depending on the risk type:

1. **Straight sum** of the Pillar 2 capital calculation of the individual subsidiaries and Kuwait results: This method is used for credit concentration risk, remaining credit risks, liquidity risk, FX risk, legal risk, reputational risk, strategic risk, remaining operational risk and profit rate risk. This ensures conservatism by eliminating the impact of any correlation between these risks

2. **Pillar 2 solo** performed on the individual subsidiary level and at the group level: This method is used for equity price risk. For example, VAR is calculated at the subsidiary portfolio level using relevant variance/ covariance matrices as well as at the group aggregated portfolio. This method allows KFH to account for diversification benefit when VAR calculations are performed on the group portfolio exposures

It is worth noting that the banking subsidiaries undertake their own Internal Capital Adequacy Assessment independently. In fact, KFH follows a dual top-down and a bottom-up approach. In the top-down approach, the analysis is conducted from the group's parent entity standpoint. The results are then compared and discussed with the banking subsidiaries on foot of their own calculations and analysis (bottom-up approach). This enables management to get a better understanding of the risks at the banking subsidiary level versus at the group level and allows the management to challenge the results of the individual subsidiaries accordingly.

Fourth: Risk Management:

Risk management is an integral part of the decision-making processes for the Group. It is implemented through a governance process that emphasizes independent risk assessment, control and monitoring, overseen directly by the Board and senior management. KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and stock market regulations, and risk management best practices. KFH operate a "three lines of defense" system for managing risk:

- The first line of defense recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operators, etc.) are required to ensure the effective management of risks within their organizational responsibilities.
- The second line of defense comprises the Financial Control Department and the Risk Management Department, which are responsible for ensuring that the risks are managed in accordance with the stated risk appetite.
- The third line of defense is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

Risk Strategy is Formulated Under Three Pillars:

Group Capital Planning and Risk Weighted Assets Optimization:

- Focus is to have a solid capital base that supports planned business growth, absorbs any potential losses "if any", and complies with regulatory requirements.
- Under this pillar, initiatives have been taken to seek the levers of Capital Adequacy Ratio and Enhancing Rating Systems Capabilities.

Improving Asset Quality and Risk Appetite:

- Enhance Group Risk Appetite to support management to maintain/improve asset quality accompanied with business growth.
- Asset quality has been significantly improved as a result of enhancing financing underwriting criteria, and having the right governance in line with best practices.

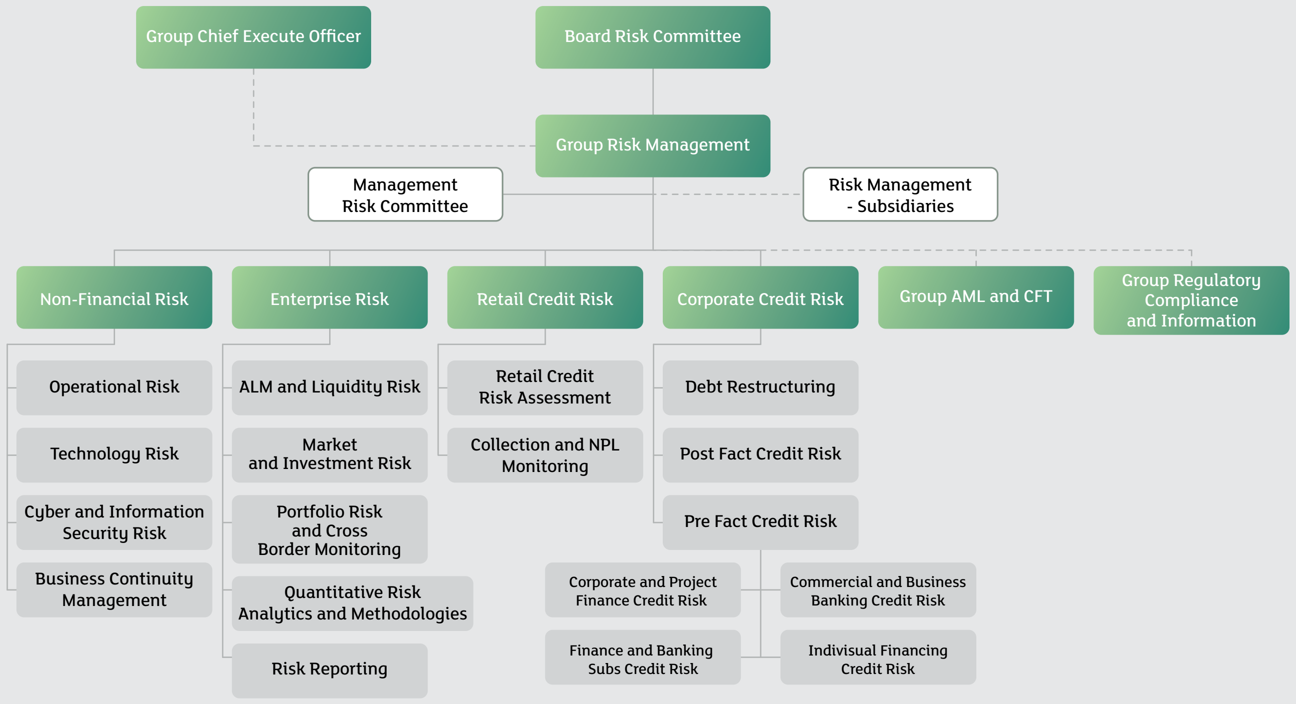
Group Integration:

- Enhancing risk governance, culture, and integration across the group.
- The policies are being reviewed on a regular basis for any potential enhancement from the governance perspective and to reflect the regulatory requirement as well.
- The best practices that improve the governance are being rolled over KFH Banking Subsidiaries.

Organizational Structure

KFH has a strong organizational structure process current and future business needs and avail proper opportunities.

Risk Management Organizational Structure of Kuwait Finance House in Kuwait



In line with best practices in risk management, KFH has adopted a hybrid mechanism in credit and investment decision making where both businesses and risk management play an active role. This integration of risk management, in these decisions, ensures an independent and risk experienced judgment and compliance with the Bank's internal risk management guidelines and strategy.

Under the framework of KFH's overall risk governance, a specialized unit was established to manage information security and cyber security risks in light of the increasing importance of information security in banking and financial sectors, and to face the challenges arising from risks resulting from the rapid development of modern technologies used in the banking industry. In compliance with the Central Bank of Kuwait instructions issued on 9/10/2019 regarding governance and regulations in Kuwaiti banks, Cyber Security Risk Management took the responsibility of continuous monitoring, detection, and prevention of external security threats which may impact the availability and integrity of our internal/ external data. Robust policies, procedures and standards are in place to prevent cybersecurity incidents and ensure a swift recovery in the event of any cyber security breaches.

Culture of Risk Management, Training and Awareness-Raising

KFH strives hard to promote awareness of and strengthen the risk management culture across the Group. With the strong support of the Board, KFH is upgrading its risk management policies and procedures and clarifying roles and responsibilities for managing risk. The aim is to ensure that risk is considered in all key financing, investment and funding decisions, and all key operations to protect the Bank from future loss and strengthen the value of the commitments to shareholders and depositors. The Risk Management Department actively organizes workshops and awareness sessions across the Group to improve staff understanding of the risks inherent in their activities and the steps required to mitigate such risks.

Risk Management by Risk Type

KFH Group and its subsidiaries are exposed to various types of risks. The main types of risk comprise credit risk, market risk, liquidity risk, operational risk, reputation risk and strategic risk.

a) Credit Risk

Credit risk is the largest risk faced by KFH. KFH is exposed to credit risk primarily through its financing portfolio. KFH's credit risk sources can be broken down into:

- **Counterparty risk/ default risk** arising from the various exposures in its financing portfolio, as well as from its Sukuk portfolio as follows:
  - **Corporate Financing:** financing instruments (other than real estate financing) extended to corporate clients
  - **Retail Financing:** financing instruments (other than real estate financing) extended to retail client
  - **Business Banking & Microfinancing:** financing instruments (other than real estate financing) that are less than KD 250,000.
  - **Real Estate Financing:** real estate financing extended to both corporate and retail clients
  - **Financial Institutions Placement/Financing:** direct financing or through treasury activities
  - **Corporate/Sovereign Sukuk Default Risk:** risk of default of the issuers of corporate/ sovereign Sukuks
- **Concentration risk** due to large exposures to single or group of counterparties or sectors which, in the event of a deterioration in credit conditions, would expose the bank to significant losses.

The bank is also exposed to credit risk through its investment portfolio as the counterparties fail to deliver the security or its value in cash as per agreement when the security was traded.

Governance and Organizational Structure

The responsibility to manage credit risk resides with different groups within the organization. The role of the credit risk governance structure is to ensure that the credit approval and risk appetite frameworks are effectively in place and that all risks are undertaken within these frameworks. This, together with strong independent oversight and challenge, enables KFH to maintain a sound credit granting environment within risk appetite.

Under the adopted risk governance structure at KFH, the following bodies within the organization are responsible for managing credit risk as follows:

Board of Directors/ Board Risk Committee: The Board has the ultimate responsibility for credit risk oversight. It exercises this by defining the risk appetite for the bank and approving the major policies for managing credit risk (including Credit Policy). The Board is also the ultimate source of credit authority; it delegates part of this authority to the management. The Board & Risk Committee also oversee the risk profile of the bank.

Board Executive Committee/ Credit Committee: The Credit Committee reviews and takes action on the credit risk profile of the bank while ensuring alignment with the Board approved risk appetite. The committee ensures at a high level that all approved credit risk policies are complied with and that exceptions are duly approved. It reviews and approves credit applications within the credit approval authority limits delegated to it by the Board. It is also responsible for overseeing problem/ potential problem exposures and recommending course of action. It also governs the credit enhancement framework of the bank.

Special Purpose Committee: Held once per month, this committee performs a detailed review over the portfolio of clients of the banking department and reviews each past due client, collateral coverage, exceptions granted, limits expiry etc.

Business Lines: the different lines of business at KFH share the responsibility of managing credit risk by undertaking risks within the approved limits and tolerances as well as by approving credit applications within their delegated credit approval authority limits delegated by the Board.

Risk Management Department: The Credit Review Department (within the Risk Management Department) undertakes pre-fact analysis of credit applications and post -fact assessment and reporting on credit quality. This enables the Risk Management department. to review and challenge all applications for new, renewed, and restructured financing facilities. The Risk Management department reports to the GCRO who oversees the overall asset portfolio at KFH and ensures its alignment with the approved risk appetite; it is also responsible for defining the methodologies and policies for managing credit risk as well as the models required for measurement.

Internal Audit: the department provides the board and senior management with an independent assurance process for credit risk controls across the organization.

Methods and Processes

KFH credit risk management follows a specific framework to ensure that:

- Clearly defined credit policies for financing different types of corporate and individual clients which cover all economic sectors such as real estate, shares, and financial or commercial entities. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation.
- A system of credit authority matrix that ensures (1) authorities are commensurate with the experience and job levels for employees and managers, (2) the Risk Management department reviews and challenges credit requests, (3) significant credit exposures are approved by management committees or the Board as per delegation of authority matrix, (4) risk management reviews and studies subsequently implemented credit applications and periodically reviews credit portfolios to ensure that they comply with the instructions of the Central Bank of Kuwait and the credit approvals that have been made and to ensure that they do not violate any of the credit policies or the approved delegation of authority, and that there are no expired credit limits and/ or exposures, and that the reasons for the arrears in payments, if any, are identified with specified ways to treat them.
- A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.
- A system of limits to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.
- A process to ensure credit policies are complied with regulatory requirements by making sure that the required data and documentation are in place and the required approvals are obtained.
- Effective follow-up processes to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits.

KFH's approach, when granting credit facilities, is based primarily on an assessment of the customers' capacity to repay, with supplementary support from credit risk mitigation. Depending on a customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is a key aspect of effective risk management and takes many forms as approved by CBK. The bank's policy for collaterals defines the list of accepted collaterals and the protection of credits. The collaterals used by the bank include financial collaterals (cash and securities) and non-financial (real estate, bank guarantees, and third-party agreements).

KFH has reviewed and enhanced its corporate financing credit process. The main enhancements to the process include:

(a) Streamlining of the process itself to ensure efficient and effective decision-making process and clear assignment of responsibilities.

(b) Enhancing and realigning the credit authority matrix to ensure proper and clear escalation of decisions and the involvement of all relevant parties from the business, risk, and the Board.

(c) Activate the Credit Committee with the adequate level of membership and authority level to review and approve or recommend credit requests of the Board and higher-level committees.

KFH has adopted the standardized approach to measuring the capital required for credit risk under Pillar 1. However, credit risk arising from name concentration, sector concentration, and those remaining from credit mitigation techniques are captured under Pillar 2 as they are not covered under Pillar 1.

KFH relies on Moody's rating system for internal credit ratings.

b) Market Risk

Sources of Risk

Market risk is defined as the risk that arises from the Banks' investments transactions, including investments in equity shares (both listed and unlisted), Sukuk, real estate and others. These risks are classified into three main areas through which the market risk is being measured and managed, as it directly impacts the performance of the Bank's investment portfolio, they are as follows:

Price Risk: this is the risk arising from the fluctuation in the market value of investments – equity (trading and banking book including strategic investments), Sukuk, real estate, and other assets.

FX Risk: this is the risk of incurring losses due to changes in currency exchange rates which affects both the banking book (including structural positions arising from cross-border investments) and trading book.

Profit Rate Risk: given the Sharia compliant activities of the bank, profit rate risk results from the effect of the changes in market profit rates that would distress KFH's future cash flows and the fair value of some available for sale financial assets.

Governance and Organization

The management of market risk is primarily undertaken by Treasury department. However, other related parties across the organization also play a role in the management of market risk. Under the Bank governance structure, the following parties within the organization are responsible for managing market risk as follows:

Board of Directors: The board is ultimately responsible for ensuring effective market risk management. It sets the market risk appetite for the bank and approves the major policies for managing market risk. The Board also oversees the risk profile of the bank throughout the Board Risk Committee.

ALCO/GALCO: the committee is responsible for maintaining oversight and managing the structure/ composition of the balance sheet (Group and Kuwait Standalone) to ensure alignment with the Board approved risk appetite and bank wide strategy. The ALCO/GALCO also sets Treasury strategy. ALCO/GALCO is held on regular basis and more frequently, if required. The committee ensures at a high level that all approved market risk policies are complied with and that exceptions are duly approved. it also decides on the hedging policy of the bank and on the hedging mechanisms and hedging products.

Treasury Department/ Investment Arm of KFH: Treasury executes the overall bank strategy and mitigate the risks undertaken by the bank. Starting 2015, KFH Capital (subsidiary) became the investment arm for KFH Group. KFH Capital function is to manage the bank's investment portfolio within the approved risk appetite and levels.

Risk Management Department: The market risk management independently monitors, follows-up and controls the treasury and investment activities, and propose the necessary limits. Market Risk management identify and measure market risk exposure to the bank. Such risks are presented and discussed in more than one committee. It's also managing the market risk from comprehensive Bank perspective to track the potential concentrations, and to raise the necessary recommendations to mitigate risk, when necessary. Also, it oversees compliance with the Market risk policies and limits.

Internal Audit: the department provides the board and senior management with an independent assurance process for market risk controls across the organization.

Methods and Processes

The objective of KFH's market risk management processes is to manage and control market risk exposures in order to optimize return on risk while maintaining a market risk profile consistent with risk appetite.

Market risk Framework operates within the bank strategy and approved risk appetite and related risks taking into consideration the following:

- Earnings at risk.
- Economic value of equity.
- FX open positions.
- Investment exposure by type.
- Value at Risk (VAR).
- Duration & Convexity.

KFH adopts an end-to-end review of its investment process and performance management framework on a regular basis. This includes defining target sectors and geographies, limits on exposures within sectors, and geographical areas.

KFH also develops restructuring plans for activities and investment portfolios. These plans include assessing consolidation or exit/divestment options especially for those investments that are under-performing towards expectation or increasing the Group's profitability.

The bank also conducts a periodical valuation of its real estate investments using 2 different valuation sources as per CBK requirements.

KFH has adopted the standardized approach to measuring the capital required for market risk under Pillar 1. However, market risk arising from FX positions, price risk and profit rate risk are further captured under Pillar 2.

c) Assets and Liabilities Management and Liquidity Risk

Assets and Liabilities Management Risk

Sources of Risk

Asset Liability management or ALM, is a means of managing the risk that can arise from changes in the relationship between assets and liabilities. Accordingly, the main source of risk in the ALM framework is profit rate risk:

Profit rate risk is the exposure of a Bank's financial condition to adverse movements in benchmark rates. Changes in benchmark rates such as local central banks discount rate (or CD rate), IBOR (Intrabank Offer Rate) affect a Bank's earnings by changing its Net Profit (NP) and the level of other profit rate sensitive income and operating expenses. Changes in discount rates also affect the underlying value of the Bank's assets, liabilities, and off-balance sheet instruments because the economic value of future cash flows (and in some cases, the cash flows themselves) changes when profit rates change.

Governance and Organization

The bank has institutionalized a sound governance structure for ensuring that risk arising from the structure of assets and liabilities are effectively managed. The organizational setup within KFH for managing assets and liability includes the following committees and key individuals:

Board of Directors and Board Risk Committee: The Board of Directors and Board Risk Committee are responsible for establishing and reviewing the Asset & Liability Management Policy and assuring that the Bank's balance sheet is managed in accordance with this policy.

Group Asset and Liabilities Committee and Assets and Liabilities Committee(s): Asset and Liability Committees are the senior management committees of the banks within the group having the responsibility of managing their asset and liability profile. The BOD has delegated the task of overseeing the management of Bank's profit rate as well as its capital to ALCO and Group ALCO.

Group Chief Risk Officer and Chief Risk Officer(s): Ensuring the development of sound policies profit rate risk and capital management at the bank and identify the profit rate mismatch in the bank's balance sheet in conjunction with the head of treasury and group chief treasury officer.

Group Chief Treasury Officer and Head(s) of Treasury: Group chief treasury officer and heads of treasury have the overall responsibility of treasury business activities. The GCTO and head of treasury are responsible to ensure that the bank has a sound organizational and governance framework to manage ALM risks.

Group Chief Financial Officer and Chief Financial Officer(s): Group chief financial officer and subsidiaries chief financial officers are responsible to ensure application of appropriate accounting standards for the bank's portfolios, including transaction accounting, hedge effectiveness, and adjustments.

Head(s) of Assets and Liabilities and Liquidity Risk Management: Effecting changes profit rate risk management policy in alignment with the changes in the bank's product portfolio and present the changes to ALCO and escalating any violations to the ALCO, GALCO and GCRO & CRO.

Methods and Processes

ALM Risk Framework operates within the bank strategy and approved Risk Appetite and related risks taking into consideration the following:

- Earnings at Risk.
- Economic Value of Equity.

KFH is applying an IRRBB framework published by Basel as an additional layer of stress testing based on this framework's stress scenarios. Moreover, other scenario analysis and techniques are implemented to evaluate the potential effects of a specific event and/or movement of a set of variables on an institution's financial condition.

Liquidity Risk

Sources of Risk

KFH identifies sources of liquidity risk as follows:

Funding Liquidity Risk: Risk arising from KFH's inability to meet its commitments when they become due because of unavailability of funding options and depositors systematically withdrawing their funds.

Displaced Commercial Risk: Risk that deposit holders withdraw their money in pursuit of more attractive returns because KFH pays a return on deposits that is lower than competitors.

Market Liquidity Risk: Risk that the bank is unable to clear a position at the current revealed market price due to market disruption or the deficiencies in market depth.

Governance and Organization

KFH Board, ALCO/GALCO and treasury function are ultimately responsible for the management of the group liquidity risk. However other parties in the organization play a role in ensuring the liquidity risk management framework is in place and operating effectively:

Board of Directors: The Board is ultimately responsible for ensuring effective liquidity risk management. It sets the liquidity and funding risk appetite for the bank and approves the major policies concerning liquidity risk management and funding. The Board also oversees the liquidity and funding risk profile of the bank.

ALCO/GALCO: the committee is tasked with the active oversight of funding and liquidity risk management for (KFH Kuwait & Group). They approve the policy framework in the first instance and monitor its implementation in its regular meetings.

Treasury: Treasury executes strategies to mitigate and manage liquidity risk. Treasury also monitors liquidity positions.

Risk Management: The Liquidity Management Unit's methodology is based on following-up with Treasury Department through identifying, measuring, and monitoring liquidity risk on a regular, active, and independent basis. KFH is committed to all liquidity regulatory limits through KFH's prudent liquidity management framework.

Internal Audit: the department provides the board and senior management with an independent assurance process for liquidity risk controls across the organization.

Methods and Processes

To manage liquidity risk, the Bank has adopted the policies of liquidity risk including operational management of liquidity risk, policy of contingency financing plan and the distribution of responsibilities. The framework of liquidity risk at KFH is working on always ensuring and having a sufficient liquidity to meet the expected or unexpected demands by customers and money market at an acceptable price for KFH and in compliance with the Islamic rules of Shari'a. The Contingency Plan has been implemented to enable KFH of managing liquidity in case of the occurrence of liquidity crisis.

As set out in BASEL III guidelines and in reference to the best practices of managing and monitoring the Bank's liquidity risk, KFH has adopted the BASEL III Liquidity ratios: Liquidity coverage ratio (LCR) and Net Stable Funding ratio (NSFR). LCR and NSFR are being measured on frequently basis throughout KFH Kuwait and banking group as per the Central Bank of Kuwait circular and guidelines to ensure that KFH is always managing the liquidity risks, well-funded and complies with the regulator's liquidity limits of those ratios.

KFH ensures that liquidity risk is adequately mitigated through the following liquidity strategies:

- Maintaining a stock of high-quality liquid assets that can be used (liquidated or borrowed against) to provide cash in the event of an unexpected demand for cash by customers.
- Diversifying funding resources in terms of source, tenor, and re-pricing characteristics to mitigate the risk of not being able to access cash at an acceptable price at all times.
- Monitoring movements in both on and off-balance sheet assets and liabilities to identify points of pressure for liquidity management.
- Implementing stress scenarios to identify periods of reduced liquidity and incorporate these into the assessment of liquidity requirements.
- Identifying and ranking all funding sources available to the Bank and establishing a plan for calling on these to ensure adequate liquidity at all times (funding contingency plan).
- Assigning responsibility for the actions required to ensure an effective liquidity risk management framework is in place.

KFH believes it is adequately funded. The interest of prudent management it has an approved funding contingency plan. It monitors its liquidity and funding position under forecasted and stressed business assumptions and reports this to ALCO/GALCO, the Executive Committee and the Board Risk Committee on a regular basis. The funding contingency plan requires the establishment of funding sources to be called on in progressively worsening situations and set clear responsibilities for the executives tasked with managing liquidity under the Plan. Further, Capital required to cover liquidity risk due to increases in funding costs is captured under KFH's Pillar 2 capital requirements.

d) Operational Risk

Sources of Risk

KFH defines operational risk as to the risk of loss because of inadequate or failed internal processes, people and systems or from external events, including legal risk. Accordingly, operational risk could be broken down as follows:

Operational Risk: Risk of losses resulting from execution, delivery and process management, damage to physical assets, violation of employment practices and workplace safety regulations and products or business practices.

Legal and Compliance Risk: Risk of incurring losses due to violations of or ambiguous practices regarding laws, rules, regulations, policies procedures, contractual obligations, or ethical standards.

Technology Risk: Risk of losses or service disruptions arising from the failure of Information Technology e.g. system defects, faults, or incompleteness in computer operations, in addition to illegal or unauthorized use of computer systems that may lead to an adverse impact on the confidentiality, availability and integrity of the systems and data.

Fraud Risk: Risk of losses due to internal fraud, e.g. fraud by employees and external fraud, e.g. third-party, theft, and forgery.

Governance and Organization

Operational risk management is primarily the responsibility of all employees and business management. Each department head has responsibility for maintaining oversight over operational risk and internal control, covering all processes for which they are responsible.

Other entities in the organization which are responsible for the governance of operational risk management are as follows:

Board of Directors / Board Risk Committee: The Committee is ultimately responsible for ensuring effective operational risk management. It sets the operational risk appetite for the bank and approves the major policies for managing operational risk.

Risk Management Department: The Operational Risk Management department of the new risk organization primarily assists the management in discharging its responsibility to oversee operational risk within their departments. It is also responsible for maintaining the operational risk management framework, monitoring the level of operational losses and the effectiveness of the control environment. It is also responsible for operational risk reporting.

Internal Audit: the department provides the board and senior management with an independent assurance process for operational risk controls across the organization.

Methods and Processes

The objective of KFH's operational risk management framework is to manage and control operational risks in a cost effective

manner within targeted levels of operational risk consistent with the approved risk appetite.

KFH is implementing Risk Control Self-Assessment "RCSA" process which entails defining business objectives and the respective key risks, mapping control activities to the risks, assigning control activities owners, and assessing the effectiveness of controls and the residual risks and developing risk treatment action plans intended to mitigate risks.

RCSAs has been conducted and completed for Business Units according to Operational Risk Management's Plan.

The bank has also defined several operational KRIs which are currently being measured and monitored for Key Business Activities.

The bank also systematically captures risk event data from the businesses and functional departments through the loss data management system and collection workflow.

In terms of business continuity management, the bank has in place a committee monitoring the implementation of the business continuity plan. To date, a complete business impact analysis has been developed and signed off. KFH has adopted the basic indicator approach to measuring the capital required for operational risk under Pillar 1.

In addition, the bank simulated under Pillar 2 the expected losses from 7 different operational loss events: internal fraud, external fraud, employment practices and workplace safety, clients, products, & business practices, damage to physical assets, business disruption and system failures, and execution, delivery & process management. Residual risks resulting from operational risks are covered by the capital requirements estimated as part of the Monte Carlo simulations conducted under Pillar 2 to test the mitigates of operational risk. The bank also calculates the capital required to cover losses from legal risk under Pillar 2.

Fifth: Investment Accounts Related Information

KFH provides a variety of investment saving accounts in order to encourage customers to save and plan for their future along with benefiting from the profits of their saved amounts. Therefore, KFH offers such accounts to various age groups with various features and advantages where accounts can be opened in Kuwaiti Dinars as well as foreign currencies. Such accounts include: (Investment Saving Account in Kuwaiti Dinars and foreign currencies, Al-Rabeh Account, Baiti Account and Wakala based Corporates Call Account).

All investment saving accounts can be opened for both individuals (either adults or minors) and corporates according to the special conditions and provisions of such types of accounts. As for the call accounts, they are designed only for corporates and legal entities (committees, associations, etc.)

All investment saving accounts are invested according to the Shari'a principles of "Mudarabah" and "Wakala" as per the conditions of the investment contract and profit-sharing ratios.

Information on Long Term Investment Plans and Deposits

KFH provides many types of investment deposits for customers to avail large number of investment tools that help customers to invest and achieve safe and secured profits. KFH offers these deposit accounts in different time segments with many advantages, be it in Kuwaiti Dinar or foreign currencies. These deposit accounts include (Investment Savings Account in Kuwaiti Dinar or foreign currencies – Alrabeh Account – Baiti Account for children – Wakala based on demand account for corporates.)

Long term investment plans are split into different types ("Jameati" higher education investment plan – "Injaz" achievement investment plan – "Rafaa" Marriage investment plan – "Thimar" retirement investment plan – "Shifaa" special health care investment plan.

All such investment deposits can be opened to all individuals who have reached the legal age of 21 years, or by legal guardians on the behalf of underaged individuals. These deposits, except for the long-term investment plans, can be opened to all corporates and legal entities (committees, associations, institutions, etc...)

The importance of investment deposits arises from providing greater stability to the bank's operations. Hence, KFH can invest such investment deposits in various productive projects, either directly or through providing finance to third parties, noting that all accounts are invested in accordance with the Shari'a principles of Mudarabah or investment Wakala.

Gold Account

Out of KFH's keenness on diversification of the products, activities, and keeping pace with the global economic changes that had been accompanied with increased global trends for buying and selling gold bullion, KFH has launched, being the first in Kuwait to offer a service of this kind, the Gold Account which enables customers to buy, sell, withdraw, and deposit gold safely effectively and restfully. In addition, the gold that is offered by KFH is the purest at (999.9) carats. Moreover, KFH's customers can open a gold account, buy and sell gold, and request statement of account through all KFH branches, KFH online services or KFH mobile application, or KFH Automated Teller Machines.

As part of the chain of digital banking services that it has initiated, and to comply with the customers' need for change to a "new generation of easy digital banking services" that offer customers vast qualities and around-the-clock services easily and safely, KFH has asked to launch the service in which customers may buy a 10-gram gold bullion and receive it immediately from KFH interactive XTMs.

Sixth: Shari'a Controls

Fatwa and Shari'a Supervisory Board

Fatwa and Shari'a Supervisory Board ("FSSB") follows regulatory policies and procedures to ensure the compliance of all KFH's sectors and departments to its decisions. To achieve this goal, FSSB may adopt the following:

1. Develop Shari'a training programs for KFH employees on the basic and advanced levels in coordination with the Training and Development - Human Resources and General Services Department - KFH.
2. Ensure the compliance of KFH's sectors and departments with presenting all their activities to FSSB, to review and approve the contracts and agreements models, policies, procedures and financing structures; with a view to ensure that they are free of Shari'a prohibitions.
3. Review the periodical and final Shari'a audit reports related to all KFH's sectors and departments as raised by Shari'a Control and Consultancy Department; to ensure the compliance with Shari'a regulations.
4. Ensure that all revenues recognized from non-Shari'a compliant sources or by means prohibited by Shari'a have been disposed to be used for charity purposes.
5. Zakat is calculated following the CBK's approval of KFH's financial statements.
6. The General Assembly shall determine the remuneration of the FSSB's members.

Consolidated Financial Statements

31 December 2022

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance House K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Credit losses on financing receivables

The recognition of credit losses on financing receivables ("financing facilities") is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: *Financial Instruments* ("IFRS 9"), determined in accordance with the CBK guidelines, or the provision required by the CBK rules based on classification of financing facilities and calculation of their provision (the "CBK instructions") as disclosed in the accounting policies in Note 2.6 and Note 11 to the consolidated financial statements.

The recognition of ECL under IFRS 9, determined in accordance with the CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of financing facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

The recognition of a specific provision on an impaired financing facility under the CBK instructions is based on the rules prescribed by the CBK on the minimum provision to be recognized together, with any additional provision to be recognised based on management estimate of expected cash flows related to that financing facility.

Due to the significance of financing facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the current inflationary pressure and high profit rate environment.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the current inflationary pressure and high profit rate environment, including a focus on rescheduled credit facilities.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Credit losses on financing receivables (continued)

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected a sample of financing facilities outstanding as at the reporting date, which included rescheduled financing facilities, and evaluated the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with IFRS 9 requirements, determined in accordance with CBK guidelines. For a sample of financing facilities, we have evaluated the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group, and the overlays considered by management in view of the ongoing economic impacts, in order to determine ECL taking into consideration CBK guidelines. We have also evaluated the various inputs and assumptions used by the Group's management to determine ECL.

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

b) Accounting for business combinations

During the year, the Group has completed the acquisition of Ahli United Bank B.S.C. ("AUB"), by issuing new shares of the Parent Company to the AUB shareholders at a total purchase consideration of KD 3,305,084 thousand. This transaction has been accounted for in accordance with IFRS 3 *Business Combinations* ("IFRS 3") using the acquisition method.

The Group, assisted by an external expert, has accounted for the cost of the acquisition by determining the provisional fair values of the assets and liabilities acquired including intangible assets of KD 326,803 thousand, with the balance resulting in a preliminary goodwill of KD 2,142,182 thousand. The purchase price allocation is still provisional as at 31 December 2022 given the time that has elapsed between the transaction date and the approval of the consolidated financial statements. The preliminary goodwill arising from the acquisition and the relating carrying amounts of assets and liabilities will be adjusted on a retrospective basis upon finalisation of the purchase price allocation process during 2023.

We have determined this to be a key audit matter based on the quantitative materiality of the acquisition, and considering that significant management's judgments and estimates are involved in the determination of the provisional values of the acquired assets and liabilities, including the identification and the provisional valuation of the newly identified intangible assets.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Accounting for business combinations (continued)

Our audit procedures included, among others, reviewing the relevant Board and Annual General Assembly Meeting minutes as well as the regulatory approvals, and obtaining an understanding of the acquisition transaction, in order to assess whether the accounting treatment in accordance with IFRS 3 *Business Combinations*, has been appropriately applied. In this connection, we assessed the criteria used for recognition of the transaction as a business combination and the determination of the acquisition date and the consideration paid. We also verified that the results of operations of AUB were included in the consolidated financial statements of the Group from the date of acquisition, as defined by IFRS 3.

We evaluated whether the external expert appointed by management to assist them with the purchase price allocation exercise has the necessary competency, capabilities and objectivity for audit purposes. We assessed the reasonableness of the provisional fair valuation of the acquired assets and liabilities, which included challenging the valuation methodology used.

With respect to the intangibles assets recognised as part of the purchase price allocation exercise, we evaluated methodology and approach for the identification of the cash generating units and provisional fair valuation of the assets based on our understanding of the business of the acquired entity (AUB), and discussed the business rationale for the acquisition and assessment with management.

We have assessed the adequacy of the related disclosures in Note 3 to the consolidated financial statements. The Group's policy on accounting for business combinations is disclosed in Note 2.6 to the consolidated financial statements.

c) Accounting for hyperinflation adjustments

A subsidiary of the Group operates in Turkey, which has been considered as a hyperinflationary economy in accordance with International Accounting Standard 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). As per IAS 29, the financial statements of an entity prepared in the currency of a hyperinflationary economy is to be restated in terms of a measuring unit current at the reporting date. The restatement of historical financial information to the current measuring unit and the determination of monetary gains or loss is complex and requires certain judgments to be applied by the management. Therefore, we have considered application of IAS 29 as a key audit matter.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

c) Accounting for hyperinflation adjustments (continued)

Our audit procedures included, an understanding of the process implemented by the Group to determine the hyperinflation adjustments, we assessed the controls over the above mentioned process to determine if they had been designed and implemented appropriately, agreeing the Consumer Price Index ("CPI") to the rates provided by the Turkish State Institute of Statistics and testing the inflation rate based on the average monthly changes in CPI compared to the base year. We reviewed the hyperinflation adjustments relating to the historical financial information and the determination of net monetary gain or loss including the judgments applied by the management. Further, we assessed the inputs into the hyperinflation calculations with specific emphasis on the consumer price indices used and also reperformed the mathematical accuracy of the hyperinflation adjustments.

In addition to the above, we have also assessed the adequacy and the appropriateness of the Group's disclosures concerning hyperinflation adjustment in Note 38 to the consolidated financial statements. The accounting policy for hyperinflation is disclosed in Note 2.3 to the consolidated financial statements.

Other information included in the Group's 2022 Annual Report

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)

Report on the Audit of Consolidated Financial Statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.P. (CONTINUED)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments; and 2/I.B.S./343/2014 dated 21 October 2014 and its amendments, respectively; the Companies Law No.1 of 2016, as amended and its executive regulations, as amended and by the Bank'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 Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/I.B.S./ 343/2014 dated 21 October 2014 and its amendments, respectively; the Companies Law No.1 of 2016, as amended and its executive regulations, as amended or of the Bank's Memorandum of Incorporation and Articles of Association, as amended have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

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EY
(AL-AIBAN, AL-OSAIMI & PARTNERS)

BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

6 February 2023
Kuwait

Kuwait Finance House K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2022

	Notes	2022 KD 000's	2021 KD 000's
INCOME			
Financing income		**1,322,323**	871,483
Finance cost and distribution to depositors		**(521,819)**	(285,782)
Net financing income		**800,504**	585,701
Investment income	4	**44,207**	16,359
Fees and commission income		**90,279**	72,191
Net gain from foreign currencies		**93,389**	88,571
Other income	5	**43,904**	48,189
TOTAL OPERATING INCOME		**1,072,283**	811,011
OPERATING EXPENSES			
Staff costs		**(209,079)**	(183,976)
General and administrative expenses		**(94,588)**	(82,181)
Depreciation and amortisation		**(45,322)**	(41,783)
TOTAL OPERATING EXPENSES		**(348,989)**	(307,940)
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENT AND NET MONETARY LOSS		**723,294**	503,071
Provisions and impairment	6	**(62,088)**	(135,369)
Net monetary loss	38	**(127,632)**	-
OPERATING PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		**533,574**	367,702
Taxation	7	**(97,875)**	(56,469)
Proposed directors' fees	24	**(1,096)**	(1,096)
PROFIT FOR THE YEAR		**434,603**	310,137
Attributable to:			
Shareholders of the Bank		**357,716**	243,414
Non-controlling interests		**76,887**	66,723
		434,603	310,137
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	8	**33.58 fils**	25.99 fils

The attached notes 1 to 38 form part of these consolidated financial statements.

Kuwait Finance House (K.S.C.P.) and Subsidiaries
Annual Report 2022
Consolidated Financial Statements - 31 December 2022

Kuwait Finance House K.S.C.P. and Subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	2022 KD 000's	2021 KD 000's
Profit for the year	**434,603**	310,137
Items that will not be reclassified to consolidated statement of income in subsequent periods:		
Revaluation gain on equity investments at fair value through other comprehensive income	**940**	13,206
Net change in pension fund reserve	**(7,527)**	-
Items that are or may be reclassified subsequently to consolidated statement of income:		
Investments in Sukuk at fair value through other comprehensive income:		
Net change in fair value during the year	**15,234**	(6,893)
Net transfer to consolidated statement of income	**20,932**	(18,845)
Net gain (loss) on investments in sukuk at fair value through other comprehensive income	**36,166**	(25,738)
Share of other comprehensive loss of associates and joint ventures	**(4,154)**	(537)
Net change in fair value of cash flow hedges	**(676)**	-
Exchange differences on translation of foreign operations	**(231,231)**	(205,274)
Other comprehensive loss for the year	**(206,482)**	(218,343)
Total comprehensive income	**228,121**	91,794
Attributable to:		
Shareholders of the Bank	**167,048**	99,642
Non-controlling interests	**61,073**	(7,848)
	228,121	91,794

The attached notes 1 to 38 form part of these consolidated financial statements.

Kuwait Finance House K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022	2021
			KD 000's
ASSETS			
Cash and balances with banks and financial institutions	9	**3,155,813**	2,325,092
Due from banks	10	**3,869,894**	3,349,685
Financing receivables	11	**18,839,684**	11,355,363
Investment in debt securities	12	**6,085,453**	2,734,922
Trading properties		**95,110**	96,304
Investments	13	**246,641**	218,754
Investment in associates and joint ventures	14,15	**519,656**	491,703
Investment properties	16	**384,142**	325,128
Other assets	17	**975,824**	654,468
Goodwill and intangible assets	18	**2,462,625**	32,351
Property and equipment		**334,603**	204,442
TOTAL ASSETS		**36,969,445**	21,788,212
LIABILITIES			
Due to banks and financial institutions		**6,180,795**	2,594,754
Sukuk payables and term financing		**784,191**	216,717
Depositors' accounts	20	**22,482,916**	15,866,901
Other liabilities	21	**1,235,442**	802,658
TOTAL LIABILITIES		**30,683,344**	19,481,030
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	23	**1,342,223**	844,155
Share premium	23	**3,611,765**	720,333
Proposed issue of bonus shares	24	**134,222**	84,416
Treasury shares	23	**(41,763)**	(27,739)
Reserves	22	**111,451**	209,996
		5,157,898	1,831,161
Proposed cash dividends	24	**199,907**	100,442
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**5,357,805**	1,931,603
Perpetual Tier 1 Capital Securities and Sukuks	26	**501,666**	226,875
Non-controlling interests		**426,630**	148,704
TOTAL EQUITY		**6,286,101**	2,307,182
TOTAL LIABILITIES AND EQUITY		**36,969,445**	21,788,212

HAMAD ABDOUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

ABDULWAHAB ISSA ALRUSHOOD
(ACTING GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 38 form part of these consolidated financial statements.

Kuwait Finance House (K.S.C.P.) and Subsidiaries
Annual Report 2022
Consolidated Financial Statements - 31 December 2022

Kuwait Finance House K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to the shareholders of the Bank										*KD 000's*
	Share capital	***Share premium***	***Proposed issue of bonus shares***	***Treasury shares***	***Reserves (Note 22)***	***Subtotal***	***Proposed cash dividends***	***Subtotal***	***Perpetual Tier 1 Capital Securities and Sukuks***	***Non-controlling interests***	***Total equity***
Balance as at 1 January 2022	**844,155**	**720,333**	**84,416**	**(27,739)**	**209,996**	**1,831,161**	**100,442**	**1,931,603**	**226,875**	**148,704**	**2,307,182**
Profit for the year	-	-	-	-	357,716	357,716	-	357,716	-	76,887	434,603
Other comprehensive loss	-	-	-	-	(190,668)	(190,668)	-	(190,668)	-	(15,814)	(206,482)
Total comprehensive income	-	-	-	-	167,048	167,048	-	167,048	-	61,073	228,121
Issuance of ordinary shares (Note 23)	413,652	2,891,432				3,305,084		3,305,084			3,305,084
Issue of bonus shares (Note 24)	84,416	-	(84,416)	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	(20,202)	(20,202)	-	(20,202)	-	-	(20,202)
Cash dividends paid (Note 24)	-	-	-	-	-	-	(100,442)	(100,442)	-	-	(100,442)
Distribution of profit (Note 24):											
Proposed issue of bonus shares	-	-	134,222	-	(134,222)	-	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(199,907)	(199,907)	199,907	-	-	-	-
Perpetual Tier 1 Capital Securities arising on business combination, net	-	-	-	-	-	-	-	-	271,941	-	271,941
Perpetual Tier 1 Sukuk Foreign Currency translation adjustment	-	-	-	-	(2,850)	(2,850)	-	(2,850)	2,850	-	-
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks	-	-	-	-	(14,519)	(14,519)	-	(14,519)	-	(895)	(15,414)
Group's share of associate adjustments	-	-	-	-	(3,106)	(3,106)	-	(3,106)	-	-	(3,106)
Impact of application of IAS 29 (Note 38)	-	-	-	-	99,603	99,603	-	99,603		60,427	160,030
Disposal of a subsidiary	-	-	-	-	9,610	9,610	-	9,610	-	(149)	9,461
Acquisition of non-controlling interest (Note 3)	-	-	-	-	-	-	-	-	-	161,761	161,761
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(2,722)	(2,722)
Net movement on treasury shares	-	-	-	(14,024)	-	(14,024)	-	(14,024)	-	-	(14,024)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,569)	(1,569)
Balance as at 31 December 2022	**1,342,223**	**3,611,765**	**134,222**	**(41,763)**	**111,451**	**5,157,898**	**199,907**	**5,357,805**	**501,666**	**426,630**	**6,286,101**

The attached notes 1 to 38 form part of these consolidated financial statements.

Kuwait Finance House K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2022

KD 000's

	Attributable to the shareholders of the Bank								*Perpetual Tier 1 Sukuks*	*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 22)*	*Subtotal*	*Proposed cash dividends*	*Subtotal*			
Balance as at 1 January 2021	767,414	720,333	76,741	(27,739)	323,199	1,859,948	76,093	1,936,041	-	165,357	2,101,398
Profit for the year	-	-	-	-	243,414	243,414	-	243,414	-	66,723	310,137
Other comprehensive loss	-	-	-	-	(143,772)	(143,772)	-	(143,772)	-	(74,571)	(218,343)
Total comprehensive income (loss)	-	-	-	-	99,642	99,642	-	99,642	-	(7,848)	91,794
Issue of bonus shares (Note 24)	76,741	-	(76,741)	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	(20,508)	(20,508)	-	(20,508)		-	(20,508)
Cash dividends paid	-	-	-	-	-	-	(76,093)	(76,093)	-	-	(76,093)
Distribution of profit (Note 24):											
Proposed issue of bonus shares	-	-	84,416	-	(84,416)	-	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(100,442)	(100,442)	100,442	-	-	-	-
Issue of Perpetual Tier 1 Sukuk (Note 26)	-	-	-	-	-	-	-	-	225,788	-	225,788
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	-	-	(535)	(535)	-	(535)	-	-	(535)
Perpetual Tier 1 Sukuk Foreign Currency translation adjustment	-	-	-	-	(1,087)	(1,087)	-	(1,087)	1,087	-	-
Profit payment on Perpetual Tier 1 Sukuk	-	-	-	-	(4,084)	(4,084)	-	(4,084)	-	-	(4,084)
Group's share of associate adjustments	-	-	-	-	(2,366)	(2,366)	-	(2,366)	-	-	(2,366)
Acquisition of non-controlling interest	-	-	-	-	593	593	-	593	-	(6,765)	(6,172)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	(2,040)	(2,040)
Balance as at 31 December 2021	844,155	720,333	84,416	(27,739)	209,996	1,831,161	100,442	1,931,603	226,875	148,704	2,307,182

The attached notes 1 to 38 form part of these consolidated financial statements.

Kuwait Finance House K.S.C.P. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	*2022*	*KD 000's* *2021*
OPERATING ACTIVITIES			
Profit for the year		**434,603**	310,137
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**45,322**	41,783
Provisions and impairment	6	**62,088**	135,369
Dividend income	4	**(3,611)**	(2,621)
Gain on sale/ liquidation of investments	4	**(7,451)**	(15,388)
Gain on sale of real estate investments	4	**(1,304)**	(14,022)
Share of results from investment in associates and joint ventures	4	**(7,053)**	3,357
Net monetary loss from hyperinflation	38	**127,632**	-
		650,226	458,615
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and due from banks		**(367,869)**	(594,207)
Investment in debt securities		**(357,593)**	6,826
Trading properties		**1,194**	6,091
Other assets		**169,593**	73,591
Statutory deposit with Central Banks		**(205,512)**	(421,374)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**771,145**	(359,361)
Depositors' accounts		**(680,583)**	549,566
Other liabilities		**(259,941)**	(245,542)
Net cash flows used in operating activities		**(279,340)**	(525,795)
INVESTING ACTIVITIES			
Net movement in investments		**(2,938)**	(17,146)
Purchase of investment properties		**(44)**	(1,914)
Proceeds from sale of investment properties		**34,528**	41,759
Purchase of property and equipment		**(22,232)**	(18,828)
Proceeds from sale of property and equipment		**2,224**	9,389
Intangible assets, net		**(1,535)**	39
Proceeds from sale/redemption of investments in associates and joint ventures		**20,877**	2,931
Proceed from disposal of subsidiaries		**3,142**	-
Dividend received		**14,434**	6,689
Cash and balances with banks and financial institutions related to business combination (note 3)		**778,063**	-
Net cash flows from investing activities		**826,519**	22,919
FINANCING ACTIVITIES			
Net proceeds from issuance of Perpetual Tier 1 Capital Securities and Sukuks		**-**	225,788
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks		**(15,414)**	(4,084)
Cash dividends paid		**(100,442)**	(76,093)
Dividends paid to non-controlling interest		**(2,722)**	-
Movement in Sukuk payable and term financing		**(98,855)**	(98,388)
Zakat paid		**(2,868)**	(7,738)
Net movement in treasury shares		**(14,024)**	-
Net cash flows (used in) from financing activities		**(234,325)**	39,485
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**312,854**	(463,391)
Cash and cash equivalents as at 1 January		**2,888,168**	3,351,559
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	9	**3,201,022**	2,888,168

The attached notes 1 to 38 form part of these consolidated financial statements.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 11 January 2023. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 19.1. The Bank was incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait ("CBK"). The Bank is a public shareholding company listed in Kuwait Boursa and Bahrain Bourse, and is engaged in all Islamic banking activities for its own account as well as for third parties, including financing, purchase and sale of investments, leasing, project construction and other trading activities without practising usury. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

All activities are conducted in accordance with Islamic Shari'a, as approved by the Bank's Fatwa and Shari'a Supervisory Board.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) with the following amendments:

- Expected credit loss ("ECL") to be measured at the higher of ECL provision on credit facilities computed under IFRS 9 – Financial Instruments ("IFRS 9") in accordance with CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and

- Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular no. 2/BS/IBS/461/2020 dated 5 July 2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognised in profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognised in the consolidated statement of income. The application of the policy resulted in application of different accounting presentation for modification loss in 2020.

The above framework is hereinafter referred to as "IFRS as adopted by CBK for use by the State of Kuwait".

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement of financial assets at fair value, venture capital at fair value through profit or loss, derivative financial instruments, all of which have been measured at fair value.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand Dinars, except when otherwise indicated.

2.2 PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of consolidated financial position in order of liquidity.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.3 CHANGES IN ACCOUNTING POLICIES

New standards, interpretations, and amendments adopted by the Group
The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Reference to the Conceptual Framework – Amendments to IFRS 3
The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the customer and the financer, including fees paid or received by either the customer or financer on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*. These amendments had no material impact on the consolidated financial statements of the Group as there were no significant modifications of the Group's financial instruments during the period.

IAS 29 *Financial Reporting in Hyperinflationary Economies*
Besides the above, the Group also applied the below policy in line with the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies* during the year, for its subsidiary operating in a hyperinflationary economy.

The financial information of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial information of the subsidiary has been recognised directly in the consolidated statement of changes in equity.

The financial information of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the consolidated statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated by applying appropriate conversion factors.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2022 did not have any material impact on the accounting policies, financial position or performance of the Group.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The standard is applicable to its insurance subsidiaries, which are not material to the Group. The Group is currently in the process of assessing the impact of the standard on its consolidated financial statements and will adopt the standard on the effective date.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether any existing agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 (continued)
The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the IFRS Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The Group is currently assessing the impact of the amendments.

2.5 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All significant intercompany balances and transactions, including unrealised profit or loss arising from intra-group transactions have been eliminated on consolidation.

a. Subsidiaries
Subsidiaries are all entities over which the Group has control. Specifically, the Group controls an investee if, and only if, the Group has:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 19 for the list of material subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest
Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. For each business combination, non-controlling interest in the acquiree is measured either at fair value or at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. A change in ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Investment in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

Investment in an associate and joint ventures are initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's share of its associates' and joint ventures post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The financial statements of associates and joint ventures are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in associate and joint ventures are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and joint venture and its carrying value and recognises the amount in the consolidated statement of income. Upon loss of significant influence or joint control over the associate or joint venture, the Group measures and recognises any retained investment at its fair value. Gain or loss on such transaction is computed by comparing the carrying amount of the associate or joint venture at the time of loss of significant influence or joint control with the aggregate of fair value of the retained investment and proceeds from disposal. Such gain or loss is recognised in the consolidated statement of income.

Foreign currency translation

The consolidated financial statements are presented in Kuwaiti Dinars, which is the Group's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are included within net gain/loss from foreign currencies in the consolidated statement of income.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Group companies

On consolidation the assets and liabilities of foreign subsidiaries are translated into Kuwait Dinar at the rate of exchange prevailing at the reporting date and their income statements are translated at average exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal, liquidation, repayment of share capital or abandonment of all, or part of a foreign subsidiary, the component of other comprehensive income relating to that particular foreign subsidiary, is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the spot rate of exchange at the reporting date.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i) Financing income includes the following:

- Income from murabaha, istisna'a, leased assets, tawarruq, mudaraba, wakala investments, other financing receivablesand advances and investment in debt securities, and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.

Recognition of financing income is suspended on financing receivables where profit and / or principal is overdue by 90 days or more.

ii) Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction.

iii) Rental income from investment properties is recognised on an accrual basis.

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

v) Operating lease income is recognised on a straight-line basis in accordance with the lease agreement.

vi) Gain from real estate investments includes gains from sale of investment properties and trading properties. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

Trading properties
Trading properties are measured initially at cost. Subsequent to initial recognition, trading properties are carried at the lower of cost or net realizable value determined on an individual basis.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at depreciated cost less impairment.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the investment property is recognised in the consolidated statement of income in the year of derecognition as gain of sale of real estate investment.

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

When the Group begins to redevelop an existing investment property with a view to selling the property, it is transferred to trading properties at carrying value.

Depreciation is provided on a straight-line basis over the estimated useful lives, that range from 20 – 40 years other than freehold land which is deemed to have an indefinite life.

Properties under construction
Properties under construction or development for future use as investment properties are classified as investment properties and are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of the asset.

Precious metals inventory
Precious metals inventory primarily comprises gold, which is carried at the fair value less cost to sell.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments
Date of recognition
Financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market-place.

Classification on initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value. Except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at initial recognition and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities
The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

Financial liabilities, other than financing commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Business model assessment
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and yield (SPPY test)
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Yield (the 'SPPY test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are payments of principal or amortisation of the premium/discount).

The most significant elements of profit within a basic financing arrangement are typically the consideration for the time value of money, credit risk, other basic financing risks and a profit margin. To make the SPPY assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the yield rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

The Group classifies its financial assets upon initial recognition into the following categories:
- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to consolidated statement of income on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to consolidated statement of income on derecognition
- Financial assets carried at fair value through profit or loss (FVTPL)

Debt instruments at amortised cost:
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset meet the SPPY test.

Cash and balances with banks and financial institutions, due from banks, certain investment in debt securities and financing receivables are classified as debt instruments at amortised cost.

Debt instruments at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Profit income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Debt instruments at FVOCI:
A debt instrument is carried at FVOCI if it meets both of the following conditions:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPY test

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Debt instruments at FVOCI: (continued)
Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit income and foreign exchange gains, losses and ECL are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of consolidated financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Equity instruments at FVOCI:
Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity (fair value reserve). Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial asset at FVTPL:
The Group classifies financial assets at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, profit income and dividends are recorded in the consolidated statement of income according to the terms of the contract, or when the right to payment has been established. Included in this classification are certain debt securities, equities and derivatives that are not designated as hedging instruments in a hedge relationship.

The Group has determined the classification and measurement of its financial assets as follows:

i. Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with Central Banks, balances with banks and financial institutions, cash in transit and exchange of deposits maturing within three months of contract date. Cash and cash equivalents are carried at amortised cost using effective profit rate.

ii. Due from banks
Due from banks are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality banks and treasury bills and deposits with central banks. These are stated at amortised cost using effective profit rate.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

iii. Financing receivables
Financing receivables are financial assets with fixed or determinable payments that are not quoted in an active market and principally comprise of Islamic financing facilities including murabahas, istisna'a, ijara, tawarruq, mudaraba, wakala receivables and leased assets, as well as other financing receivablesand advances. The financing receivables are stated at amortised cost using effective profit rate.

Murabaha
Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group.

Istisna'a
Istisna'a is a sale contract concluded between a buyer and a manufacturer, whereby the manufacturer undertakes, at the request of the buyer, to manufacture the subject matter of the contract (the product) according to the stipulated specifications, at an agreed upon price and method of payment, whether by paying in advance, by installments, or by deferring payment to a specific date in the future.

Ijara
The lease contract is concluded between the Group (the lessor) and the customer (the lessee), whereby the Group achieves a return by charging rents on the leased assets to the customers.

Tawarruq
It is a product in which a customer buys goods from the group on a deferred payment basis and then sells them immediately for cash to another party.

Mudaraba
It is an agreement between two parties whereby one of them provides funds (rabb al-mal) and the other makes efforts and provides expertise (mudarib) and he is responsible for investing these funds in a specific company or special activity in exchange for a pre-agreed percentage of the mudaraba revenues if there are profits, while in the event of a normal loss, the rabb al-mal will bear the loss of his money while the mudarib will bear the loss of his efforts. However, in case of negligence or breach of any of the terms and conditions of the mudaraba agreement, only the mudarib will bear the losses. The Group acts as a mudarib when accepting funds from depositors and as a rabb al-mal when investing these funds on a mudaraba basis.

Wakala
Wakala is an agreement whereby the Group provides an amount of money to a client under a wakala agreement, who invests this amount according to specific conditions in exchange for agreed fees. The agent is obligated to return the amount in case of negligence or violation of any of wakala's terms and conditions.

Other financing receivables and advances
Other financing receivables and advances are financial assets with fixed or determinable payments and fixed maturities. After initial recognition, they are subsequently measured at amortized cost using the effective profit rate method, adjusted to reflect actual fair value hedges, less any amounts written off and allowance for credit losses. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective profit rate. The amortization is included within 'finance income' in the consolidated statement of income

Trade receivables
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of expected credit losses and are stated at amortised cost.

iv. Investments in debt securities
Investments in debt securities are classified at FVOCI, FVTPL and amortized cost based on the business model in which these securities are managed. These include investment in bonds, sukuks, notes and certificate of deposits issued by banks and other financial institutions and corporates.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

v. Investments
Group's financial investments consists of investment in equity instruments and investment in funds. Investment in equity instruments are carried at FVTPL or FVOCI based on the business model in which these securities are managed. Investment in funds are carried at FVTPL.

vi. Venture capital at fair value through profit or loss
Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through profit or loss in accordance with IFRS 9, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recorded as unrealized gain (loss) in the consolidated statement of income.

Financial liabilities
The Group has determined the classification and measurement of its financial liabilities as follows:

i. Due to banks, depositors' accounts and Sukuk payables and term financing
These are measured at amortised cost. Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in "financing under repurchase agreements". The difference between the sale price and repurchase price is treated as finance costs and is accrued over the life of the agreement using the effective profit method.

ii. Trade payables
Trade payables mainly relates to non-banking subsidiaries of the Group. Liabilities are recognised for amounts to be paid in the future for goods whether or not billed to the Group.

iii. Accrued expenses
Liabilities are recognised for amounts to be paid in the future for services received whether or not billed to the Group.

iv. Financial guarantees
In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and the provisions required by the CBK. Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a financing with pre-specified terms to the customer. Similar to financial guarantee contracts, a provision is measured, if they are an onerous contract, according to the CBK guidelines.

Derecognition of financial assets and financial liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Derecognition of financial assets and financial liabilities (continued)
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Derecognition due to substantial modification or terms and conditions
The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the financing
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPY criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

Derivatives financial instruments and hedge accounting
i. Derivatives not designated as hedges:
Currency swaps, profit rate swaps, futures, options, forward foreign exchange and forward commodity contracts instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. Any gains or losses arising from changes in the fair value of these instruments are taken directly to the consolidated statement of income as investment income.

ii. Derivatives designated as hedges:
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to the particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivatives financial instruments and hedge accounting (continued)
ii. Derivatives designated as hedges: (continued)
The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedge item and the hedging instrument.
- The effect of the credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges:
The gain or loss on the hedging instrument is recognised in consolidated statement of income while the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item, if applicable, and be recognised in consolidated statement of income.

Cash flow hedges:
The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects consolidated statement of income.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in the consolidated statement of other comprehensive income at that time remains in the consolidated statement of other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the consolidated statement of other comprehensive income is immediately transferred to the consolidated statement of income.

Hedges of a net investment:
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity are transferred to consolidated statement of income.

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing profit rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedges of a net investment: (continued)

IBOR reform Phase 1 also requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the profit rate is not altered as a result of IBOR reform. Further, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Impairment of financial assets

The Group recognises ECL for financing receivable, due from banks, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together "financing facilities") and investment in debt securities carried at FVOCI and amortised cost.

Balances with CBK is low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of financing facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines or the provisions required by the CBK instructions.

Expected Credit Losses

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

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

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

Stage 1: 12-month ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

Except for consumer and instalment financing, transfer of credit facility from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the financial assets to Stage 2. Transfer of financial assets from Stage 3 to Stage 2 or Stage 1 is subject to approval of CBK.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the asset. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Any subsequent recoveries are credited to credit loss expense.

When estimating ECL for undrawn financing commitments, the Group estimates the expected portion of the financing commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down.

The Group measures ECLs on guarantees based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure.

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

Determining the stage of impairment

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and backstop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. The Group considers an exposure to have significantly increased in credit risk when there is significant deterioration in customer rating compared to rating at origination, restructured due to financial difficulties of the customers and other conditions mentioned below.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. The Group also consider that events explained below (and not restricted to) as indicators of significant increase in credit risk as opposed to a default.

- All financial assets are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade;
- All rescheduled financial assets are classified under the Stage 2 unless it qualifies for Stage 3 classification.
- Internal rating of the customer indicating default or near-default
- The customer requesting emergency funding from the Group;
- The customer having past due liabilities to public creditors or employees;
- The customer is deceased;
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral;
- A material decrease in the customer's turnover, loss of major customers or deterioration of customer financial position;
- A covenant breach not waived by the Group;
- The obligor (or any legal entity within the obligor's group) filing for bankruptcy application / protection or liquidation;
- Obligor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties;
- Legal measures and action against customer by other creditors;
- Clear evidence that the customer is unable to pay financing receivable on maturity dates;

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)
Determining the stage of impairment (continued)
The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to Stage 2 even if other criteria do not indicate a significant increase in credit risk.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

Objective evidence that financial assets is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant financial asset and collectively for others not deemed individually significant.

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

- The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses point in time PD (PITPD) to calculate the ECL. The minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade financing facilities except for financing facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing financing (except for credit cards).
- The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including payments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized non-cash facilities. For unutilized facilities CCF is applied based on the CBK requirements for leverage ratio issued on 21 October 2014.
- The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. CBK guidelines have prescribed list of eligible collaterals and minimum hair-cuts that are applied in determination of LGD.

Further, as per CBK guidelines, for unsecured senior and subordinate financing facilities minimum LGD threshold applied is 50% and 75% respectively.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2, the Group considers a minimum maturity of 7 years for all financing facilities (excluding consumer financing & credit cards and personal housing financing which is regulated by CBK based on salary) unless financing facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings & credit cards and personal housing financings which is regulated by CBK based on salary in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)
Incorporation of forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, unemployment rates, Central Bank base rates, oil prices, commodity price index and equity price index and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated financing receivables
In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Derecognition decisions are determined on a case-by-case basis.

Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

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

Category	*Criteria*	*Specific provisions*
Watch list	Irregular for a period of 31 to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

▸ Buildings	up to 50 years
▸ Furniture, fixtures and equipment	3 to 10 years
▸ Motor vehicles	3 years

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

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

Leases
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

i. Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date of the underlying asset if available of use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, and is included under 'property and equipment' in the consolidated statement of financial position. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and the lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets ranging up to 25 years.

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

The right-of-use assets are also subject to impairment in accordance with the Group's impairment of non-financial assets policy.

ii. Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Lease liabilities (continued)
In calculating the present value of lease payments, the Group uses the incremental profit rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii. Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor
i. Leased assets
This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

ii. Operating leases
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is recognised in 'other income' in the consolidated statement of income.

Intangible assets
An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

▸ Core deposits	12 years
▸ Brand/ trademark	3 years
▸ License	assessed to have an indefinite useful life
▸ Software development cost	3 to 5 years
▸ Software license right	15 years
▸ Other rights	3 to 7 years

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

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

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

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)
Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

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 estimates asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or 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.

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 valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Taxation
Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

The Bank calculates shareholders Zakat at 2.577% on net working capital on completing fiscal year and is paid under the direction of the Bank's Fatwa and Shareea'a Supervisory Board, and netting the amount paid by 1% of net profit attributed to the Zakat paid to the Ministry of Finance as per the Zakat Law. Such Zakat is charged to voluntary reserve.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets carried at FVOCI or FVTPL
For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For financial assets where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, book value multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Investment properties
For investment properties, fair value is determined by registered real estate valuers who have relevant experience in the property market.

Due from/to customers for contract work
Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

Share based payments
The Group operates an employees' share purchase plan for certain eligible employees, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (Reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments (continued)
The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of income represents the movement in cumulative expense recognised during the year.

Finance cost
Finance cost is directly attributable to due to banks and financial institutions and depositors' accounts. All finance costs are expensed in the period they occur.

Other provisions and reserves
Other provisions and reserves are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any reserve provision is recorded in the consolidated statement of income net of any reimbursement.

Employees' end of service benefits
The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated statement of income in the year to which they relate.

Treasury shares
The Group's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Fiduciary assets
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

Significant judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

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

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

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business or when it is being redeveloped for sale.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant judgments (continued)
Classification of real estate (continued)
The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as property and equipment when it is acquired for owner occupation.

Determining the lease term of contracts with renewal 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).

Operating lease commitments – Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Coronavirus (COVID-19) pandemic
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Bank operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the consolidated financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Fair value of financial instruments
The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 37.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

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

Impairment of goodwill and intangible assets with indefinite useful life

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Business combinations

Business combinations requires the assets and liabilities acquired to be fair valued which requires significant amount of judgement and estimation. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. It also involves identification of intangible assets which requires signification judgement and use of estimates.

Impairment of investment in associates and joint ventures

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates or joint ventures are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Impairment of investment properties and trading properties

The Group reviews the carrying amounts of its investment and trading properties to determine whether there is an indication that those assets have suffered an impairment loss if the fair values are below than the carrying values. The Group management determines the appropriate techniques and inputs required for measuring the fair value using observable market data and as appropriate, the Group uses reputed valuers qualified to do the valuation.

Impairment of financial instruments

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

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

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

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

Impairment losses on financing receivables – as per CBK guidelines

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2022

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Leases - Estimating the incremental financing rate

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental financing rate (IBR) to measure lease liabilities. The IBR is the rate that the Group would have to pay to get funding over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

3 BUSINESS COMBINATION

The ordinary and extra-ordinary general assembly of the Bank's shareholders held on 25 July 2022, approved the Board of Directors' recommendation to acquire 100% of the shares of Ahli United Bank B.S.C. ("AUB") by way of share swap at the exchange ratio of one KFH share against 2.695 shares of AUB, and authorised the Board of Directors to implement all relevant procedures, and to dispatch the acquisition offer and fulfill the related procedures. On 24 September 2022, the Parent Company received 97.273% acceptances with respect to the acquisition offer.

On 2 October 2022, the Parent Company acquired control of AUB, by issuing 4,023,741,236 new shares of the Parent Company to the accepting AUB shareholders at purchase consideration of 799 fils per share, being the quoted price of the shares of the Parent Company at the date of acquisition. Further, the shares of the Parent Company have also been listed on Bahrain Bourse with effect from 6 October 2022. Subsequently, on 20 November 2022, the Parent Company exercised their squeeze-out right to acquire the remaining 2.727% shares of the dissenting shareholders and issued another 112,784,885 new shares of the parent company, thereby making AUB a fully owned subsidiary, with total purchase consideration of KD 3,305,084 thousand.

The purchase consideration (also referred to as "purchase price") of the acquisition have been allocated to the acquired assets and liabilities using their preliminary fair values at the acquisition date. The computation of the purchase consideration and its allocation to the net assets of the entity based on their respective fair values as of acquisition date, and the resulting goodwill is presented below. Non-controlling interest in the acquiree is measured at the proportionate share in the recognized amount of the acquiree's identifiable net assets. Goodwill recognised based on provisional purchase price allocation, represents the difference between purchase consideration and fair value of identifiable net assets. The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed, including alignment in business model, if needed.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 BUSINESS COMBINATION (continued)

The provisional fair values of assets acquired and liabilities assumed are summarized as follows:

	KD '000s
Assets	
Cash and balances with banks and financial institutions	**778,063**
Due from banks	**1,602,745**
Financing receivables	**6,352,072**
Investment in debt securities	**2,934,253**
Investments	**31,247**
Investment in associates and joint ventures	**87,868**
Investment properties	**41,984**
Other assets	**490,949**
Property and equipment	**99,057**
Total assets	**12,418,238**
Liabilities	
Due to banks and financial institutions	**2,814,896**
Sukuk payables and term financing	**666,329**
Depositors' accounts	**7,296,598**
Other liabilities	**353,961**
Total liabilities	**11,131,784**
Total identifiable net assets at fair value	**1,286,454**
Non-controlling interests	**(161,761)**
Perpetual Tier 1 Capital Securities	**(288,594)**
Net tangible assets	**836,099**
Identified intangibles	**326,803**
Provisional goodwill arising on acquisition	**2,142,182**
Purchase consideration	**3,305,084**

From the date of acquisition, AUB contributed KD 109,119 thousand of operating income and KD 62,494 thousand to the profit attributable to shareholders of the Bank.

The Central Bank of Kuwait and Bank's Fatwa and Shraria's Supervisory Board have approved to convert all conventional investments and products on acquisition of AUB to be Sharia'a compliant on a specific time frame. All income and expenses from non-Sharia'a compliant activities are included in the consolidated statement of income, and surplus of conventional income over conventional expenses from 2 October 2022 until the completion of the complete conversion of AUB Group, if any, is transferred to a charitable account payable included in Other liabilities. Benefiting from the charitable account is supervised by the Bank's Fatwa and Sharia Supervisory Board.

Financing receivables include conventional loans and advances related to AUB amounting to KD 2,311,576 thousand as of 31 December 2022, which represent 12.3% of net financing receivables. The bank is in the process of converting these facilities to comply with Islamic Sharia'a.

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4 INVESTMENT INCOME

	2022	*KD 000's* *2021*
Gain on sale of real estate investments	**1,304**	14,022
Rental income from investment properties	**7,394**	8,476
Dividend income	**3,611**	2,621
Gain on sale / liquidation of investments	**7,451**	15,388
Share of results of investment in associates and joint ventures (Note 14 and Note 15)	**7,053**	(3,357)
Others	**17,394**	(20,791)
	44,207	16,359

5 OTHER INCOME

	2022	*KD 000's* *2021*
Income from sale of property and equipment	**2,366**	6,358
Real estate trading, development and construction income	**19,306**	9,695
Income from maintenance, services, and consultancy	**21,018**	16,011
Rental income from lease contracts	**4,766**	5,338
Other (loss) income	**(3,552)**	10,787
	43,904	48,189

6 PROVISIONS AND IMPAIRMENT

	2022	*KD 000's* *2021*
Charge (reversal of) expected credit losses for investment in debt securities (Note 12)	**25,276**	(10,007)
Expected credit losses for other financial assets	**3,729**	4,089
Impairment on financing receivables (Note 11)	**42,048**	147,699
Recovery of written-off debts	**(36,247)**	(22,716)
Impairment of investment properties (Note 16)	**11,894**	1,566
Impairment of investment in associates	**-**	2,000
Impairment of property and equipment	**-**	337
Reversal of impairment of non-cash facilities (Note 11)	**(2,973)**	(455)
Other provisions and impairment	**18,361**	12,856
	62,088	135,369

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7 TAXATION

	KD 000's	
	2022	*2021*
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**3,249**	1,907
National Labour Support Tax (NLST)	**9,748**	4,514
Zakat	**5,041**	2,450
Taxation related to subsidiaries	**79,837**	47,598
	97,875	56,469

8 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Bank after profit payment on Perpetual Tier 1 Capital Securities and Sukuks, by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group.

Basic and diluted earnings per share:	***2022***	*2021*
Profit for the year attributable to shareholders of the Bank (thousand KD)	**357,716**	243,414
Less: Profit payment on Perpetual Tier 1 Capital Securities and Sukuks (thousand KD)	**(14,519)**	(4,084)
Profit for the year attributable to shareholders of the Bank after profit payment on Perpetual Tier 1 Capital Securities and Sukuks (thousand KD)	**343,197**	239,330
Weighted average number of shares outstanding during the year, net of treasury shares (thousands share)	**10,221,484**	9,207,191
Basic and diluted earnings per share attributable to the shareholders of the Bank	**33.58 fils**	25.99 fils

The employees' share based payments plan has no material dilutive impact on earnings per share.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 23).

9 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	KD 000's	
	2022	*2021*
Cash	**250,511**	204,187
Balances with Central Banks	**1,920,026**	1,566,773
Balances with banks and financial institutions – current accounts	**985,276**	554,132
Cash and balance with banks and financial institutions	**3,155,813**	2,325,092
Due from banks within 3 months of contract date	**1,493,211**	1,805,566
Less: Statutory deposits with Central Banks	**(1,448,002)**	(1,242,490)
Cash and cash equivalents	**3,201,022**	2,888,168

Statutory deposits with Central Banks represent balances that are not available for use in the Group's day-to-day operations.

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10 DUE FROM BANKS

	KD 000's	
	2022	*2021*
Due from banks	**2,004,913**	1,527,454
Due from central banks including treasury bills	**1,864,981**	1,822,231
	3,869,894	3,349,685

The fair value of due from banks is not materially different from their respective carrying value.

11 FINANCING RECEIVABLES

Financing receivables principally comprises of murabaha, wakala, leased assets, istisna'a balances and other financing receivables and advances. Balances are stated net of impairment as follows:

	KD 000's	
	2022	*2021*
Financing receivables		
Murabaha and wakala	**16,025,887**	11,087,730
Leased assets	**2,794,602**	2,210,437
Istisna'a and other receivables	**100,926**	84,566
Other financing receivables and advances	**2,477,241**	-
	21,398,656	13,382,733
Less: deferred and suspended profit	**(1,672,211)**	(1,375,988)
Net financing receivables	**19,726,445**	12,006,745
Less: impairment	**(886,761)**	(651,382)
	18,839,684	11,355,363

Movement in provision for impairment as per CBK instructions is as follows:

						KD 000's
	Specific		*General*		*Total*	
	2022	*2021*	***2022***	*2021*	***2022***	*2021*
Balance as at beginning of year	**150,184**	164,843	**501,198**	406,140	**651,382**	570,983
Provided during the year (Note 6)	**19,266**	44,451	**22,782**	103,248	**42,048**	147,699
Other adjustments arising on business combination	**76,982**	-	**164,865**	-	**241,847**	-
Amounts written off and foreign currency translation	**(39,687)**	(59,110)	**(8,829)**	(8,190)	**(48,516)**	(67,300)
Balance as at end of year	**206,745**	150,184	**680,016**	501,198	**886,761**	651,382

Reversal of provision for the year on non-cash facilities is KD 2,973 thousand (2021: Reversal of provision of KD 455 thousand) (Note 6). The available provision balance on non-cash facilities of KD 38,190 thousand (2021: KD 14,684 thousand) is included under other liabilities (Note 21).

The fair value of the financing receivables do not materially differ from their respective book values.

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11 FINANCING RECEIVABLES (continued)

The future minimum lease payments receivable in the aggregate are as follows:

	KD 000's	
	2022	*2021*
Within one year	**1,265,447**	961,612
One to five years	**704,373**	433,815
More than five years	**824,782**	815,010
	2,794,602	2,210,437

Non-performing financing facilities
As at 31 December 2022, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 271,274 thousand (2021: KD 204,408 thousand).

Total provision for ECL is accounted as per CBK regulation which require ECL to be measured at higher of the ECL computed under IFRS 9 in accordance with CBK or the provision required by CBK instructions. Total provision for credit losses recorded as per CBK instructions for utilized and unutilized cash and non-cash financing facilities as at 31 December 2022 is KD 924,951 thousand (2021: KD 666,066 thousand) which exceeds the ECL for financing receivables under IFRS 9 by KD 517,209 thousand (2021: KD 367,231 thousand).

An analysis of the carrying amounts of financing receivables (cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations is as below. Further, for contingent liabilities and commitments, the amounts in the table represent the amounts committed or guaranteed (non-cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations.

31 December 2022	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
High	**14,224,015**	**377,256**	**-**	**14,601,271**
Standard	**2,844,282**	**1,241,895**	**145,690**	**4,231,867**
Past due or impaired	**448,725**	**173,308**	**271,274**	**893,307**
	17,517,022	**1,792,459**	**416,964**	**19,726,445**
Financing commitments and contingent liabilities (Note 27)	**2,259,563**	**254,154**	**32,202**	**2,545,919**
ECL provision for credit facilities	**83,848**	**115,187**	**208,707**	**407,742**
31 December 2021				
High	7,981,234	334,881	-	8,316,115
Standard	1,245,773	1,258,991	177,793	2,682,557
Past due or impaired	653,073	150,592	204,408	1,008,073
	9,880,080	1,744,464	382,201	12,006,745
Financing commitments and contingent liabilities (Note 27)	1,075,925	265,574	21,156	1,362,655
ECL provision for credit facilities	31,495	120,110	147,230	298,835

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11 FINANCING RECEIVABLES (continued)

Aging analysis of past due but not impaired finance facilities by class of financial assets:

				KD 000's
	Less than 30 days	*31 to 60 days*	*61 to 90 days*	*Total*
31 December 2022				
Financing receivables	**448,725**	**69,049**	**104,259**	**622,033**
31 December 2021				
Financing receivables	653,073	67,468	83,124	803,665

An analysis of the changes in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	Stage 1 KD 000's	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL allowance as at 1 January 2022	**31,495**	**120,110**	**147,230**	**298,835**
Impact due to transfer between stages	**10,660**	**(11,391)**	**731**	**-**
Additions arising on business combination	**48,103**	**-**	**82,024**	**130,127**
Net (decrease) increase in ECL for the year	**(256)**	**38,535**	**17,828**	**56,107**
Amounts written off	**-**	**-**	**(15,581)**	**(15,581)**
Foreign exchange adjustments	**(6,154)**	**(32,067)**	**(23,525)**	**(61,746)**
At 31 December 2022	**83,848**	**115,187**	**208,707**	**407,742**

	Stage 1 KD 000's	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL allowance as at 1 January 2021	35,381	162,964	161,189	359,534
Impact due to transfer between stages	4,433	(8,899)	4,466	-
Net (decrease) increase in ECL for the year	(2,933)	(254)	42,489	39,302
Amounts written off	-	-	(33,155)	(33,155)
Foreign exchange adjustments	(5,386)	(33,701)	(27,759)	(66,846)
At 31 December 2021	31,495	120,110	147,230	298,835

Sensitivity
For measuring the overall sensitivity of the forward-looking information and key economic variables on the Group's ECL on financing receivables, the Group conducts stress tests by allocating a higher weightage to the downside scenario which results in an increase in the Bank's ECL allowance for financing receivables in Stage 1 and Stage 2. However, the ECL so determined after incorporating the aggregate impact of these sensitivity adjustments, continues to remain lower than the total provision for credit losses recorded as per CBK instructions, and accordingly will not have an impact on the Group's consolidated statement of income as well as on the carrying value of these assets.

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11 FINANCING RECEIVABLES (continued)

Modification loss on deferral of consumer and housing financing by six months and related government grant income

During the previous year, the Bank has recognised a modification loss of KD 65,293 thousand arising from the deferral of consumer and housing financing instalments for a period of six months, computed in accordance with IFRS 9, in accordance with CBK circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementation of the provisions of Article No. (2) of Law No. (3) of 2021 ('the Law'). According to the Law, the modification loss arising on the deferral of the financing instalments will be fully borne by the Kuwait government. Therefore, the Bank has recognised this income in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and set it off against the modification loss. The Government grant receivable is included in 'other assets' in the consolidated statement of financial position.

12 INVESTMENT IN DEBT SECURITIES

		KD 000's
	2022	*2021*
FVOCI	**2,879,094**	2,307,963
Amortised cost	**2,905,117**	127,650
FVTPL	**301,242**	299,309
	6,085,453	2,734,922

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification (excluding debt securities carried at FVTPL).

				KD 000's
2022	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
High grade	**3,460,331**	**594,005**	**-**	**4,054,336**
Standard grade	**1,794,205**	**-**	**-**	**1,794,205**
Past due or impaired	**-**	**-**	**45,407**	**45,407**
Gross carrying amount	**5,254,536**	**594,005**	**45,407**	**5,893,948**
ECL allowance	**(37,855)**	**(30,658)**	**(41,224)**	**(109,737)**
Carrying value	**5,216,681**	**563,347**	**4,183**	**5,784,211**

				KD 000's
2021	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
High grade	1,392,857	649,726	-	2,042,583
Standard grade	431,173	-	-	431,173
Gross carrying amount	1,824,030	649,726	-	2,473,756
ECL allowance	(21,019)	(17,124)	-	(38,143)
Carrying value	1,803,011	632,602	-	2,435,613

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12 INVESTMENT IN DEBT SECURITIES (continued)

Movement in the gross carrying amount and the corresponding expected credit losses in relation to the Group's investment in debt securities (excluding debt securities carried at FVTPL) is as follows:

				KD 000's
2022	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January 2022	**1,824,030**	**649,726**	**-**	**2,473,756**
Acquired as part of business combination	**2,935,164**	**-**	**45,407**	**2,980,571**
Net movement during the year	**495,342**	**(55,721)**	**-**	**439,621**
At 31 December 2022	**5,254,536**	**594,005**	**45,407**	**5,893,948**

				KD 000's
2022	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL allowance as at 1 January 2022	**21,019**	**17,124**	**-**	**38,143**
Acquired as part of business combination	**5,094**	**-**	**41,224**	**46,318**
Re-measurements during the year (Note 6)	**11,742**	**13,534**	**-**	**25,276**
At 31 December 2022	**37,855**	**30,658**	**41,224**	**109,737**

				KD 000's
2021	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2021	1,613,875	883,080	-	2,496,955
Net movement during the year	210,155	(233,354)	-	(23,199)
At 31 December 2021	1,824,030	649,726	-	2,473,756

				KD 000's
2021	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	10,609	37,541	-	48,150
Re-measurements during the year (Note 6)	10,410	(20,417)	-	(10,007)
At 31 December 2021	21,019	17,124	-	38,143

13 INVESTMENTS

		KD 000's
	2022	*2021*
Equities and funds	**229,794**	202,585
Venture capital at fair value through profit or loss	**16,847**	16,169
	246,641	218,754
FVTPL	**96,013**	96,713
FVOCI	**133,781**	105,872
Venture capital at fair value through profit or loss	**16,847**	16,169
	246,641	218,754

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14 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2022	*2021*			
Sharjah Islamic Bank P.J.S.C.	**18**	18	United Arab Emirates	Islamic banking services	30 September 2022
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	**46**	46	Kuwait	Aircraft leasing and financing services	30 September 2022
Ahli Bank S.A.O.G. (ABO)	**35**	-	Sultanate of Oman	Islamic banking services	30 September 2022

The following table illustrates the summarised aggregate information of the Group associates:

Summarised consolidated statement of financial position:

	KD 000's	
	2022	*2021*
Assets	**8,686,276**	6,353,102
Liabilities	**(7,628,922)**	(5,403,632)
Equity	**1,057,354**	949,470
Carrying amount of the investment	**289,612**	225,866

Summarised consolidated statement of income:

	KD 000's	
	2022	*2021*
Revenues	**318,805**	292,411
Expenses	**(283,351)**	(277,538)
Profit for the year	**35,454**	14,873
Group's share of results for the year	**1,902**	(3,997)

Investments in associates with a carrying amount of KD 254,859 thousand (2021: KD 193,206 thousand) have a market value of KD 263,687 thousand at 31 December 2022 (2021: KD 192,996 thousand) based on published quotes. Dividends received from the associates during the current year amounted to KD 9,153 thousand (2021: KD 4,067 thousand).

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15 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2022	*2021*			
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	31 October 2022
Al Durrat Al Tijaria Company W.L.L	**-**	50	Bahrain	Real estate development	31 October 2022
South City W.L.L.	**25**	25	Bahrain	Real estate development	31 October 2022

The following table illustrates the summarised aggregate information of the Group's joint ventures:

Summarised consolidated statement of financial position:

	KD 000's	
	2022	*2021*
Assets	**870,474**	1,001,446
Liabilities	**(254,484)**	(319,428)
Equity	**615,990**	682,018
Carrying amount of the investment	**230,044**	265,837

Summarised consolidated statement of income:

	KD 000's	
	2022	*2021*
Revenues	**58,364**	91,806
Expenses	**(45,871)**	(96,069)
Profit (loss) for the year	**12,493**	(4,263)
Group's share of results for the year	**5,151**	640

Dividends received from the joint ventures during the current year amounted to KD 1,670 thousand (2021: KD Nil).

16 INVESTMENT PROPERTIES

	KD 000's	
	2022	*2021*
As at 1 January	**325,128**	350,838
Additions	**65,517**	5,071
Acquired as part of business combination (Note 3)	**41,984**	-
Transfer from/to other assets	**-**	2,181
Disposals	**(32,313)**	(25,558)
Depreciation charge for the year	**(4,280)**	(5,838)
Impairment (Note 6)	**(11,894)**	(1,566)
As at 31 December	**384,142**	325,128

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16 INVESTMENT PROPERTIES (continued)

	KD 000's	
	2022	*2021*
Developed properties	**295,538**	235,803
Properties under construction	**88,604**	89,325
	384,142	325,128

17 OTHER ASSETS

	KD 000's	
	2022	*2021*
Precious metals inventory	**110,503**	134,605
Trade receivable, net	**169,794**	54,995
Clearing accounts	**135,149**	161,917
Receivables on sale of investment	**5,711**	10,194
Deferred tax	**28,945**	48,312
Advances and prepayments	**39,908**	23,529
Derivative assets (Note 28)	**236,127**	36,227
Other miscellaneous assets	**249,687**	184,689
	975,824	654,468

18 GOODWILL AND INTANGIBLE ASSETS

Movement of goodwill and intangible assets is as follows:

	KD 000's	
	2022	*2021*
Cost		
As at 1 January	**69,948**	73,640
Identified intangibles recognised on acquisition of AUB (Note 3)	**326,803**	-
Provisional goodwill recognised on acquisition of AUB (Note 3)	**2,142,182**	-
Additions	**20,758**	6,363
Disposal	**(1,694)**	(78)
Hyperinflation adjustment	**11,740**	-
Foreign exchange translation	**(59,465)**	(9,977)
As at 31 December	**2,510,272**	69,948
Accumulated amortization		
As at 1 January	**37,597**	41,250
Charge for the year	**8,970**	3,369
Disposals	**(821)**	(5)
Hyperinflation adjustment	**7,964**	-
Foreign exchange translation	**(6,063)**	(7,017)
As at 31 December	**47,647**	37,597
Net book value		
As at 31 December	**2,462,625**	32,351

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18 GOODWILL AND INTANGIBLE ASSETS (continued)

	KD 000's	
	2022	*2021*
Goodwill	**2,127,198**	-
Core deposits and brands	**265,952**	-
Other intangibles	**69,475**	32,351
	2,462,625	32,351

Other intangibles include licenses amounting to KD 57,848 thousand (2021: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the licenses are tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the licenses has been determined using a discount rate range from 7.7% to 18% (2021: 8.7%) and a terminal growth rate range from 1.8% to 5.8% (2021: 2.7%). As a result, the management believes there are no indications of any impairment in value. Intangible assets with finite lives are amortised over their useful economic life.

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19 SUBSIDIARIES

19.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %* *2022*	*2021*	*Principal activity*	*Financial statements reporting date*
Kuwait Turkish Participation Bank (KTPB)	Turkey	**62**	62	Islamic banking services	31 December 2022
Ahli United Bank B.S.C. (AUB) *	Bahrain	**100**	-	Banking services	31 December 2022
Kuwait Finance House B.S.C.	Bahrain	**100**	100	Islamic banking services	31 December 2022
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	31 December 2022
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	**100**	100	Islamic investment	31 December 2022
KFH Capital Investments Company K.S.C. (Closed) **	Kuwait	**99.9**	99.9	Islamic finance and investments	31 October 2022
KFH Real Estate Company K.S.C. (Closed) **	Kuwait	**99.9**	99.9	Real estate development and leasing	31 October 2022
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	**56**	56	Real estate, investment, trading and real estate management	31 October 2022
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	**100**	100	Real estate development and investment	30 September 2022
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	**98**	98	Computer maintenance, consultancy and software services	30 September 2022
Al Salam Hospital K.S.C. (Closed)	Kuwait	**76**	76	Healthcare services	30 September 2022
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	**100**	-	Banking services	31 December 2022
Ahli United Bank K.S.C.P. ("AUBK")***	Kuwait	**67.3**	-	Islamic banking services	31 December 2022
Ahli United Bank (Egypt) S.A.E. ("AUBE")	Egypt	**95.7**	-	Banking services	31 December 2022
Commercial Bank of Iraq P.S.C. ("CBIQ")	Iraq	**80.3**	-	Islamic banking services	31 December 2022

* *AUB is a newly acquired subsidiary during the year (Refer Note 3). AUBUK, AUBK, AUBE, and CBIQ are indirectly held subsidiaries through AUB.*
** *Effective ownership percentage is 100% (2021: 100%).*
*** *Effective ownership percentage is 74.9%.*

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19 SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiaries
Financial information of subsidiary that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Non-controlling interest percentage* *2022*	*2021*
Kuwait Turkish Participation Bank	Turkey	**38%**	38%
Ahli United Bank K.S.C.P.	Kuwait	**25.1%**	-

The summarised financial information of the subsidiaries are provided below. This information is based on amounts before intra-Group eliminations and adjustments. For AUBK, the financial information is post acquisition (Note 3).

Summarised consolidated statement of income for the year ended:

	AUBK *KD 000's* *2022*	*KTPB* *2022*	*KD 000's* *2021*
Revenues	**48,859**	**818,166**	517,213
Expenses	**(43,267)**	**(642,346)**	(362,149)
Profit for the year	**5,592**	**175,820**	155,064
Profit attributable to non-controlling interest	**1,404**	**66,390**	58,552

Summarised consolidated statement of financial position as at:

	AUBK *KD 000's* *2022*	*KTPB* *2022*	*KD 000's* *2021*
Total assets	**4,713,687**	**6,731,080**	6,319,636
Total liabilities	**(4,045,571)**	**(6,036,713)**	(5,917,524)
Total equity	**668,116**	**694,367**	402,112
Attributable to non-controlling interests	**167,697**	**262,193**	151,837

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19 SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiaries (continued)

Summarised consolidated statement of cash flows for year ended:

	AUBK	*KTPB*	
	KD 000's		*KD 000's*
	2022	*2022*	*2021*
Operating	**127,988**	**551,999**	(41,749)
Investing	**5,937**	**(388,463)**	203,438
Financing	**(3,564)**	**130,427**	(121,055)
Net increase in cash and cash equivalents	**130,361**	**293,963**	40,634

20 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'a.

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

b) The fair values of depositors' accounts do not differ from their carrying book values.

21 OTHER LIABILITIES

		KD 000's
	2022	*2021*
Trade payables	**274,307**	247,826
Accrued expenses	**246,095**	177,371
Certified cheques	**84,341**	72,946
Due to customers for contract work	**10,819**	34,309
Takaful insurance technical reserve	**105,149**	-
Employees' end of service benefits	**110,376**	84,617
Refundable deposits	**1,594**	3,281
Provision on non-cash facilities (Note 11)	**38,190**	14,684
Derivative liabilities (Note 28)	**75,082**	21,604
Other miscellaneous liabilities	**289,489**	146,020
	1,235,442	802,658

Kuwait Finance House K.S.C.P. and Subsidiaries

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22 RESERVES

								KD 000's
	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
Balance as at 1 January 2022	365,663	233,723	1,346	15,028	57,001	(439,587)	(23,178)	209,996
Profit for the year	-	-	357,716	-	-	-	-	357,716
Other comprehensive loss	-	-	-	-	(8,949)	(173,516)	(8,203)	(190,668)
Total comprehensive income (loss)	-	-	357,716	-	(8,949)	(173,516)	(8,203)	167,048
Zakat	-	(20,202)	-	-	-	-	-	(20,202)
Transfer to reserves	37,685	37,685	(75,370)	-	-	-	-	-
Proposed issuance of bonus shares (Note 24)	-	-	(134,222)	-	-	-	-	(134,222)
Proposed cash dividends (Note 24)	-	-	(199,907)	-	-	-	-	(199,907)
Transfer of fair value reserve of equity investment at FVOCI	-	-	917	-	(917)	-	-	-
Perpetual Tier 1 Sukuk foreign currency translation adjustment	-	-	(2,850)	-	-	-	-	(2,850)
Profit payment on Perpetual Tier 1 Capital Securities & Sukuks	-	-	(14,519)	-	-	-	-	(14,519)
Impact of application of IAS 29 (Note 38)	-	-	99,603	-	-	-	-	99,603
Disposal of a subsidiary	-	-	-	-	-	9,610	-	9,610
Group's share of associate adjustments	-	-	(3,106)	-	-	-	-	(3,106)
Balance as at 31 December 2022	403,348	251,206	29,608	15,028	47,135	(603,493)	(31,381)	111,451

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2022

22 RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
Balance as at 1 January 2021	340,325	228,893	1,306	15,028	66,933	(305,515)	(23,771)	323,199
Profit for the year	-	-	243,414	-	-	-	-	243,414
Other comprehensive loss	-	-	-	-	(9,700)	(134,072)	-	(143,772)
Total comprehensive income (loss)	-	-	243,414	-	(9,700)	(134,072)	-	99,642
Zakat	-	(20,508)	-	-	-	-	-	(20,508)
Transfer to reserves	25,338	25,338	(50,676)	-	-	-	-	-
Proposed issuance of bonus shares (Note 24)	-	-	(84,416)	-	-	-	-	(84,416)
Proposed cash dividends (Note 24)	-	-	(100,442)	-	-	-	-	(100,442)
Transfer of fair value reserve of equity investment at FVOCI	-	-	232	-	(232)	-	-	-
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	(535)	-	-	-	-	(535)
Perpetual Tier 1 Sukuk foreign currency translation adjustment	-	-	(1,087)	-	-	-	-	(1,087)
Profit payment on Perpetual Tier 1 Sukuk	-	-	(4,084)	-	-	-	-	(4,084)
Acquisition of non-controlling interest	-	-	-	-	-	-	593	593
Group's share of associate adjustments	-	-	(2,366)	-	-	-	-	(2,366)
Balance as at 31 December 2021	365,663	233,723	1,346	15,028	57,001	(439,587)	(23,178)	209,996

Kuwait Finance House K.S.C.P. and Subsidiaries
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22 RESERVES (continued)

Statutory reserve

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

Voluntary reserve

In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a maximum of 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

Voluntary reserve is available to be distributed to shareholders at the discretion of the Bank's Board of Directors in ways that may be deemed beneficial to the Bank, except for the amount of KD 41,763 thousand (2021: KD 27,739 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 23). The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the issued share capital.

Other reserves

Other reserves include cashflow hedge reserve, pension fund reserve and changes in ownership interest without loss of control.

Fair value reserve, foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

23 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

The ordinary general assembly of the Bank's shareholders held on 21 March 2022 approved to distribute bonus shares of 10% (2020: 10%) of the issued, and fully paid share capital, and cash dividends of 12 fils per share (2020: 10 fils per share) to the Bank's shareholders, for the year ended 31 December 2021 (Note 24).

The Extra-ordinary general assembly of the Bank's shareholders held on 21 March 2022 also approved to increase the authorised share capital to be comprised of 13,485,707,127 shares (31 December 2021: 12,641,551,934) shares of 100 fils each.

The Extra-ordinary general assembly of the Bank's shareholders held on 25 July 2022, approved to increase the issued and paid-up capital of KFH by way of issuing a maximum of 4,200,000,000 shares at the nominal value of the share and to allocate these shares to the shareholders registered in the shareholders register of Ahli United Bank B.S.C. (AUB – Bahrain) on the day to be determined for executing the acquisition and authorised the Board of Directors to take all necessary actions to implement the capital increase to implement the acquisition.

On 2 October 2022, the issued and fully paid share capital were increased from 9,285,707,127 shares to 13,309,448,363 shares by issuing 4,023,741,236 shares at nominal value of the share and allocated to the accepting shareholders of AUB - Bahrain. Subsequently on 20 November 2022, 112,784,885 shares were issued to the remaining dissenting shareholders of AUB - Bahrain (Note 3).

Kuwait Finance House K.S.C.P. and Subsidiaries

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23 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

Share capital

	2022 KD 000's	*2021* KD 000's
Issued and fully paid in cash and bonus shares: 13,422,233,248 (2021: 8,441,551,934) shares of 100 fils each	**1,342,223**	844,155

The movement in ordinary shares in issue during the year was as follows:

	2022	*2021*
Number of shares in issue as at 1 January	**8,441,551,934**	7,674,138,122
Bonus shares issued	**844,155,193**	767,413,812
New shares issued in consideration for acquisition of AUB (Note 3)	**4,136,526,121**	-
Number of shares in issue at 31 December	**13,422,233,248**	8,441,551,934

Share premium
The share premium balance is not available for distribution.

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2022	*2021*
Number of treasury shares	**95,105,916**	71,370,374
Treasury shares as a percentage of total shares in issue	**0.7%**	0.8%
Cost of treasury shares (KD thousand)	**41,763**	27,739
Market value of treasury shares (KD thousand)	**78,177**	59,380

The balance in the treasury share reserve account is not available for distribution.

The weighted average market price of the Bank's shares for the year ended 31 December 2022 was 874 fils (2021: 771 fils) per share.

24 PROPOSED CASH DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 15% for the year ended 31 December 2022 (2021: 12%) and issuance of bonus shares of 10% (2021: 10%) of the paid up share capital as follows:

	2022		*2021*	
		Total KD 000's		*Total KD 000's*
Proposed cash dividends (per share)	**15 fils**	**199,907**	12 fils	100,442
Proposed issuance of bonus shares (per 100 shares)	**10 shares**	**134,222**	10 shares	84,416

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed cash dividends and proposed issued of bonus shares are shown separately within equity.

The Board of Directors of the Bank has proposed Directors' fees of KD 1,096 thousand (2021: KD 1,096 thousand), (Note 29) which is within the amount permissible under local regulations and subject to the approval of the annual general assembly of the shareholders of the Bank.

Kuwait Finance House K.S.C.P. and Subsidiaries

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25 SHARE BASED PAYMENTS

The Bank operates long-term incentive scheme plan (LTIS) approved by the Board of Directors and authorized by the Bank's extraordinary general assembly and ordinary assembly. The LTIS operate on a rolling yearly employees' share purchase plan where new plans is rolled out to eligible employees every year. Shares issued under each plan will vest at the end of three years from the allocation date subject to agreed performance conditions approved by the Board of Directors being met.

26 PERPETUAL TIER 1 CAPITAL SECURITIES AND SUKUKS

	2022 KD 000's	*2021* KD 000's
Perpetual Tier-1 Sukuk issued by the Bank (a)	**225,408**	226,875
Perpetual Tier I Capital securities issued by AUB (b)	**117,926**	-
Perpetual Tier I Sukuk-2021 issued by AUBK (c)	**158,332**	-
	501,666	226,875

(a) On 30 June 2021, the Bank through a Sharia's compliant Sukuk arrangement issued Perpetual Tier 1 Sukuk amounting to USD 750 million. The Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Perpetual Tier 1 Sukuk is listed on the London Stock Exchange and callable by the Bank after five-year period ending June 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of the Perpetual Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Perpetual Tier 1 Sukuk bears an expected profit rate of 3.6% per annum to be paid semi-annually in accordance with the terms of the issue. Transaction costs incurred on the issue of the Perpetual Tier 1 Sukuk is accounted as a deduction from equity.

(b) Basel III compliant Additional Tier I Perpetual Capital Securities issued by AUB during 2015 carried an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. On completion of the initial 5 year period, during 2020, distribution rate was reset to 5.839%. These securities are perpetual, subordinated and unsecured. The securities are listed on the Irish Stock Exchange. AUB can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

(c) During the year ended 31 December 2021, AUBK completed a US$ 600 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk issue that bears a profit rate of 3.875% per annum, which are eligible to be classified under equity. These are subordinated, unsecured and carry a periodic distribution amount, payable semi-annually in arrears, is callable after five year period of issuance until the first call date ending June 2026 or any profit distribution date thereafter subject to certain redemption conditions, including prior CBK approval. The securities are listed on the Irish Stock Exchange and NASDAQ Dubai.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 CONTINGENCIES AND CAPITAL COMMITMENTS

At the financial position date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	KD 000's	
	2022	*2021*
Acceptances and letters of credit	**515,682**	195,008
Letter of guarantees	**2,030,237**	1,167,647
Contingencies	**2,545,919**	1,362,655

	KD 000's	
	2022	*2021*
Capital and irrevocable undrawn financing commitments and others	**421,459**	281,289

28 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments") and other derivative instruments to mitigate foreign currency and profit rate risk. The Islamic currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency thru series of transactions to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future based on Wa'ad (promise) structure.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose. Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses profit rate swaps and forward rate agreements to hedge against the profit rate risk arising from specifically identified, or a portfolio of, fixed profit rate investments and financing receivables. The Group also uses profit rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as derivatives held for hedging purposes.

Kuwait Finance House K.S.C.P. and Subsidiaries

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28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into profit rate swaps to hedge net profit rate exposures.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

			KD 000's
	Positive fair value	***Negative fair value***	***Notional amount***
31 December 2022			
Derivatives held for trading			
Profit rate swaps	**21,685**	**19,561**	**529,844**
Forward contracts	**17,827**	**15,352**	**3,059,999**
Currency swaps	**8,063**	**2,224**	**1,218,345**
Options	**261**	**369**	**19,046**
Embedded precious metals	**3,126**	**1,422**	**92,117**
Derivatives held as fair value hedges			
Profit rate swaps	**149,661**	**31,820**	**3,167,376**
Forward contracts	**103**	**102**	**5,633**
Currency swaps	**34,734**	**4,052**	**396,482**
Derivatives held as cash flow hedges			
Forward contracts	**649**	**180**	**67,739**
Currency swaps	**18**	**-**	**4,064**
	236,127	**75,082**	**8,560,645**

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2021			
Derivatives held for trading			
Currency swaps	11,254	4,662	997,097
Embedded precious metals	12,594	227	278,053
Derivatives held as fair value hedges			
Profit rate swaps	-	13,620	211,509
Derivatives held as cash flow hedges			
Forward contracts	12,379	3,095	436,499
	36,227	21,604	1,923,158

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28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

In respect of derivative instruments including currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the gross and net cash flows:

KD 000's

	Notional amount	*Within 3 months*	*3 to 12 months*	*More than 12 months*
31 December 2022				
Cash inflows	**8,560,645**	**3,945,260**	**1,464,911**	**3,150,474**
Cash outflows	**(8,518,786)**	**(3,937,988)**	**(1,448,052)**	**(3,132,746)**
Net cash flows	**41,859**	**7,272**	**16,859**	**17,728**
31 December 2021				
Cash inflows	1,923,158	1,106,627	596,840	219,691
Cash outflows	(1,891,916)	(1,092,598)	(591,474)	(207,844)
Net cash flows	31,242	14,029	5,366	11,847

29 RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, directors and executive employees, officers of the Group, their immediate relatives, associated companies, joint ventures and companies of which they are the principal owners) are depositors and financing facilities, customers of the Group, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

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

KD 000's

	Major shareholders	*Associates and joint ventures*	*Board members and executive officers*	*Other related party*	*Total 2022*	*Total 2021*
Financing income	**-**	**6,879**	**113**	**185**	**7,177**	7,615
Fee and commission income	**9**	**147**	**160**	**2**	**318**	315
Finance costs and distribution to depositors	**18,935**	**1,286**	**110**	**258**	**20,589**	7,741

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

KD 000's

	Major shareholders	*Associates and joint ventures*	*Board members and executive officers*	*Other related party*	*Total 2022*	*Total 2021*
Financing receivables and Due from banks	**-**	**217,559**	**3,659**	**12,269**	**233,487**	226,714
Due to banks and financial institutions	**300,751**	**79,490**	**-**	**-**	**380,241**	744,591
Depositors' accounts	**891,699**	**22,449**	**25,078**	**31,847**	**971,073**	54,652
Contingencies and commitments	**961**	**15,252**	**-**	**2**	**16,215**	6,848

Kuwait Finance House K.S.C.P. and Subsidiaries

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29 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of Board Members and Executive Officers are as follows:

	The number of board members or executive officers 2022	*2021*	*The number of related parties (Relatives of board members or executive officers) 2022*	*2021*	*KD 000's 2022*	*2021*
Board Members						
Finance facilities	**29**	23	**18**	17	**12,950**	1,122
Depositors' accounts	**67**	49	**116**	122	**21,437**	13,321
Collateral against financing facilities	**3**	1	**3**	1	**18,628**	1,771
Executive officers						
Finance facilities	**81**	70	**21**	18	**2,415**	2,532
Depositors' accounts	**84**	79	**130**	114	**11,657**	8,465
Collateral against financing facilities	**5**	7	**3**	1	**2,943**	1,755

Salaries, allowances and bonuses of key management personnel, termination benefits of key management personnel and remuneration of board members of the Bank and all consolidated subsidiaries are as follows:

KD 000's

	Total 2022	*Total 2021*
Salaries, allowances and bonuses of key management personnel	**14,087**	12,393
Termination and long-term benefits of key management personnel	**1,504**	992
Board of directors' remuneration *	**2,531**	2,280
	18,122	15,665

* Board of director's remuneration include amount of KD 1,096 thousand (2021: KD 1,096 thousand) related to the Bank. The board of director's remuneration is subject to the approval of the Annual General Assembly (Note 24).

30 SEGMENTAL ANALYSIS

Primary segment information

For management purposes, the Group is organized into four major business segments. The principal activities and services under these segments are as follows:

Treasury:	Liquidity management, murabaha investments, investment in debt securities, exchange of deposits with banks and financial institutions and international banking relationships.
Retail and Private Banking:	Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals
Corporate Banking:	Providing a range of banking services and investment products to corporates, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.
Investment:	Managing direct equity and real estate investments, non-banking Group entities, associates and joint ventures.

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30 SEGMENTAL ANALYSIS (continued)

					KD 000's
31 December 2022	***Treasury***	***Retail and private Banking***	***Corporate Banking***	***Investment***	***Total***
Total assets	**12,137,529**	**9,379,095**	**10,867,811**	**4,585,010**	**36,969,445**
Total liabilities	**7,655,097**	**16,522,406**	**5,604,062**	**901,779**	**30,683,344**
Operating income	**262,762**	**265,046**	**352,186**	**192,289**	**1,072,283**
Provisions and impairment	**(24,044)**	**(11,513)**	**7,562**	**(34,093)**	**(62,088)**
Profit for the year	**217,176**	**48,555**	**280,401**	**(111,529)**	**434,603**

					KD 000's
31 December 2021	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
Total assets	7,539,011	7,052,339	5,574,325	1,622,537	21,788,212
Total liabilities	3,152,127	12,948,702	2,926,427	453,774	19,481,030
Operating income	72,074	354,051	257,321	127,565	811,011
Provisions and impairment	11,692	(12,590)	(103,521)	(30,950)	(135,369)
Profit for the year	68,737	147,906	85,067	8,427	310,137

Secondary segment information
The Group operates in different geographical areas. A geographical analysis is as follows:

				KD 000's
	Assets		*Contingencies and commitments*	
	2022	*2021*	***2022***	*2021*
Geographical areas:				
Middle East	**26,132,795**	14,269,163	**1,469,749**	493,181
Europe	**7,285,597**	6,376,251	**1,333,088**	1,119,553
Others	**3,551,053**	1,142,798	**164,541**	31,210
	36,969,445	21,788,212	**2,967,378**	1,643,944

						KD 000's
	Local		*International*		*Total*	
	2022	*2021*	***2022***	*2021*	***2022***	*2021*
Operating income	**286,061**	306,622	**786,222**	504,389	**1,072,283**	811,011
Profit for the year	**82,073**	67,050	**352,530**	243,087	**434,603**	310,137

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31 RISK MANAGEMENT

Risk management is an integral part of Group decision-making processes. It is implemented through a governance process that emphasizes on independent risk assessment, control and monitoring, overseen directly by the Board and senior management.

KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and market regulations and risk management best practices. KFH operates a “three lines of defence” system for managing risk.

The first line of defence recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

The second line of defence comprises the Risk Management Department and the Financial Control Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The risk management department is responsible for managing and monitoring risk exposures. It also, measures risk using risk models and presents reports to the Board Risk Committee and the Board of Directors. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the Bank’s risk appetite.

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts and other derivative instruments to manage exposures and emerging risks resulting from changes in yields, foreign currencies ,and equity risks. Moreover, the Group actively uses collateral to reduce its credit risks.

Excessive risk concentration
In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging tools are used within the Bank to manage market risk at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Group has similar risk management structures, policies and procedures as overseen by the Bank’s Board of Directors.

Kuwait Finance House K.S.C.P. and Subsidiaries

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32 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for single counterparty. industry concentrations, and by monitoring exposures related to such limits.

The Group is applying Early Warning Signals "EWS" approach to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by using credit risk rating model, which assigns each counterparty a risk rating. Risk ratings are subject to regular review. The EWS allows the Group to assess the potential loss as a result of the risks to which is exposed to and take proactive corrective actions.

Assessment of expected credit losses
Definition of default and cure
The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

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

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

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

Significant increase in credit risk
The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and PD estimation process
In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take into account of all aspects of perceived risk. The Group uses various internal credit-rating engine. The tools provide the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and derived in accordance with the Group' rating policy. The attributable risk ratings are assessed and updated regularly.

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32 CREDIT RISK (continued)

Assessment of expected credit losses (continued)
Internal rating and PD estimation process (continued)
The group uses PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. The through the cycle (TTC) PDs are generated from MRA based on the internal credit ratings. or from external credit rating by recognised rating agencies for externally rated portfolios. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques. The Group assesses the PD for its retail portfolio through application scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility.

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

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown (before impairment, net of deferred and suspended profit), before the effect of mitigation through the use of master netting and collateral agreements.

			KD 000' s
	Notes	***2022***	*2021*
Balances with banks and financial institutions	9	**2,905,302**	2,120,905
Due from banks	10	**3,869,894**	3,349,685
Financing receivables	11	**19,726,445**	12,006,745
Investment in debt securities	12	**6,195,190**	2,773,065
Trade and other receivables		**701,227**	309,634
Total		**33,398,058**	20,560,034
Contingencies	27	**2,545,919**	1,362,655
Capital and irrevocable undrawn financing commitments and others	27	**421,459**	281,289
Total		**2,967,378**	1,643,944
Total credit risk exposure		**36,365,436**	22,203,978

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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32 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2022 was KD 297,061 thousand (2021: KD 272,100 thousand) before taking account of any collaterals. The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

				KD 000's
	Middle East	*Europe*	*Others*	*Total*
31 December 2022				
Balances with banks and financial institutions	**868,122**	**1,277,882**	**759,298**	**2,905,302**
Due from banks	**3,090,104**	**495,663**	**284,127**	**3,869,894**
Financing receivables	**15,473,862**	**3,789,111**	**463,472**	**19,726,445**
Investment in debt securities	**3,120,271**	**1,950,765**	**1,124,154**	**6,195,190**
Trade and other receivables	**442,741**	**127,907**	**130,579**	**701,227**
	22,995,100	**7,641,328**	**2,761,630**	**33,398,058**
31 December 2021				
Balances with banks and financial institutions	408,618	1,420,737	291,550	2,120,905
Due from banks	2,851,031	497,178	1,476	3,349,685
Financing receivables	8,674,959	3,001,875	329,911	12,006,745
Investment in debt securities	1,206,922	1,227,809	338,334	2,773,065
Trade and other receivables	261,194	43,488	4,952	309,634
	13,402,724	6,191,087	966,223	20,560,034

An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

		KD 000's
	2022	*2021*
Trading and manufacturing	**8,328,776**	5,228,614
Banks and financial institutions	**11,810,951**	8,970,449
Construction and real estate	**5,199,086**	2,895,616
Other	**8,059,245**	3,465,355
	33,398,058	20,560,034

Credit quality per class of financial assets

Credit exposures classified as 'High grade' are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard grade' comprise all other facilities whose payment performance is fully compliant with contractual conditions, and which are not 'impaired'.

Details of credit quality for financing receivables is disclosed in Note 11 and for investment in debt securities is disclosed in Note 12. Balances with banks and financial institutions, due from banks and trade and other receivables are classified as High grade.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Group's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

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32 CREDIT RISK (continued)

Collateral (continued)

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to past due or impaired finance facilities as at 31 December 2022 was KD 209,302 thousand (2021: KD 349,701 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee and real estate assets.

Country risk

Country risk is the risk that incidents within a country could have an adverse effect on the Group directly in impairing the value of the Group or indirectly through an obligor's inability to meet its obligations to the Group. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

33 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base while manages assets and monitors future cash flows within the regulatory and internal liquidity limits, on daily basis. Moreover, the Group monitors and assess the impact of the existing and new operations' expected cash flows and ensures the availability of high quality liquid assets, which could be used to secure additional funding, when required.

In addition, the Group maintains a robust liquidity buffers which consists of a mix of readily available cash, sharia compliant short-term money market instruments and a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has in place committed lines of credit that can be accessed in order to meet liquidity needs.

The overall liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors during a systemically contagion market and a specific idiosyncratic stress events impacted by the Group.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year-end are based on contractual payment arrangement and planned exit dates.

The maturity profile of assets and undiscounted liabilities at 31 December 2022 is as follows:

				KD 000's
Assets	*Up to 3 months*	*3 to 12 months*	*After one year*	***Total***
Cash and balances with banks and financial institutions	**2,946,235**	**7,847**	**201,731**	**3,155,813**
Due from banks	**2,745,992**	**1,083,477**	**40,425**	**3,869,894**
Financing receivables	**5,209,468**	**4,102,570**	**9,527,646**	**18,839,684**
Investment in debt securities	**232,153**	**722,725**	**5,130,575**	**6,085,453**
Trading properties	**9,259**	**8,909**	**76,942**	**95,110**
Investments	**667**	**65,043**	**180,931**	**246,641**
Investment in associates and joint ventures	**2,483**	**20,549**	**496,624**	**519,656**
Investment properties	**78,390**	**31,842**	**273,910**	**384,142**
Other assets	**275,762**	**37,455**	**662,607**	**975,824**
Goodwill and intangible assets	**-**	**-**	**2,462,625**	**2,462,625**
Property and equipment	**332**	**-**	**334,271**	**334,603**
	11,500,741	**6,080,417**	**19,388,287**	**36,969,445**

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33 LIQUIDITY RISK (continued)

	Up to 3 months	*3 to 12 months*	*After one year*	***KD 000's*** ***Total***
Liabilities				
Due to banks and financial institutions	**3,661,431**	**1,433,540**	**1,085,824**	**6,180,795**
Sukuk payables and term financing	**188,243**	**23,388**	**572,560**	**784,191**
Depositors' accounts	**14,330,818**	**3,024,787**	**5,127,311**	**22,482,916**
Other liabilities	**246,006**	**83,637**	**905,799**	**1,235,442**
	18,426,498	**4,565,352**	**7,691,494**	**30,683,344**

The maturity profile of assets and undiscounted liabilities at 31 December 2021 is as follows:

	Up to 3 months	*3 to 12 months*	*After one year*	*KD 000's* *Total*
Assets				
Cash and balances with banks and financial institutions	2,272,430	1,335	51,327	2,325,092
Due from banks	2,645,470	670,877	33,338	3,349,685
Financing receivables	2,300,742	2,865,351	6,189,270	11,355,363
Investment in debt securities	449,062	280,568	2,005,292	2,734,922
Trading properties	4,353	16,272	75,679	96,304
Investments	1,269	60,479	157,006	218,754
Investment in associates and joint ventures	10,025	10,441	471,237	491,703
Investment properties	88,375	13,134	223,619	325,128
Other assets	334,479	44,289	275,700	654,468
Goodwill and intangible assets	-	-	32,351	32,351
Property and equipment	-	-	204,442	204,442
	8,106,205	3,962,746	9,719,261	21,788,212
Liabilities				
Due to banks and financial institutions	1,707,445	754,670	132,639	2,594,754
Sukuk payables and term financing	125,049	-	91,668	216,717
Depositors' accounts	11,557,325	693,854	3,615,722	15,866,901
Other liabilities	158,252	141,111	503,295	802,658
	13,548,071	1,589,635	4,343,324	19,481,030

The table below shows the contractual expiry by maturity of the Group's contingencies and commitments:

	Up to 3 months	*3 to 12 months*	*Over 1 year*	***KD 000's*** *Total*
2022				
Contingencies (Note 27)	**1,014,809**	**802,229**	**728,881**	**2,545,919**
Capital and irrevocable undrawn financing commitments and others (Note 27)	**52,313**	**56,004**	**313,142**	**421,459**
Total	**1,067,122**	**858,233**	**1,042,023**	**2,967,378**

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33 LIQUIDITY RISK (continued)

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*KD 000's* *Total*
2021				
Contingencies (Note 27)	434,441	445,873	482,341	1,362,655
Capital commitments and others (Note 27)	28,510	48,785	203,994	281,289
Total	462,951	494,658	686,335	1,643,944

The Group expects that the vast majority of all the contingencies or capital commitments will not be drawn before expiry of the commitments.

34 MARKET RISK

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to change in market prices. These risks are classified into three main areas as follows:

Profit rate risk
The Group generates assets and liabilities that have cash inflows and outflows, or fair values and their profitability and performance is evaluated through the sensitivity of profit rates fluctuations. The Group manages the risk arising from these exposures to maximize profit for shareholders and depositors. Further, the Group measures and manages the profit rate risk by establishing levels of profit rate risk by setting limits on the profit rate gaps for stipulated periods. Profit rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the profit rate gaps to within the limits established by the Bank's management.

Currency risk
This is the risk of incurring losses due to changes in currency exchange rates which affects both the banking book (including structural positions arising from cross-border investments) and trading book.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2022 and 31 December 2021 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of equity investments at FVOCI).

	31 December 2022			*31 December 2021*		***KD 000's***
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	**+1**	**1,619**	**35**	+1	944	20
Bahraini Dinar	**+1**	**(302)**	**151**	+1	(1,073)	103

Price risk
This is the risk arising from the fluctuation in the market value of investments in equity, Sukuks and debt securities, and real estate.

The effect on fair value reserve (as a result of a change in the fair value of equity investments at FVOCI at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

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34 MARKET RISK (continued)

Price risk (continued)

	2022		*2021*	*KD 000's*
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Boursa Kuwait	**+1**	**137**	+1	163
Other GCC indices	**+1**	**129**	+1	129

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, processes or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Group has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk managed by the Operational Risk Management, which reviews policies, procedures, products, services and support business lines in managing and monitoring operational risks as part of overall Group-wide risk management.

Operational Risk Management of the Group is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and monitoring operational risks in Group.

35 CAPITAL MANAGEMENT

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) and its amendments are shown below:

		KD 000's
Capital adequacy	***2022***	*2021*
Risk Weighted Assets	**22,552,464**	13,402,087
Capital required	**3,044,583**	1,675,261
Capital available		
Tier 1 capital	**3,605,225**	2,300,266
Tier 2 capital	**377,993**	204,228
Total capital	**3,983,218**	2,504,494
Tier 1 capital adequacy ratio	**15.99%**	17.16%
Total capital adequacy ratio	**17.66%**	18.69%

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35 CAPITAL MANAGEMENT (continued)

The Group's financial leverage ratio for the year ended 31 December 2022 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

		KD 000's
	2022	*2021*
Tier 1 capital	**3,605,225**	2,300,266
Total exposure	**43,375,277**	23,655,882
Financial leverage ratio	**8.31%**	9.72%

36 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2022 amounted to KD 2,531,926 thousand (2021: KD 1,587,555 thousand).

Fees and commission income include fees of KD 8,121 thousand (2021: KD 4,651 thousand) arising from trust and fiduciary activities.

37 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2022.

				KD 000's
Financial assets measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Venture capital at FVTPL (Note 13)	**-**	**16,847**	**-**	**16,847**
Equities at FVTPL (Note 13)	**37,982**	**35,711**	**22,320**	**96,013**
Equities at FVOCI (Note 13)	**38,102**	**17,607**	**78,072**	**133,781**
Debt securities at FVTPL (Note 12)	**301,242**	**-**	**-**	**301,242**
Debt securities at FVOCI (Note 12)	**2,804,895**	**31,019**	**43,180**	**2,879,094**
Derivative financial assets:				
Forward contracts	-	**18,579**	-	**18,579**
Profit rate swaps	-	**171,346**	-	**171,346**
Currency swaps	-	**42,815**	-	**42,815**
Embedded precious metals	-	**3,126**	-	**3,126**
Others	-	**261**	-	**261**
Non-financial assets:				
Investment properties	**-**	**549,456**	**-**	**549,456**
	3,182,221	**886,767**	**143,572**	**4,212,560**

Kuwait Finance House K.S.C.P. and Subsidiaries

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37 FAIR VALUES (continued)

Financial liabilities measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***KD 000's Total***
Derivative financial liabilities:				
Forward contracts	**-**	**15,634**	**-**	**15,634**
Profit rate swaps	**-**	**51,381**	**-**	**51,381**
Currency swaps	**-**	**6,276**	**-**	**6,276**
Embedded precious metals	**-**	**1,422**	**-**	**1,422**
Others	**-**	**369**	**-**	**369**
	-	**75,082**	**-**	**75,082**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2021.

Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*KD 000's Total*
Venture capital at FVTPL (Note 13)	-	16,169	-	16,169
Equities at FVTPL (Note 13)	55,473	29,237	12,003	96,713
Equities at FVOCI (Note 13)	45,441	-	60,431	105,872
Debt securities at FVTPL (Note 12)	299,309	-	-	299,309
Debt securities at FVOCI (Note 12)	2,247,873	-	60,090	2,307,963
Derivative financial assets:				
Forward contracts	-	12,379	-	12,379
Currency swaps	-	11,254	-	11,254
Embedded precious metals	-	12,594	-	12,594
Non-financial assets:				
Investment properties	-	421,868	-	421,868
	2,648,096	503,501	132,524	3,284,121

Financial liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*KD 000's Total*
Derivative financial liabilities:				
Forward contracts	-	3,095	-	3,095
Profit rate swaps	-	13,620	-	13,620
Currency swaps	-	4,662	-	4,662
Embedded precious metals	-	227	-	227
	-	21,604	-	21,604

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted debt securities of KD 43,180 thousand (2021: KD 60,090 thousand) and unquoted equity investments of KD 100,392 thousand (2021: KD 72,434 thousand). Investment in debt securities included in this category represent investment in debt securities issued by sovereign entities, financial institutions and corporates. The fair values of unquoted investment in debt securities are estimated using discounted cash flow method using discount rate ranging from 5.9% to 15.1% (2021: 1.2% to 6.4%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Kuwait Finance House K.S.C.P. and Subsidiaries

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37 FAIR VALUES (continued)

Instruments disclosed in Note 28 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources.

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date.

All investment properties are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

During the year ended 31 December 2022, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of Level 3 financial assets measured at fair value:

	2022	***KD 000's 2021***
As at 1 January	**132,524**	185,369
Re-measurement	**4,168**	(54)
Acquired as part of the business combination	**9,185**	**-**
Disposal, net	**(2,305)**	(22,712)
Transfer to Level 1	**-**	(30,079)
As at 31 December	**143,572**	132,524

38 HYPERINFLATION ACCOUNTING

The subsidiary Kuwait Turkish Participation Bank (KTPB) has banking operations in Turkey. The Turkish economy has been assessed as a hyperinflationary economy based on cumulative inflation rates over the previous three years, in April 2022. The Group determined the Consumer Price Index ("CPI") provided by the Turkish State Institute of Statistics to be the appropriate general price index to be considered in the application of IAS 29, *Financial Reporting in Hyperinflationary Economies* on the subsidiary's financial statements. The level and movement of the price index during the current and previous reporting period is as below:

Reporting period	***Index***	***Conversion factor***
31 December 2022	**1115.26**	**1.623**
31 December 2021	686.95	1.361

تم بحمد الله