

**KUWAIT FINANCE HOUSE K.S.C.P. AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



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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 2020, 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 2020, 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 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.

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)

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 Central Bank of Kuwait (the “CBK”) guidelines, or the provision required by the CBK rules based on classification of financing facilities (the “CBK instructions”) as disclosed in the accounting policies in Note 2.6 and Note 10 to the consolidated financial statements.

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 the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date for classification of financing facilities into various stages; use of a large number of interrelated inputs and assumptions such as the financial asset’s probability of default, loss given default and exposure at default, which are modelled based on macroeconomic variables, and discounted to the reporting date. Furthermore, the COVID-19 global pandemic impacted management’s determination of the ECL as it required the application of unusually high level of judgment and estimation uncertainty, which may materially change the estimates in future periods.

Recognition of 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 judgement in designing and forecasting macro-economic variables and application of probability weighted scenarios together with high degree of estimation uncertainty due to the economic impacts of COVID 19, we have considered credit losses on financing receivables as a key audit matter.

Our audit procedures included testing the effectiveness of controls over: management’s process of assessing the significant increase in credit risk and consequent classification of facilities into various stages; inputs and assumptions used in developing probability of default, loss given default and exposure at default models; their governance; the completeness and accuracy of data used and judgements and estimates applied by management including incorporation of the considerations of economic disruptions caused by COVID 19 including a focus on rescheduled financing 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)

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 checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. 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 checked the appropriateness of 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, in order to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

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

Impairment of investment in associates and joint ventures

The investment in associates and joint ventures are accounted for using the equity method of accounting and considered for impairment in case of indication of impairment. Significant management judgement is required in determining whether there are any indications of impairment and in estimating the recoverable amounts of the investment in associates and joint ventures based on the value in use, especially due to the ongoing Covid-19 pandemic. Accordingly, we considered this as a key audit matter.

We carried out procedures to understand management's process for identifying impairment triggers such as significant adverse changes in the technological, market, economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. For impairment assessment, we involved our internal specialists to assist us in evaluating the reasonableness of the key assumptions and judgements used by management in determining the value-in-use, including the impact of the Covid-19 pandemic on markets and businesses. We also assessed the adequacy of the Group's disclosure in Notes 13 and 14 of the consolidated financial statements.

**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)

Impairment of investment properties

Management's assessment of impairment of investment properties was significant to our audit because this process is complex and requires judgement. Furthermore, impairment testing of investment properties can be inherently subjective, particularly given the number and diverse nature and location of the Group's real estate properties, and the impact of the on-going Covid-19 pandemic on the economy. Accordingly, we considered this a key audit matter.

We selected samples and considered the methodology and the appropriateness of the valuation models and inputs used to value the investment properties. Further, we used our internal specialists to assess the valuation of significant investment properties located outside the State of Kuwait. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the rents, gross multiplier yield, market comparable, and discount rates. We also evaluated the Group's assessment whether objective evidence of impairment exists for international investment properties. The disclosure relating to the investment properties is given in Note 15 to the consolidated financial statements.

Other information included in the Group's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 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 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 as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Report on the Audit of Consolidated Financial Statements (continued)

Auditors' 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, actions taken to eliminate threats or safeguards applied.

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

**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 2020 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 2020 that might have had a material effect on the business of the Bank or on its financial position.



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LICENCE NO. 62A⁴
DELOITTE & TOUCHE
AL-WAZZAN & CO.

4 February 2021
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

		<i>KD 000's</i>	
	<i>Notes</i>	<u>2020</u>	<u>2019</u>
INCOME			
Financing income		892,883	931,574
Finance cost and distribution to depositors		(278,661)	(401,319)
Net financing income		614,222	530,255
Investment (loss) / income	3	(6,410)	130,249
Fees and commissions income		73,138	79,129
Net gain from foreign currencies		69,994	34,061
Other income	4	44,652	40,708
TOTAL OPERATING INCOME		795,596	814,402
EXPENSES			
Staff costs		(172,286)	(182,439)
General and administrative expenses		(81,155)	(78,843)
Depreciation and amortisation		(42,596)	(42,989)
TOTAL OPERATING EXPENSES		(296,037)	(304,271)
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENT		499,559	510,131
Provisions and impairment	5	(284,067)	(196,908)
OPERATING PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		215,492	313,223
Taxation	6	(30,662)	(50,460)
Proposed directors' fees	23	(608)	(942)
PROFIT FOR THE YEAR		184,222	261,821
Attributable to:			
Shareholders of the Bank		148,399	251,023
Non-controlling interests		35,823	10,798
		184,222	261,821
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	7	19.52 fils	33.12 fils

The attached notes 1 to 35 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
Profit for the year	184,222	261,821
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Revaluation loss on equity investments at fair value through other comprehensive income	(1,989)	(1,280)
<i>Items that are or may be reclassified subsequently to consolidated statement of income:</i>		
Investments in Sukuk at fair value through other comprehensive income:		
Net change in fair value during the year	589	65,253
Net transfer to consolidated statement of income	21,420	10,802
Net gain on investments in sukuk at fair value through other comprehensive income	22,009	76,055
Share of other comprehensive (loss) income of associates and joint ventures	(346)	1,430
Exchange differences on translation of foreign operations	(69,438)	(42,008)
Other comprehensive (loss) income for the year	(49,764)	34,197
Total comprehensive income	134,458	296,018
Attributable to:		
Shareholders of the Bank	123,363	292,056
Non-controlling interests	11,095	3,962
	134,458	296,018

The attached notes 1 to 35 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 2020

		<i>KD 000's</i>	
	<i>Notes</i>	<i>2020</i>	<i>2019</i>
ASSETS			
Cash and balances with banks and financial institutions	8	2,490,801	1,910,088
Due from banks	9	3,364,577	3,645,631
Financing receivables	10	10,747,536	9,473,752
Investment in Sukuk	11	2,742,100	2,291,953
Trading properties		102,395	107,613
Investments	12	192,347	195,003
Investment in associates and joint ventures	13,14	520,784	504,343
Investment properties	15	350,838	455,406
Other assets	16	728,059	546,782
Intangible assets and goodwill	17	32,390	31,329
Property and equipment		230,487	228,958
TOTAL ASSETS		21,502,314	19,390,858
LIABILITIES			
Due to banks and financial institutions		2,954,115	2,427,166
Sukuk payables		315,105	319,965
Depositors' accounts	19	15,317,335	13,552,645
Other liabilities	20	814,361	847,707
TOTAL LIABILITIES		19,400,916	17,147,483
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	22	767,414	697,649
Share premium	21	720,333	720,333
Proposed issue of bonus shares	23	76,741	69,765
Treasury shares	22	(27,739)	(36,243)
Reserves	21	323,199	470,908
		1,859,948	1,922,412
Proposed cash dividends	23	76,093	137,980
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		1,936,041	2,060,392
Non-controlling interests		165,357	182,983
TOTAL EQUITY		2,101,398	2,243,375
TOTAL LIABILITIES AND EQUITY		21,502,314	19,390,858



HAMAD ABDOUL MOHSEN AL-MARZOUQ
(CHAIRMAN)



ABDULWAHAB ISSA ALRUSHOOD
(ACTING GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 35 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	<i>Attributable to the shareholders of the Bank</i>								<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 21)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>		
Balance as at 1 January 2020	697,649	720,333	69,765	(36,243)	470,908	1,922,412	137,980	2,060,392	182,983	2,243,375
Profit for the year	-	-	-	-	148,399	148,399	-	148,399	35,823	184,222
Other comprehensive loss	-	-	-	-	(25,036)	(25,036)	-	(25,036)	(24,728)	(49,764)
Total comprehensive income	-	-	-	-	123,363	123,363	-	123,363	11,095	134,458
Issue of bonus shares	69,765	-	(69,765)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(19,943)	(19,943)	-	(19,943)	-	(19,943)
Share based payments (Note 24)	-	-	-	-	4	4	-	4	-	4
Cash dividends paid	-	-	-	-	-	-	(137,980)	(137,980)	-	(137,980)
Distribution of profit (Note 23):										
Proposed issue of bonus shares	-	-	76,741	-	(76,741)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(76,093)	(76,093)	76,093	-	-	-
Group share of distribution to Tier 1 Sukuk of an associate	-	-	-	-	(1,398)	(1,398)	-	(1,398)	-	(1,398)
Net movement in treasury shares	-	-	-	8,504	3,129	11,633	-	11,633	-	11,633
Modification loss on financing receivables (Note 21)	-	-	-	-	(95,631)	(95,631)	-	(95,631)	-	(95,631)
Gain on partial sale of subsidiary	-	-	-	-	234	234	-	234	795	1,029
Amounts paid to non-controlling interests on capital redemption of a subsidiary	-	-	-	-	-	-	-	-	(14,960)	(14,960)
Acquisition of non-controlling interest	-	-	-	-	(4,633)	(4,633)	-	(4,633)	(11,663)	(16,296)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(1,975)	(1,975)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	(918)	(918)
Balance as at 31 December 2020	767,414	720,333	76,741	(27,739)	323,199	1,859,948	76,093	1,936,041	165,357	2,101,398

The attached notes 1 to 35 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 2020

	<i>Attributable to the shareholders of the Bank</i>								<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 21)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>		
Balance as at 1 January 2019	634,226	720,333	63,423	(44,452)	395,278	1,768,808	125,097	1,893,905	180,265	2,074,170
Profit for the year	-	-	-	-	251,023	251,023	-	251,023	10,798	261,821
Other comprehensive income (loss)	-	-	-	-	41,033	41,033	-	41,033	(6,836)	34,197
Total comprehensive income	-	-	-	-	292,056	292,056	-	292,056	3,962	296,018
Issue of bonus shares	63,423	-	(63,423)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(14,748)	(14,748)	-	(14,748)	-	(14,748)
Share based payments (Note 24)	-	-	-	-	1,000	1,000	-	1,000	-	1,000
Cash dividends paid	-	-	-	-	-	-	(125,097)	(125,097)	-	(125,097)
Distribution of profit (Note 23):										
Proposed issue of bonus shares	-	-	69,765	-	(69,765)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(137,980)	(137,980)	137,980	-	-	-
Group share of distribution to Tier 1 Sukuk of an associate	-	-	-	-	(151)	(151)	-	(151)	-	(151)
Net movement in treasury shares	-	-	-	8,209	4,952	13,161	-	13,161	-	13,161
Gain on partial sale of subsidiary	-	-	-	-	266	266	-	266	797	1,063
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,047)	(1,047)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	(994)	(994)
Balance as at 31 December 2019	697,649	720,333	69,765	(36,243)	470,908	1,922,412	137,980	2,060,392	182,983	2,243,375

The attached notes 1 to 35 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 2020

		KD 000's	
	<i>Notes</i>	2020	2019
OPERATING ACTIVITIES			
Profit for the year		184,222	261,821
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		42,596	42,989
Provisions and impairment	5	284,067	196,908
Dividend income	3	(2,459)	(4,845)
Loss/ (gain) on sale/ liquidation of investments	3	6,119	(32,636)
Gain on sale of real estate investments	3	(12,619)	(17,900)
Share of results of investment in associates and joint ventures	3	7,063	(22,408)
		508,989	423,929
Changes in operating assets and liabilities:			
<i>(Increase) decrease in operating assets:</i>			
Financing receivables and due from banks		(915,093)	(169,588)
Investment in Sukuk		(478,505)	(718,465)
Trading properties		4,637	42,640
Other assets		(186,436)	(18,694)
Statutory deposit with Central Banks		(64,532)	(280,069)
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		526,949	(261,913)
Depositors' accounts		1,764,690	1,772,335
Other liabilities		(164,201)	94,210
Net cash flows from operating activities		996,498	884,385
INVESTING ACTIVITIES			
Investments, net		(3,463)	146,091
Purchase of investment properties		(574)	(1,406)
Proceeds from sale of investment properties		16,159	40,015
Purchase of property and equipment		(34,443)	(33,828)
Proceeds from sale of property and equipment		5,439	3,064
Intangible assets, net		(4,413)	(4,594)
Proceeds from sale of investments in associates and joint ventures		101	6,102
Proceed from disposal of subsidiaries		2,733	307
Dividend received and capital redemption		17,270	14,429
Net cash flows (used in) from investing activities		(1,191)	170,180
FINANCING ACTIVITIES			
Cash dividends paid		(137,980)	(125,097)
Movement in Sukuk payable		(4,860)	(178,623)
Zakat paid		(1,287)	(13,236)
Net movement in treasury shares		11,633	13,161
Amounts paid to non-controlling interests on capital redemption of a subsidiary		(14,960)	-
Dividend paid to non-controlling interests		-	(1,047)
Acquisition of non-controlling interests		(16,296)	-
Net cash flows used in financing activities		(163,750)	(304,842)
NET INCREASE IN CASH AND CASH EQUIVALENTS		831,557	749,723
Cash and cash equivalents as at 1 January		2,520,002	1,770,279
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	8	3,351,559	2,520,002

The attached notes 1 to 35 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 12 January 2021. 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 18.1. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait ("CBK"). It 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, including the recently issued CBK circulars on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:

- Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance to the 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 in response to COVID-19 to be recognized in retained earnings instead of consolidated statement of income as required by IFRS 9.

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, precious metals inventory, currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts.

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.

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were made in order to more appropriately present certain items of consolidated statement of financial position and do not affect the previously reported total assets, total liabilities, equity and profit for the year.

2.3 CHANGES IN ACCOUNTING POLICIES

Adoption of profit rate benchmark reform (IBOR – Inter Bank Offer Rate reform Phase 1)

The Group has adopted profit rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR (Inter Bank Offer Rate) reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Group to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow the Group to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. These amendments did not have a material impact on the consolidated financial statements of the Group.

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statement of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statement of the Group.

Amendments to IFRS 16: Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

Several other amendments and interpretations applied for first time in 2020, but do not have an impact on the Group’s consolidated financial statements.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The significant 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.

Profit Rate Benchmark Reform (Phase 2)

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published ‘Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16’ (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of IBOR with an alternative nearly risk-free profit rate (an RFR).

Profit Rate Benchmark Reform (Phase 2) (continued)

The impact of the replacement of IBORs’ with alternative risk-free rates remains a key area of focus. The Group has exposure to certain contracts referencing IBORs, such as Libor, extending past FY2021, when it is likely that these IBORs will cease being published. The Group is currently assessing the impact of the Group’s transition to the new rate regimes after 2021.

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, 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. All significant intercompany balances and transactions, including unrealised profit or loss arising from intra-group transactions have been eliminated on consolidation.

2.5 BASIS OF CONSOLIDATION (continued)

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 18 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingencies but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. 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 (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with IFRS 8 Operating Segments.

Where goodwill has been allocated to a CGU (or group of CGUs) 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 off in these circumstances is measured based on the relative fair values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus associated cumulative translation differences, cash flow hedge and goodwill is recognised in the consolidated statement of income.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

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.

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 other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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.

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 is income from murabaha, istisna'a, leased assets, wakala investments and investment in Sukuk 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.
- 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 – 25 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.

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.

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').

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) (continued)

‘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 sukuk 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

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 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 Sukuks, 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. These are stated at amortised cost using effective profit rate.

iii. Financing receivables

Financing receivables are financial assets with fixed or determinable payments that are not quoted in an active market and principally comprise murabahas, istisna'a, wakala receivables and leased assets. 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 between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Wakala

Wakala is an agreement whereby the Group provides a sum of money to a customer under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the wakala.

Trade receivable

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 sukuk

Sukuk are classified at FVOCI, FVTPL and amortized cost based on the business model in which these securities are managed.

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 payable

These are measured at amortised cost.

ii. Trade payable

Trade payable 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives financial instruments and hedge accounting

i. Derivatives not designated as hedges:

Currency swaps, profit rate swaps, 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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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.

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 Sukuk 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)

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.

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;

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (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
At 31 December 2020

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 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.

<i>Category</i>	<i>Criteria</i>	<i>Specific provisions</i>
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.

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 20 years
▶ Furniture, fixtures and equipment	3 to 5 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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.

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:

▶ License of Islamic brokerage company	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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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.

Fair value measurement

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).

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments (continued)

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). 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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments (continued)

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.

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.

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).

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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

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 criteria 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.

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.

Uncertainty relating to COVID-19

The outbreak of coronavirus ("COVID-19") pandemic across the globe has caused disruption to business and economic activities and uncertainties in the global economic environment. The fiscal and monetary authorities in the geographies in which the Group operate have announced several stimulus packages to the Group's customers, which are in the process of implementation. The Bank has considered potential impacts of the current market volatility in the determination of the reported amounts of the Bank's financial and non-financial assets and are considered to represent management's best assessment based on current observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

3 INVESTMENT (LOSS) / INCOME

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Gain on sale of real estate investments	12,619	17,900
Rental income from investment properties	8,915	11,179
Dividend income	2,459	4,845
(Loss) gain on sale / liquidation of investments	(6,119)	32,636
Share of results of investment in associates and joint ventures (Note 13 and Note 14)	(7,063)	22,408
Others	(17,221)	41,281
	<u>(6,410)</u>	<u>130,249</u>

4 OTHER INCOME

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Income from sale of property and equipment	2,596	2,182
Real estate trading, development and construction income	4,753	4,117
Income from maintenance, services and consultancy	10,687	13,049
Rental income from lease contracts	6,548	7,997
Other income	20,068	13,363
	<u>44,652</u>	<u>40,708</u>

5 PROVISIONS AND IMPAIRMENT

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Expected credit losses for investment in Sukuk (Note 11)	28,378	12,583
Expected credit losses for other financial assets	4,931	3,658
Impairment on financing receivables** (Note 10)	183,667	225,628
Recovery of written-off debts	(26,010)	(40,455)
Impairment of investment properties* (Note 15)	26,512	8,909
Impairment of investment in associates	30,895	-
Impairment of property and equipment	-	1,121
Impairment (reversal) of non-cash facilities (Note 10)	1,311	(26,459)
Impairment of trading properties	581	134
Other provisions and impairment	33,802	11,789
	<u>284,067</u>	<u>196,908</u>

*In view of the adverse impact of COVID-19 pandemic, the Group has recorded impairment of KD 15,000 thousand against the Group's real estate portfolio. This impairment is in addition to impairment recorded against individual investments which was determined based on valuation obtained for these properties.

** During the previous year, the Bank has recorded additional provision of KD 60,000 thousand against financing receivables in its subsidiary in Turkey, in view of the management's negative economic outlook.

6 TAXATION

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	1,365	2,450
National Labour Support Tax (NLST)	2,577	6,485
Zakat	1,547	2,584
Taxation related to subsidiaries	25,173	38,941
	<u>30,662</u>	<u>50,460</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

7 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 by the weighted average number of ordinary shares outstanding during the year net of treasury shares held by the Group.

Basic and diluted earnings per share:	2020	2019
Profit for the year attributable to shareholders of the Bank (thousand KD)	148,399	251,023
Weighted average number of shares outstanding during the year (thousands share)	7,604,099	7,579,022
Basic and diluted earnings per share attributable to the shareholders of the Bank	19.52 fils	33.12 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 22).

8 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	KD 000's	
	2020	2019
Cash	222,389	222,319
Balances with Central Banks	1,761,063	1,043,565
Balances with banks and financial institutions – current accounts	507,349	644,204
Cash and balance with banks and financial institutions	2,490,801	1,910,088
Due from banks within 3 months of contract date	1,681,874	1,366,498
Less: Statutory deposits with Central Banks	(821,116)	(756,584)
Cash and cash equivalents	3,351,559	2,520,002

Statutory deposits with Central Banks represent balances that are not available for use in the Group's day-to-day operations.

9 DUE FROM BANKS

	KD 000's	
	2020	2019
Due from banks	1,351,362	1,695,201
Due from Central Banks	2,013,215	1,950,430
	3,364,577	3,645,631

The fair value of due from banks is not materially different from their respective carrying value.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

10 FINANCING RECEIVABLES

Financing receivables principally comprises of murabaha, wakala, leased assets, istisna'a balances and other receivables. Balances are stated net of impairment as follows:

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
Financing receivables		
Murabaha and wakala	10,477,176	9,176,889
Leased assets	2,138,729	2,003,959
Istisna'a and other receivables	88,407	90,864
	<u>12,704,312</u>	<u>11,271,712</u>
Less: deferred and suspended profit	(1,385,793)	(1,324,815)
Net financing receivables	11,318,519	9,946,897
Less: impairment	(570,983)	(473,145)
	<u>10,747,536</u>	<u>9,473,752</u>

	<i>KD 000's</i>					
	<i>Specific</i>		<i>General</i>		<i>Total</i>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Balance as at beginning of year	123,773	95,968	349,372	278,215	473,145	374,183
Provided during the year (Note 5)	120,519	151,956	63,148	73,672	183,667	225,628
Amounts written off and foreign currency translation	(79,449)	(124,151)	(6,380)	(2,515)	(85,829)	(126,666)
Balance as at end of year	<u>164,843</u>	<u>123,773</u>	<u>406,140</u>	<u>349,372</u>	<u>570,983</u>	<u>473,145</u>

Provision for the year on non-cash facilities is KD 1,311 thousand (2019: reversal of KD 26,459 thousand) (Note 5). The available provision balance on non-cash facilities of KD 16,138 thousand (2019: KD 15,450 thousand) is included under other liabilities (Note 20).

The fair values of financing receivables do not materially differ from their respective book values.

The future minimum lease payments receivable in the aggregate are as follows:

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
Within one year	967,765	998,566
One to five years	372,922	344,167
More than five years	798,042	661,226
	<u>2,138,729</u>	<u>2,003,959</u>

Non-performing financing facilities

As at 31 December 2020, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 263,153 thousand (2019: KD 211,084 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 2020 is KD 587,121 thousand (2019: KD 488,595 thousand) which exceeds the ECL for financing receivables under IFRS 9 by KD 227,587 thousand (2019: KD 125,521 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

11 INVESTMENT IN SUKUK

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
FVOCI	2,191,508	1,943,177
Amortised cost	257,297	133,736
FVTPL	293,295	215,040
	<u>2,742,100</u>	<u>2,291,953</u>

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 sukuk carried at FVTPL).

	<i>KD 000's</i>			
2020	<i>Stage 1 Individual</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
High grade	1,147,233	883,080	-	2,030,313
Standard grade	466,642	-	-	466,642
Gross carrying amount	<u>1,613,875</u>	<u>883,080</u>	<u>-</u>	<u>2,496,955</u>
ECL allowance	<u>(10,609)</u>	<u>(37,541)</u>	<u>-</u>	<u>(48,150)</u>
Carrying value	<u><u>1,603,266</u></u>	<u><u>845,539</u></u>	<u><u>-</u></u>	<u><u>2,448,805</u></u>
				<i>KD 000's</i>
2019	<i>Stage 1 Individual</i>	<i>Stage 2 Individual</i>	<i>Stage 3 Individual</i>	<i>Total</i>
High grade	1,523,839	-	-	1,523,839
Standard grade	572,846	-	-	572,846
Gross carrying amount	<u>2,096,685</u>	<u>-</u>	<u>-</u>	<u>2,096,685</u>
ECL allowance	<u>(19,772)</u>	<u>-</u>	<u>-</u>	<u>(19,772)</u>
Carrying value	<u><u>2,076,913</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,076,913</u></u>

Movement in the gross carrying amount and the corresponding expected credit losses in relation to the Group's investment in Sukuk (excluding sukuk carried at FVTPL) is as follows:

	<i>KD 000's</i>			
2020	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount as at 1 January 2020	2,096,685	-	-	2,096,685
Net movement during the year	(482,810)	883,080	-	400,270
At 31 December 2020	<u>1,613,875</u>	<u>883,080</u>	<u>-</u>	<u>2,496,955</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

11 INVESTMENT IN SUKUK (continued)

<i>2020</i>	<i>KD 000's</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2020	19,772	-	-	19,772
Re-measurements during the year (Note 5)	(9,163)	37,541	-	28,378
At 31 December 2020	10,609	37,541	-	48,150

<i>2019</i>	<i>KD 000's</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount as at 1 January 2019	1,570,550	-	-	1,570,550
Net movement during the year	526,135	-	-	526,135
At 31 December 2019	2,096,685	-	-	2,096,685

<i>2019</i>	<i>KD 000's</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2019	7,189	-	-	7,189
Re-measurements during the year (Note 5)	12,583	-	-	12,583
At 31 December 2019	19,772	-	-	19,772

12 INVESTMENTS

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Equities and funds	176,279	173,946
Venture capital at fair value through profit or loss	16,068	21,057
	192,347	195,003
FVTPL	77,016	85,253
FVTOCI	99,263	88,693
Venture capital at fair value through profit or loss	16,068	21,057
	192,347	195,003

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

13 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	<i>Interest in equity %</i>		<i>Country of registration</i>	<i>Principal activities</i>	<i>Financial statements reporting date</i>
	<i>2020</i>	<i>2019</i>			
Sharjah Islamic Bank P.J.S.C.	18	18	United Arab Emirates	Islamic banking services	30 September 2020
Ibdar Bank B.S.C.	35	35	Bahrain	Islamic banking services	30 September 2020
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	46	46	Kuwait	Aircraft leasing and financing services	30 September 2020

The following table illustrates the summarised aggregate information of the Group associates:

Summarised consolidated statement of financial position:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Assets	6,402,595	5,778,660
Liabilities	(5,388,623)	(4,714,156)
Equity	1,013,972	1,064,504
Carrying amount of the investment	251,195	297,613

Summarised consolidated statement of income:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Revenues	301,358	314,555
Expenses	(290,154)	(260,506)
Profit for the year	11,204	54,049
Group's share of (loss) profit for the year	(424)	12,533

Investments in associates with a carrying amount of KD 214,064 thousand (2019: KD 250,623 thousand) have a market value of KD 166,325 thousand at 31 December 2020 (2019: KD 185,903 thousand) based on published quotes.

Dividends received from the associates during the current year amounted to KD 6,885 thousand (2019: KD 9,584 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

14 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	<i>Interest in equity %</i>		<i>Country of registration</i>	<i>Principal activities</i>	<i>Financial statements reporting date</i>
	<i>2020</i>	<i>2019</i>			
Diyar Homes Company W.L.L (Souq Al Muharraq)	50	50	Bahrain	Real estate development	31 October 2020
Al Durrat Al Tijaria Company W.L.L	50	50	Bahrain	Real estate development	31 October 2020
Diyar Al Muharraq Company W.L.L.	52	52	Bahrain	Real estate development	31 October 2020

The following table illustrates the summarised aggregate information of the Group joint ventures:

Summarised consolidated statement of financial position:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Assets	1,171,977	829,672
Liabilities	(472,505)	(387,186)
Equity	699,472	442,486
Carrying amount of the investment	269,589	206,730

Summarised consolidated statement of income:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Revenues	144,415	72,018
Expenses	(168,885)	(54,284)
(Loss) profit for the year	(24,470)	17,734
Group's share of (loss) profit for the year	(6,639)	9,875

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

15 INVESTMENT PROPERTIES

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
As at 1 January	455,406	489,609
Additions	574	1,406
Transfer to other assets	(3,766)	-
Disposals	(68,534)	(20,315)
Depreciation charge for the year	(6,330)	(6,385)
Impairment (Note 5)	(26,512)	(8,909)
As at 31 December	<u>350,838</u>	<u>455,406</u>

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Developed properties	244,632	343,876
Properties under construction	106,206	111,530
	<u>350,838</u>	<u>455,406</u>

16 OTHER ASSETS

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Precious metals inventory	33,545	111,943
Trade receivable, net	48,006	89,248
Clearing accounts	410,922	130,549
Receivables on sale of investment	1,631	2,104
Deferred tax	43,935	22,538
Advances and prepayments	26,103	55,511
Other miscellaneous assets	163,917	134,889
	<u>728,059</u>	<u>546,782</u>

17 INTANGIBLE ASSETS AND GOODWILL

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Intangible assets	32,390	31,037
Goodwill	-	292
	<u>32,390</u>	<u>31,329</u>

Kuwait Finance House K.S.C.P. and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 At 31 December 2020

17 INTANGIBLE ASSETS AND GOODWILL (continued)

Movement of intangible assets is as follows:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Cost		
As at 1 January	77,091	75,553
Additions	6,874	6,807
Disposal	(6,977)	(3,330)
Foreign exchange translation	(3,348)	(1,939)
As at 31 December	73,640	77,091
Accumulated amortization		
As at 1 January	46,054	44,665
Charge for the year	2,311	3,963
Disposals	(5,157)	(517)
Foreign exchange translation	(1,958)	(2,057)
As at 31 December	41,250	46,054
Net book value		
As at 31 December	32,390	31,037

Intangible asset includes license of an Islamic brokerage company amounting to KD 14,671 thousand (2019: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the Islamic brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the license has been determined using a discount rate of 9.3% (2019: 8.8%) and a terminal growth rate of 2.5% (2019: 2.7%). As a result, the management believes there are no indications of any impairment in value. Other intangible assets amounting to KD 17,719 thousand (2019: KD 16,366 thousand) represent software development cost, software license right and other rights with finite useful lives. Intangible assets with finite lives are amortised over their useful economic life.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

18 SUBSIDIARIES

18.1 Details of principal operating material subsidiaries

Name	Country of registration	Interest in equity %		Principal activity	Financial statements reporting date
		2020	2019		
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	31 December 2020
Kuwait Finance House B.S.C.	Bahrain	100	100	Islamic banking services	31 December 2020
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	31 December 2020
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	100	100	Islamic investment	31 December 2020
KFH Capital Investments Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Islamic finance and investments	31 October 2020
KFH Private Equity Ltd	Cayman Islands	100	100	Islamic investments	31 December 2020
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Real estate development and leasing	31 October 2020
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	56	56	Real estate, investment, trading and real estate management	31 October 2020
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Infrastructure and industrial investment	31 December 2020
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real estate development and investment	30 September 2020
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy and software services	30 September 2020
Gulf International Automobile Trading Company K.S.C. (Closed) *	Kuwait	99.6	99.6	Trading, import and export of used cars	30 September 2020
E'amar	Cayman Islands	100	100	Islamic investments	31 December 2020
Al Salam Hospital K.S.C. (Closed)	Kuwait	76	76	Healthcare services	30 September 2020
Muthana GCC Islamic Banks Fund	Kuwait	88	87	Islamic equity investments	30 September 2020
Turkapital Holding B.S.C.(C)	Bahrain	51	51	Real estate, auto leasing and insurance	30 September 2020

* Effective ownership percentage is 100% (2019: 100%).

Kuwait Finance House K.S.C.P. and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 At 31 December 2020

18 SUBSIDIARIES (continued)

18.2 Material partly-owned subsidiary

Financial information of subsidiary that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	<i>Country of incorporation & operation</i>	<i>Non-controlling interest percentage</i>	
		<i>2020</i>	<i>2019</i>
Kuwait Turkish Participation Bank	Turkey	38%	38%

The summarised financial information of the subsidiary is provided below. This information is based on amounts before intra-Group eliminations and adjustments.

Summarised consolidated statement of income for the year ended:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Revenues	498,934	508,298
Expenses	(373,222)	(433,734)
Profit for the year	125,712	74,564
Profit attributable to non-controlling interest	47,469	28,155

Summarised consolidated statement of financial position as at:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Total assets	6,423,374	5,481,274
Total liabilities	(5,992,945)	(5,064,630)
Total equity	430,429	416,644
Attributable to non-controlling interests	162,530	157,325

Summarised consolidated statement of cash flows for year ended:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Operating	470,592	716,577
Investing	(419,929)	(647,285)
Financing	(13,238)	(216,646)
Net increase (decrease) in cash and cash equivalents	37,425	(147,354)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

19 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.

20 OTHER LIABILITIES

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
Trade payables	221,726	196,929
Accrued expenses	185,817	174,817
Certified cheques	66,934	57,578
Due to customers for contract work	34,223	31,652
Employees' end of service benefits	78,205	76,104
Refundable deposits	4,586	5,897
Provision on non-cash facilities (Note 10)	16,138	15,450
Other miscellaneous liabilities	206,732	289,280
	<u>814,361</u>	<u>847,707</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

21 RESERVES

	<i>KD 000's</i>							
	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
Balance as at 1 January 2020	324,875	310,127	55,137	11,899	51,815	(263,569)	(19,376)	470,908
Profit for the year	-	-	148,399	-	-	-	-	148,399
Other comprehensive income (loss)	-	-	-	-	16,910	(41,946)	-	(25,036)
Total comprehensive income (loss)	-	-	148,399	-	16,910	(41,946)	-	123,363
Zakat	-	(19,943)	-	-	-	-	-	(19,943)
Transfer to reserves	15,450	15,450	(30,900)	-	-	-	-	-
Proposed issuance of bonus shares (Note 23)	-	(76,741)	-	-	-	-	-	(76,741)
Proposed cash dividends (Note 23)	-	-	(76,093)	-	-	-	-	(76,093)
Share based payments (Note 24)	-	-	-	-	-	-	4	4
Transfer of fair value reserve of equity investment at FVOCI	-	-	1,792	-	(1,792)	-	-	-
Gain on partial sale of subsidiary	-	-	-	-	-	-	234	234
Acquisition of Non controlling interest	-	-	-	-	-	-	(4,633)	(4,633)
Modification loss on financing receivables *	-	-	(95,631)	-	-	-	-	(95,631)
Group share of distribution to Tier 1 Sukuk of an associate	-	-	(1,398)	-	-	-	-	(1,398)
Net movement in treasury shares	-	-	-	3,129	-	-	-	3,129
Balance as at 31 December 2020	340,325	228,893	1,306	15,028	66,933	(305,515)	(23,771)	323,199

* Represents the modification loss on financial assets arising from payment holidays provided to specified customers, including waiver of any resultant additional profits and fees during this period, which is recorded as a reduction from retained earnings, in accordance with instructions issued by the central banks of respective jurisdictions in which the Group operates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

21 RESERVES (continued)

	<i>KD 000's</i>							
	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
Balance as at 1 January 2019	298,527	298,527	64,927	6,947	(14,715)	(238,293)	(20,642)	395,278
Profit for the year	-	-	251,023	-	-	-	-	251,023
Other comprehensive income (loss)	-	-	-	-	66,309	(25,276)	-	41,033
Total comprehensive income (loss)	-	-	251,023	-	66,309	(25,276)	-	292,056
Zakat	-	(14,748)	-	-	-	-	-	(14,748)
Transfer to reserves	26,348	26,348	(52,696)	-	-	-	-	-
Proposed issuance of bonus shares (Note 23)	-	-	(69,765)	-	-	-	-	(69,765)
Proposed cash dividends (Note 23)	-	-	(137,980)	-	-	-	-	(137,980)
Share based payments (Note 24)	-	-	-	-	-	-	1,000	1,000
Transfer of fair value reserve of equity investment at FVOCI	-	-	(221)	-	221	-	-	-
Gain on partial sale of subsidiary	-	-	-	-	-	-	266	266
Group share of distribution to Tier 1 Sukuk of an associate	-	-	(151)	-	-	-	-	(151)
Net movement in treasury shares	-	-	-	4,952	-	-	-	4,952
Balance as at 31 December 2019	324,875	310,127	55,137	11,899	51,815	(263,569)	(19,376)	470,908

At 31 December 2020

21 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 27,739 thousand (2019: KD 36,243 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 22).

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.

Share premium

The share premium balance is not available for distribution.

Other reserves

Fair value reserve, foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

22 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the Bank's shareholders held on 13 April 2020 approved to distribute bonus shares of 10% (2018: 10%) of the issued, and fully paid share capital, and cash dividends of 20 fils per share (2018: 20 fils per share) to the Bank's shareholders, for the year ended 31 December 2019 (Note 23).

The Extra-ordinary general assembly of the Bank's shareholders held on 13 April 2020 also approved to increase the authorised share capital to be comprised of 11,874,138,122 shares (31 December 2019: 6,976,489,202) shares of 100 fils each.

Share capital

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
Issued and fully paid in cash and bonus shares: 7,674,138,122 (2019: 6,976,489,202) shares of 100 fils each	<u>767,414</u>	<u>697,649</u>
The movement in ordinary shares in issue during the year was as follows:		
	<i>2020</i>	<i>2019</i>
Number of shares in issue as at 1 January	6,976,489,202	6,342,262,911
Bonus shares issued	697,648,920	634,226,291
Number of shares in issue 31 December	<u>7,674,138,122</u>	<u>6,976,489,202</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

22 SHARE CAPITAL AND TREASURY SHARES (continued)

Treasury shares and treasury share reserve.

The Group held the following treasury shares at the year-end:

	2020	2019
Number of treasury shares	64,882,159	77,469,236
Treasury shares as a percentage of total shares in issue	0.8%	1.11%
Cost of treasury shares (KD thousand)	27,739	36,243
Market value of treasury shares (KD thousand)	43,860	62,828

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 2020 was 665 fils (2019: 698 fils) per share.

23 PROPOSED CASH DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 10% for the year ended 31 December 2020 (2019: 20%) and issuance of bonus shares of 10 % (2019: 10%) of paid up share capital as follows:

	2020		2019	
		<i>Total</i> <i>KD 000's</i>		<i>Total</i> <i>KD 000's</i>
Proposed cash dividends (per share)	10 fils	76,093	20 fils	137,980
Proposed issuance of bonus shares (per 100 shares)	10 shares	76,741	10 shares	69,765

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 608 thousand (2019: KD 942 thousand), (Note 27) 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.

24 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.

25 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:

	<i>KD 000's</i>	
	2020	2019
Acceptances and letters of credit	159,067	140,041
Letter of guarantees	1,402,288	1,556,923
Contingencies	1,561,355	1,696,964
	<i>KD 000's</i>	
	2020	2019
Capital commitments and others	306,005	356,144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

26 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS (“ISLAMIC 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”) to mitigate foreign currency and profit rate risk. 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 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.

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.

	<i>KD 000's</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2020			
Forward contracts	4,834	1,277	395,964
Profit rate swaps	-	26,008	216,426
Currency swaps	16,150	46,474	2,281,253
Embedded precious metals	-	216	351,243
	<u>20,984</u>	<u>73,975</u>	<u>3,244,886</u>
	<i>KD 000's</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2019			
Forward contracts	1,165	1,966	670,811
Profit rate swaps	-	14,402	227,378
Currency swaps	12,083	15,157	1,810,765
Embedded precious metals	-	444	231,950
	<u>13,248</u>	<u>31,969</u>	<u>2,940,904</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

26 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS (“ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS”) (continued)

In respect of 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:

	<i>KD 000's</i>			
	<i>Notional amount</i>	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>More than 12 months</i>
31 December 2020				
Cash inflows	3,244,886	1,350,331	1,321,226	573,329
Cash outflows	(2,940,818)	(1,362,276)	(1,180,731)	(397,811)
Net cash flows	304,068	(11,945)	140,495	175,518
31 December 2019				
Cash inflows	2,940,904	1,108,385	1,190,769	641,750
Cash outflows	(2,702,252)	(1,111,384)	(1,062,126)	(528,742)
Net cash flows	238,652	(2,999)	128,643	113,008

27 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:

	<i>KD 000's</i>					
	<i>Total</i>					
	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Board Members and executive Officers</i>	<i>Other related party</i>	<i>2020</i>	<i>2019</i>
Financing income	-	7,720	66	48	7,834	8,264
Fee and commission income	-	26	178	86	290	300
Finance costs and distribution to depositors	13,742	604	89	471	14,906	34,640

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

	<i>KD 000's</i>					
	<i>Total</i>					
	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Board Members and executive Officers</i>	<i>Other related party</i>	<i>2020</i>	<i>2019</i>
Financing receivables	-	204,542	2,721	1,043	208,306	250,997
Due to banks and financial institutions	1,099,311	36,411	-	-	1,135,722	900,105
Depositors' accounts	-	24,945	14,253	18,411	57,609	118,726
Contingencies and commitments	486	11,044	-	272	11,802	14,181

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

27 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of Board Members and Executive Officers are as follows:

	<i>The number of board members or executive officers</i>		<i>The number of related parties (Relatives of board members or executive officers)</i>		<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Board Members						
Finance facilities	25	24	23	10	1,120	2,296
Depositors' accounts	53	47	123	75	19,364	12,387
Collateral against financing facilities	1	4	3	1	2,362	2,624
Executive officers						
Finance facilities	68	70	14	21	2,422	1,927
Depositors' accounts	81	79	111	108	11,585	11,138
Collateral against financing facilities	7	8	3	4	2,708	2,815

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:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
	<i>Total</i>	
	<i>2020</i>	<i>2019</i>
Salaries, allowances and bonuses of key management personnel	13,340	16,625
Termination and long-term benefits of key management personnel	1,008	1,079
Board of directors remuneration *	1,876	1,858
	<u>16,224</u>	<u>19,562</u>

* Board of director's remuneration include amount of KD 608 thousand (2019: KD 942 thousand) related to the Bank. The board of director's remuneration is subject to the approval of the Annual General Assembly (Note:23).

28 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 Sukuk, 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
Corporates 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

28 SEGMENTAL ANALYSIS (continued)

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
31 December 2020					
Total assets	<u>7,772,344</u>	<u>6,520,157</u>	<u>5,640,019</u>	<u>1,569,794</u>	<u>21,502,314</u>
Total liabilities	<u>3,692,572</u>	<u>12,270,709</u>	<u>2,980,421</u>	<u>457,214</u>	<u>19,400,916</u>
Operating income	<u>110,855</u>	<u>339,712</u>	<u>265,959</u>	<u>79,070</u>	<u>795,596</u>
Provisions and impairment	<u>(27,821)</u>	<u>(13,768)</u>	<u>(141,887)</u>	<u>(100,591)</u>	<u>(284,067)</u>
Profit (loss) for the year	<u>68,539</u>	<u>151,227</u>	<u>57,374</u>	<u>(92,918)</u>	<u>184,222</u>
					<i>KD 000's</i>
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
31 December 2019					
Total assets	<u>6,433,023</u>	<u>6,085,972</u>	<u>4,978,542</u>	<u>1,893,321</u>	<u>19,390,858</u>
Total liabilities	<u>2,990,037</u>	<u>10,836,616</u>	<u>2,624,440</u>	<u>696,390</u>	<u>17,147,483</u>
Operating income	<u>100,119</u>	<u>301,044</u>	<u>230,580</u>	<u>182,659</u>	<u>814,402</u>
Provisions and impairment	<u>(1,935)</u>	<u>(15,113)</u>	<u>(78,810)</u>	<u>(101,050)</u>	<u>(196,908)</u>
Profit (loss) for the year	<u>83,244</u>	<u>114,756</u>	<u>79,610</u>	<u>(15,789)</u>	<u>261,821</u>

Secondary segment information

The Group operates in different geographical areas. A geographical analysis is as follows:

	<i>KD 000's</i>					
	<i>Assets</i>		<i>Contingencies and capital commitments</i>			
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>		
Geographical areas:						
Middle East	<u>13,663,791</u>	12,838,248	<u>578,862</u>	663,574		
Europe	<u>6,553,652</u>	5,360,817	<u>1,248,097</u>	1,278,971		
Other	<u>1,284,871</u>	1,191,793	<u>40,401</u>	110,563		
	<u>21,502,314</u>	<u>19,390,858</u>	<u>1,867,360</u>	<u>2,053,108</u>		
				<i>KD 000's</i>		
	<i>Local</i>		<i>International</i>		<i>Total</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Operating income	<u>336,732</u>	368,953	<u>458,864</u>	445,449	<u>795,596</u>	814,402
Profit for the year	<u>69,472</u>	191,671	<u>114,750</u>	70,150	<u>184,222</u>	261,821

29 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 level of risk that the Bank’s Board of Directors are willing to accept.

Risk mitigation

As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (within accepted Shari’a products) to manage exposures and emerging risks resulting from changes in yields, foreign currencies and, equity risks. 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 (Shari’a compliance) is used within the Bank to manage risk concentrations 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.

30 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 individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established credit quality review process 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 revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which is exposed to and take corrective actions.

30 CREDIT RISK (continued)

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 externally rated exposures with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikelihood 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 account of all aspects of perceived risk. The Group uses Moody's Risk Analyst (MRA) as its internal credit-rating engine. The MRA tool provides 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 are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

30 CREDIT RISK (continued)*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.

		<i>KD 000' s</i>	
	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Balances with banks and financial institutions	8	2,268,412	1,687,769
Due from banks	9	3,364,577	3,645,631
Financing receivables	10	11,318,519	9,946,897
Investment in Sukuk	11	2,790,250	2,311,725
Trade and other receivables		239,657	281,752
Total		19,981,415	17,873,774
Contingencies	25	1,561,355	1,696,964
Commitments	25	306,005	356,144
Total		1,867,360	2,053,108
Total credit risk exposure		21,848,775	19,926,882

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.

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 2020 was KD 202,565 thousand (2019: KD 240,031 thousand) before taking account of any collaterals.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

30 CREDIT RISK (continued)

The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	<i>KD 000's</i>			
	<i>Middle East</i>	<i>Europe</i>	<i>Others</i>	<i>Total</i>
31 December 2020				
Balances with banks and financial institutions	1,060,674	871,317	336,421	2,268,412
Due from banks	2,989,878	363,731	10,968	3,364,577
Financing receivables	7,682,848	3,263,070	372,601	11,318,519
Investment in Sukuk	929,922	1,456,116	404,212	2,790,250
Trade and other receivables	197,010	37,571	5,076	239,657
	12,860,332	5,991,805	1,129,278	19,981,415
31 December 2019				
Balances with banks and financial institutions	553,112	875,738	258,919	1,687,769
Due from banks	3,042,698	578,311	24,622	3,645,631
Financing receivables	6,902,224	2,645,819	398,854	9,946,897
Investment in Sukuk	959,253	1,054,292	298,180	2,311,725
Trade and other receivables	207,236	73,420	1,096	281,752
	11,664,523	5,227,580	981,671	17,873,774

An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Trading and manufacturing	4,634,999	4,383,273
Banks and financial institutions	8,830,573	7,667,028
Construction and real estate	2,908,069	2,797,710
Other	3,607,774	3,025,763
	19,981,415	17,873,774

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

30 CREDIT RISK (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets before impairment for consolidated statement of financial position lines. 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'.

	<i>KD 000's</i>			
	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>		
31 December 2020				
Balances with banks and financial institutions	2,268,412	-	-	2,268,412
Due from banks	3,364,577	-	-	3,364,577
Financing receivables (Note 10)	8,866,699	1,437,074	1,014,746	11,318,519
Investment in Sukuk	1,907,170	883,080	-	2,790,250
Trade and other receivables	239,657	-	-	239,657
	<u>16,646,515</u>	<u>2,320,154</u>	<u>1,014,746</u>	<u>19,981,415</u>
				<i>KD 000's</i>
	<i>Neither past due nor impaired</i>		<i>Past due or impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>		
31 December 2019				
Balances with banks and financial institutions	1,687,769	-	-	1,687,769
Due from banks	3,645,631	-	-	3,645,631
Financing receivables (Note 10)	8,014,945	1,156,628	775,324	9,946,897
Investment in Sukuk	1,738,883	572,842	-	2,311,725
Trade and other receivables	281,752	-	-	281,752
	<u>15,368,980</u>	<u>1,729,470</u>	<u>775,324</u>	<u>17,873,774</u>

Aging analysis of past due but not impaired finance facilities by class of financial assets:

	<i>KD 000's</i>			
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
31 December 2020				
Financing receivables	<u>537,157</u>	<u>93,942</u>	<u>120,494</u>	<u>751,593</u>
31 December 2019				
Financing receivables	<u>318,362</u>	<u>113,611</u>	<u>132,267</u>	<u>564,240</u>

30 CREDIT RISK (continued)

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.

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 2020 was KD 482,833 thousand (2019: KD 281,072 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee and real estate assets.

31 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

31 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2020 is as follows:

	<i>KD 000's</i>			
	<i>Up to 3 months</i>	<i>3 to 12 months</i>	<i>After one year</i>	<i>Total</i>
<i>Assets</i>				
Cash and balances with banks and financial institutions	2,452,462	3,368	34,971	2,490,801
Due from banks	2,504,817	716,653	143,107	3,364,577
Financing receivables	2,035,075	2,653,981	6,058,480	10,747,536
Investment in Sukuk	462,993	304,698	1,974,409	2,742,100
Trading properties	13,950	15,012	73,433	102,395
Investments	6,461	9,876	176,010	192,347
Investment in associates and joint ventures	880	11,277	508,627	520,784
Investment properties	7,120	55,663	288,055	350,838
Other assets	127,046	36,945	564,068	728,059
Intangible assets and goodwill	-	-	32,390	32,390
Property and equipment	-	-	230,487	230,487
	<u>7,610,804</u>	<u>3,807,473</u>	<u>10,084,037</u>	<u>21,502,314</u>
<i>Liabilities</i>				
Due to banks and financial institutions	1,510,245	1,087,767	356,103	2,954,115
Sukuk payables	98,312	120,349	96,444	315,105
Depositors' accounts	11,173,859	717,892	3,425,584	15,317,335
Other liabilities	162,916	141,076	510,369	814,361
	<u>12,945,332</u>	<u>2,067,084</u>	<u>4,388,500</u>	<u>19,400,916</u>

The maturity profile of assets and undiscounted liabilities at 31 December 2019 is as follows:

	<i>KD 000's</i>			
	<i>Up to 3 months</i>	<i>3 to 12 months</i>	<i>After one year</i>	<i>Total</i>
<i>Assets</i>				
Cash and balances with banks and financial institutions	1,873,319	5,388	31,381	1,910,088
Due from banks	2,505,967	1,006,429	133,235	3,645,631
Financing receivables	2,239,235	2,302,324	4,932,193	9,473,752
Investment in Sukuk	33,020	278,823	1,980,110	2,291,953
Trading properties	9,301	8,477	89,835	107,613
Investments	5,934	19,352	169,717	195,003
Investment in associates and joint ventures	-	-	504,343	504,343
Investment properties	2,627	10,706	442,073	455,406
Other assets	132,657	46,529	367,596	546,782
Intangible assets and goodwill	-	-	31,329	31,329
Property and equipment	-	-	228,958	228,958
	<u>6,802,060</u>	<u>3,678,028</u>	<u>8,910,770</u>	<u>19,390,858</u>
<i>Liabilities</i>				
Due to banks and financial institutions	1,342,297	703,667	381,202	2,427,166
Sukuk payables	38,916	59,599	221,450	319,965
Depositors' accounts	9,493,294	901,524	3,157,827	13,552,645
Other liabilities	148,997	123,603	575,107	847,707
	<u>11,023,504</u>	<u>1,788,393</u>	<u>4,335,586</u>	<u>17,147,483</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

31 LIQUIDITY RISK (continued)

The table below shows the contractual expiry by maturity of the Group's contingencies and commitments:

	<i>KD 000's</i>			
	<i>Up to 3 months</i>	<i>3 to 12 months</i>	<i>Over 1 year</i>	<i>Total</i>
2020				
Contingencies (Note 25)	510,993	323,811	726,551	1,561,355
Capital commitments (Note 25)	16,678	47,435	241,892	306,005
Total	527,671	371,246	968,443	1,867,360
2019				
Contingencies (Note 25)	556,954	361,616	778,394	1,696,964
Capital commitments (Note 25)	38,091	92,808	225,245	356,144
Total	595,045	454,424	1,003,639	2,053,108

The Group expects that the vast majority of all the contingencies or capital commitments will not be drawn before expiry of the commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

32 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

In accordance with the provisions of Islamic Shari'a, 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.

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 2020 and 31 December 2019 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).

<i>Currency</i>	<i>31 December 2020</i>			<i>31 December 2019</i>		
	<i>Change in</i>	<i>Effect on</i>	<i>Effect on</i>	<i>Change in</i>	<i>Effect on</i>	<i>Effect on fair</i>
	<i>currency</i>	<i>profit</i>	<i>fair value</i>	<i>currency</i>	<i>profit</i>	<i>value reserve</i>
	<i>rate</i>		<i>reserve</i>	<i>rate</i>		
	<i>%</i>			<i>%</i>		
U.S. Dollars	+1	713	35	+1	1,212	45
Bahraini Dinar	+1	(913)	112	+1	(1,001)	125

Price risk

This is the risk arising from the fluctuation in the market value of investments in– equity Sukuk, 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:

<i>Market indices</i>	<i>2020</i>		<i>2019</i>	
	<i>Change in equity</i>	<i>Effect on</i>	<i>Change in</i>	<i>Effect on fair</i>
	<i>price</i>	<i>fair value</i>	<i>equity price</i>	<i>value reserve</i>
	<i>%</i>	<i>reserve</i>	<i>%</i>	
Boursa Kuwait	+1	196	+1	85
Other GCC indices	+1	102	+1	161

At 31 December 2020

32 MARKET RISK (continued)**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.

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 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:

Capital adequacy	<i>KD 000's</i>	
	<i>2020</i>	<i>2019</i>
Risk Weighted Assets	13,356,763	13,192,800
Capital required	1,669,595	1,978,920
Capital available		
Tier 1 capital	2,133,231	2,124,702
Tier 2 capital	208,266	206,905
Total capital	2,341,497	2,331,607
Tier 1 capital adequacy ratio	15.97%	16.11 %
Total capital adequacy ratio	17.53%	17.67 %

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

33 CAPITAL MANAGEMENT (continued)

The Group's financial leverage ratio for the year ended 31 December 2020 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

	<i>KD 000's</i>	
	<u>2020</u>	<u>2019</u>
Tier 1 capital	2,133,231	2,124,702
Total exposure	24,763,472	22,279,223
Financial leverage ratio	8.61%	9.54%

34 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2020 amounted to KD 1,298,877 thousand (2019: KD 1,042,413 thousand).

Fees and commission income include fees of KD 4,108 thousand (2019: KD 4,313 thousand) arising from trust and fiduciary activities.

35 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 2020.

	<i>KD 000's</i>			
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at FVTPL (Note 12)	-	16,068	-	16,068
Equities at FVTPL (Note 12)	6,737	37,420	32,859	77,016
Equities at FVOCI (Note 12)	31,434	-	67,829	99,263
Sukuk at FVTPL (Note 11)	293,295	-	-	293,295
Sukuk at FVTOCI (Note 11)	2,106,827	-	84,681	2,191,508
<i>Derivative financial assets:</i>				
Forward contracts	-	4,834	-	4,834
Currency swaps	-	16,150	-	16,150
Non-financial assets:				
Investment properties	-	440,270	-	440,270
	<u>2,438,293</u>	<u>514,742</u>	<u>185,369</u>	<u>3,138,404</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

35 FAIR VALUES (continued)

	<i>KD 000's</i>			
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,277	-	1,277
Profit rate swaps	-	26,008	-	26,008
Currency swaps	-	46,474	-	46,474
Embedded precious metals	-	216	-	216
	<u>-</u>	<u>73,975</u>	<u>-</u>	<u>73,975</u>

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2019.

	<i>KD 000's</i>			
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at FVTPL (Note 12)	-	21,057	-	21,057
Equities at FVTPL (Note 12)	6,975	50,858	27,420	85,253
Equities at FVOCI (Note 12)	29,330	-	59,363	88,693
Sukuk at FVTPL (Note 11)	215,040	-	-	215,040
Sukuk at FVTOCI (Note 11)	1,828,161	-	115,016	1,943,177
<i>Derivative financial assets:</i>				
Forward contracts	-	1,165	-	1,165
Currency swaps	-	12,083	-	12,083
<i>Non-financial assets:</i>				
Investment properties	-	535,375	-	535,375
	<u>2,079,506</u>	<u>620,538</u>	<u>201,799</u>	<u>2,901,843</u>

	<i>KD 000's</i>			
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,966	-	1,966
Profit rate swaps	-	14,402	-	14,402
Currency swaps	-	15,157	-	15,157
Embedded precious metals	-	444	-	444
	<u>-</u>	<u>31,969</u>	<u>-</u>	<u>31,969</u>

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 Sukuk of KD 84,681 thousand (2019: KD 115,016 thousand) and unquoted equity investments of KD 100,688 thousand (2019: KD 86,783 thousand). Investment in Sukuk included in this category represent Investment in Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Investment in Sukuk are estimated using discounted cash flow method using discount rate ranging from 1.9% to 9.3% (2019: 2.1% to 7.6%). 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

35 FAIR VALUES (continued)

Instruments disclosed in note 26 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 (i.e. Reuters, Bloomberg, FinCAD, etc).

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 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 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:

	<u>2020</u>	<u>KD 000's</u> 2019
As at 1 January	201,799	393,189
Re-measurement	52	(10,900)
Disposal, net	(16,482)	(180,490)
As at 31 December	<u>185,369</u>	<u>201,799</u>