بيت التمويل الكويتي
Kuwait Finance House

Annual Report

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

2023

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

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

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

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

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

His Highness Sheikh
Dr. Mohammad Sabah Al-Salem Al-Sabah
The Prime Minister

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Kuwait Finance House (KFH)

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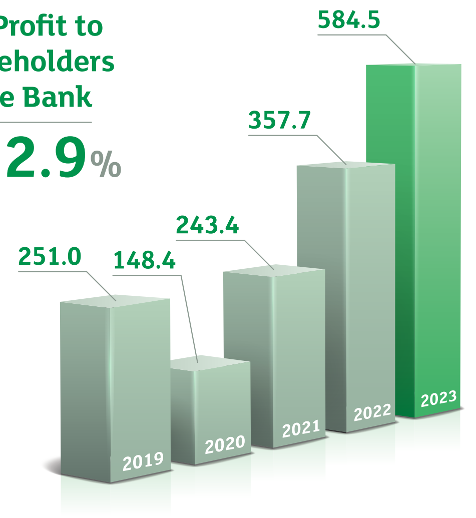
Financial Indicators

Financial Indicators

Million KWD

Net Profit to Shareholders of the Bank

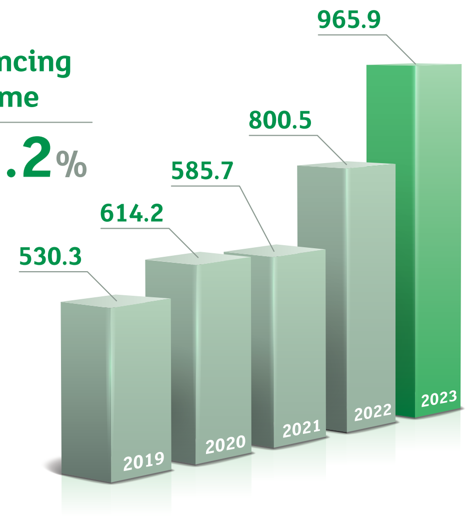
132.9%



Million KWD

Net Financing Income

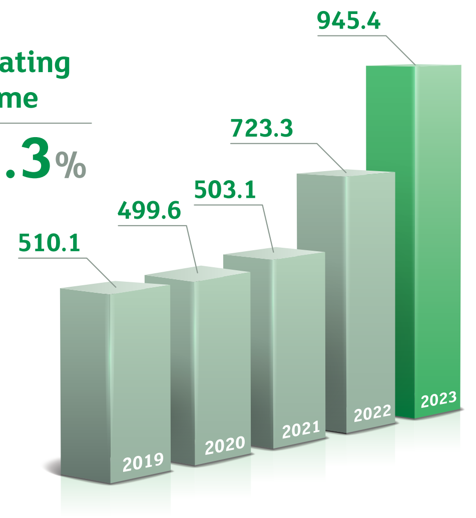
82.2%



Million KWD

Net Operating Income

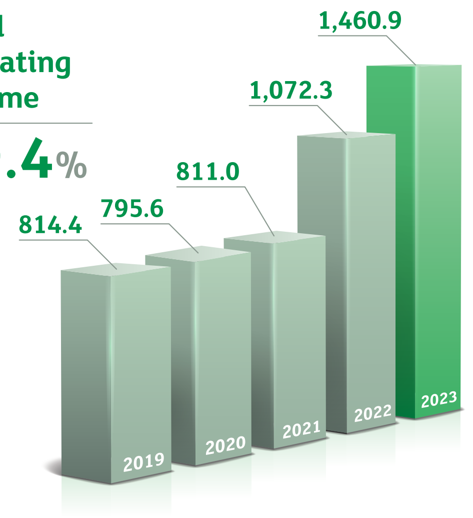
85.3%



Million KWD

Total Operating Income

79.4%

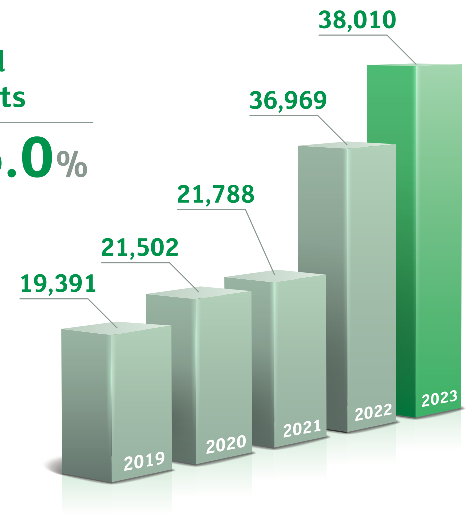


* Growth Ratio reflects the change in 2023 statements compared to 2019

Million KWD

Total Assets

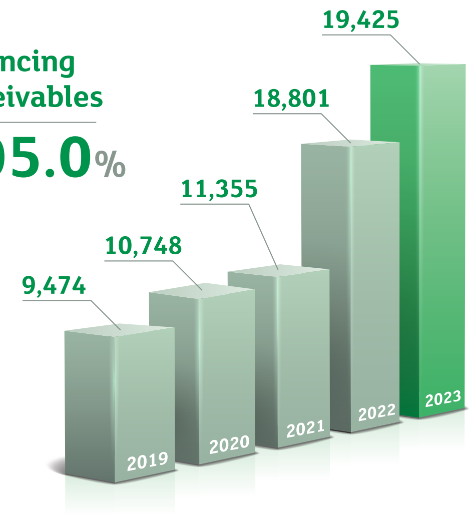
96.0%



Million KWD

Financing Receivables

105.0%



Million KWD

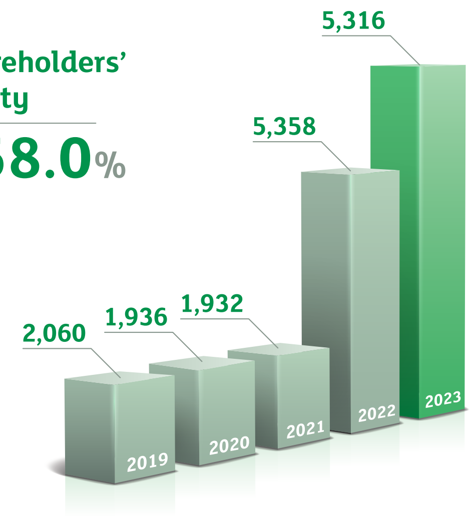
Depositors' Accounts

72.1%

Million KWD

Shareholders' Equity

158.0%



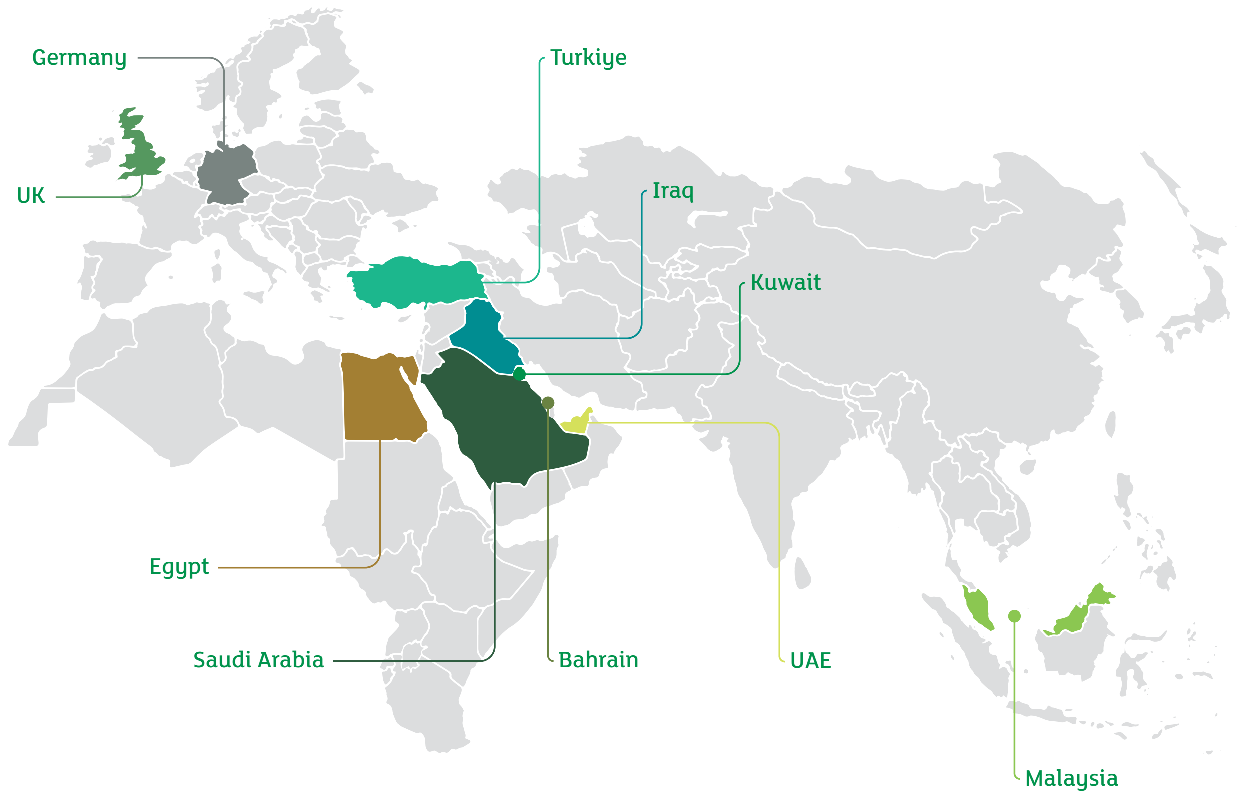
* Growth Ratio reflects the change in 2023 statements compared to 2019

KFH Group Overview

KFH Group Overview

Global Integrated Operations

KFH Group leads Islamic finance globally, where it provides various Islamic financial products and services as it operates in several regions around the world as it has 628 banking branches, 2,223 ATMs and 17,865 employees.



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

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

Vision

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

Mission

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

Values

Leadership
Accountability
Partnership

Chairman's Message

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

Dear Esteemed Shareholders,
Assalamu Alaikum Warahmatu Allah Wabarakatu

On behalf of myself and my fellow members of the Board of Directors of Kuwait Finance House (KFH), I would like to present to you the 2023 KFH Group Annual Report including major achievements, consolidated financial statements, and other reports.

During the past year, KFH continued its strategy of previous years, resulting in achieving remarkable financial performance and launching numerous products, services and initiatives that contributed to maintaining KFH's leadership and meeting customers' needs and satisfaction as one of our ultimate objectives. I can honestly say that, during 2023, we succeeded in attaining the key objectives of our strategy, overcoming the various difficulties of the operational environment, and various challenges.

In 2023, our strategic plans proved successful, bolstering our leading position. This success notably facilitated KFH Group's transition to a new pivotal phase. A significant milestone was the regional expansion through the acquisition of Ahli United Bank - Bahrain achieved within its first year of launch. This accomplishment stands as a source of pride, aligning with our sustainable goals and yielding positive outcomes, such as an increased market capitalization of the Group. KFH ascended to become Kuwait's largest bank and the world's second-largest Islamic bank, attaining the highest local market capitalization. Our services expanded into new strategic markets such as the UK, UAE, and Egypt, among others.

We successfully completed the conversion of all conventional banking services at Ahli United Bank (AUB) – Bahrain to be compliant with Shari'a principles. On December 10, 2023, the bank officially received the approval from the Central Bank of Bahrain (CBB) as a licensed Islamic Bank. We take great pride in completing the conversion of AUB – Bahrain from a conventional to an Islamic bank in a timely manner. AUB will offer an integrated range of products and services that are compliant with the provisions and principles of Shari'a, including retail and corporate services, saving and investment products, in addition to trade finance and wealth management solutions.

Despite rapid environmental changes, we remain optimistic about directing our financial resources to promising investment opportunities. This approach aims to sustainably enhance the wealth of our customers and shareholders and contribute to economic and social development.

Amidst the worldwide economic deceleration, KFH recognizes the importance of maintaining the robustness of its balance sheet to enhance its flexibility and capacity for the long run. KFH also maintains a solid capital reserve, capitalizing on the abundant liquidity ratios and an ongoing diversification in financing. Consequently, the primary emphasis persists on bolstering and strengthening the Group's financial position.

KFH achieved top-tier levels and profit rates within the banking sector. Furthermore, it has secured the highest returns across all key indicators. Our commitment to enhance the capital base and the capital adequacy ratio, asset quality, rationalize expenses, develop operating profits, as well as boost and diversify revenues, resulted in robust financial strength, efficiency, and a well-balanced sustainable growth across all balance sheet items.

Following the successful completion of the acquisition project of AUB – Bahrain, KFH proceeded with a proposal of merger by amalgamation with Ahli United Bank – Kuwait. The Extraordinary General Assembly of both parties approved the merger decision, thus finalizing the steps as per the approved plans and procedures.

On the other hand, KFH excelled in introducing various innovative banking services, products, and solutions, marking an unprecedented success in its digital transformation strategy. This success was capped off by the launch of Tam Digital Bank; first Shari'a-compliant digital bank in Kuwait. The innovation journey continued around creating financial solutions that are geared towards customers' aspirations and needs. The Information Technology department (IT) executed over 100 projects for banking and financing services, products, and practices encompassing various business aspects. The projects also involved developing the technological infrastructure, cybersecurity measures, in addition to boosting the adoption of Artificial Intelligence (AI) and the collaboration with Fintech providers.

KFH was also at the forefront in launching several digital services in Kuwait. These services included the detecting biometric facial features in branches, instant printing for all types of cards, Zaheb digital platform and KFHonline for corporates, in addition to the transfer service from a prepaid card to the account, five digital portfolios to facilitate e-payment, and D-POS device for instant opening of bank accounts.

KFH has also collaborated with Western Union to offer co-branded international money transfer services. It also enabled their customers to view their account balances in KFH – Türkiye. Additionally, the formation of "high-performance teams" had a positive impact on expediting the completion of KFH's projects in technology and digital transformation.

In recognition of its digital transformation excellence, Euromoney Magazine ranked KFH as a Market Leader in digital solutions.

In addition to KFH's solid pillars, we continued our precautionary approach in managing risks, prioritizing this approach in 2023 as a response to the geopolitical developments in the region and the world which would impact the operational environment in the markets where we operate. As a result of this approach, KFH maintained a consistent growth in its financing and deposits portfolio accompanied by good progress in various performance indicators. This aligns with our medium and long-term expectations, reflecting a stable policy and signifying customers' trust in KFH's product and brand quality, which we work on solidifying to maintain its growth momentum comprehensively and across all aspects.

KFH succeeded in launching a new generation of digital banking services as part of the Bank's approach towards digitizing all its businesses, services, and products and facilitating the ways in which these services and products are accessed. This was achieved through KFHonline (mobile application and website), XTM and ATM devices as well as KFH Go branches, shifting customers' experience from the traditional channels for transactions and basic services into KFH's digital channels.

Regarding the financial results, KFH, by the grace of Allah, reported a net profit for its shareholders of KD 584.5 million up to the end of 2023, an increase of 63.4% compared to last year. Earnings per share reached 38.49 Fils; an increase of 29.6% compared to last year.

Net financing income increased to 965.9 million; an increase of 20.7% compared to last year.

Net operating income increased to 945.4 million; an increase rate of 30.7% compared to last year.

Total assets reached 38.01 billion; an increase of 1.04 billion and by 2.8% compared to last year.

Depositors' accounts reached 21.8 billion, while the capital adequacy ratio recorded a rate of 18.18%.

BoD has recommended to the General Assembly the distribution of 20% in cash dividends and 9% bonus shares to shareholders, considering the distributed returns on investment deposits and saving accounts as shown in the following table:

Depositors' Profit

Account Type	2023	2022
"Al Khomasiyah" Investment Deposit	5.000%	4.000%
"Continuous" Investment Deposit	4.500%	3.500%
"Al Sidra" Investment Deposit	3.850%	2.325%
"Al Dima" Investment Deposit (12 months)	4.250%	2.725%
"Al Dima" Investment Deposit (6 months)	4.125%	2.225%
Long term investment plans	3.950%	2.550%
Investment Saving Accounts	0.250%	0.230%

KFH maintained its standing as the leading Islamic financial institution in Kuwait's banking sector. Since its inception, KFH has played a significant role in supporting and financing companies, SMEs, and micro-enterprises.

KFH is recognized as a strategic partner for society. It has achieved growth in its corporates and SMEs financing portfolio, establishing itself as the leader in this market segment.

KFH expanded its financing contributions at the regional level by participating in financing deals for electricity, petrochemical and aviation projects, amounting to approximately USD 10.5 billion across three GCC countries. Additionally, KFH participated in a syndicated financing deal for Egypt in cooperation with the International Islamic Trade Finance Cooperation (ITFC).

KFH Group continued its pioneering presence in the international Sukuk issuance arena. Through the Group's investment arm, KFH Capital, had successfully led and arranged Sukuk issuances exceeding USD 7.5 billion for diversified issuers, covering sovereign and corporate issuances across various sectors and geographies. KFH Capital demonstrated its key role by acting as Joint Lead Manager & Bookrunner for many other Sukuk deals.

KFH Group Treasury investment transactions exceeded USD 13 billion in the Primary and Secondary markets. It maintained its leadership as a Primary Dealer for the IILM Sukuk for the 7th time, and a Secondary Dealer for the 3rd consecutive year, thus affirming KFH position as a Main Market Leader in the short-term IILM Sukuk market.

The KFH capital market retail client activity amounted to USD 45 million in 2023 compared to USD 20 million in 2022; an increase of 125%. As a part of the Bank's sustainability initiative, the Group Treasury expanded further its ESG Sukuk exposure by further increasing the ESG compliant Sukuk investments. The total ESG Sukuk investments increased reaching USD 294 million in 2023, an increase of 362% from the previous year, exhibiting the Group Treasury commitment to responsible and sustainable investment. The Group Treasury also achieved USD 38 billion in volume of FX transactions during the year.

The Group Operations sector has once again showcased the robust operational capabilities of KFH. It has been a cornerstone for the Group, in the light of the numerous milestones achieved, all of which underscore our commitment to excellence, efficiency, and customer-centricity. Operations leveraged also Robotic Process Automation (RPA), where our bank has revolutionized major back-office operations, driving unparalleled efficiency, reducing costs, and enabling our talented workforce to focus on strategic initiatives that would enhance our overall competitiveness and value proposition.

To name but few, Card Operations Department took several remarkable steps towards enhancing the customer experience, with the launch of Google Pay for KFH debit cards, the introduction of the Turkish Lira Foreign Currency Prepaid card, and significant enhancement in ATM deposit related claims processing time. Central Operations continued its trend of innovation with the successful transition to ISO 20022 for inward fund transfers. The Financing Operations Department excelled in CRM Workflow Automation for Corporate CAD and direct product centralization at Retail CAD, thereby improving customers services.

In the first year of its creation, Procurement and Contracts Department has established a bank-wide policy that paved the way for a seamless process for Procure-to-Pay (P2P) generating savings, enduring payment accuracy, and enhancing Inventory & Supply Chain while having prime focus for on-time deliveries and vendor onboarding.

To expand its market share and face competition, KFH continued to provide a comprehensive range of products and services in Retail and Private Banking. KFH launched and participated in several customer-focused campaigns in collaboration with major companies. To achieve its vision as the leading bank in the market and the most preferred by customers, KFH launched many distinctive services and products to attract specific segments of customers. These included the Emergency Cash service, KFH-Kuwait Staff rotation with its subsidiary in Türkiye to serve customers in both countries, the launch of new payment channels and benefits as well as cash gifts to attract customers and enhance their loyalty.

Group Human Resources continued to focus on its Kuwaitization agenda where we exceeded 81% Kuwaitization ratio, development of national talents, and demonstration of our role and contribution to the Kuwaiti economy, highlighting KFH as the employer of choice in Kuwait. We are keen on implementing succession planning and working on having Kuwaiti nationals in Middle and Executive Management, which would achieve labor nationalization goals at KFH. This has been demonstrated this year in the assumption of leadership positions by Kuwaiti nationals as an embodiment of this principle. Moreover, it fills us with pride that KFH has the largest number of Kuwaiti employees among Kuwaiti banks and the private sector.

We believe that the sustainability of our business and success are consolidated when the bank strengthens its social ties, through many contributions to the development of society and environmental sustainability. In this regard, KFH offered various environmental initiatives in partnership with government and private entities to preserve the environment. KFH also launched the "Green Finance" initiative, embracing the global shift towards sustainability. It also introduced a landmark Green Products Financing campaign, highlighting KFH's commitment to advancing eco-conscious housing solutions by providing tailored financing for environmentally sustainable and smart infrastructures.

Along with its high creditworthiness that has been confirmed by international credit rating agencies, KFH Group received during the year 25 prestigious awards from global organizations specialized in monitoring and evaluation of top banks performance.

Meanwhile, we will continue to focus our efforts on enhancing our business model, focusing on customers, supporting innovation initiatives, digital banking, governance, and social responsibility. KFH proved its leadership in social responsibility through contributions of millions of Kuwaiti Dinars to many strategic community initiatives.

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

BoD would also like to extend its sincere thanks to the esteemed shareholders, customers, KFH Executive Management and all employees for their efforts and cooperation during the year.

May Allah grant us success.

Chairman
Hamad Abdulmohsen Al-Marzouq

Board of Directors

Mr. Hamad Abdul Mohsen Al-Marzouq

Chairman since 2014

Chairman of the Board Executive Committee and member of the Board Governance and Sustainability Committee.

Mr. Al-Marzouq earned his BA in Industrial Systems Engineering from the University of Southern California in the US in 1985. He received his MA in International Finance and Business Management from Claremont Graduate University in the US in 1987.

Mr. Al-Marzouq has diverse professional experience in banking and finance both in Kuwait and abroad spanning more than thirty years. He has served as Chairman of Kuwait Turk Participation Bank in Turkiye since 2015, Chairman of Ahli United Bank in Bahrain since 2023 and Chairman of Ahli United Bank in Egypt since 2023.

Mr. Al-Marzouq has held many prominent positions in various banking, financial and regulatory institutions. He has served as a board member of Kuwait Banking Association (KBA) since 2002, KBA Chairman from 2010 to 2016, board member of the Union of Arab Banks from 2003 to 2010, board member of the Kuwait Institute of Banking Studies (KIBS) from 2003 to 2014, member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 to 2009, board member of the Public Authority for Applied Education and Training (PAAET) from 2007 to 2016, Chairman and Managing Director of Ahli United Bank in Kuwait from 2002 to 2014, Vice Chairman of Ahli United Bank in the UK from 1998 to 2014, in Egypt from 2006 to 2014, in Bahrain from 2000 to 2014, and in Oman from 2007 to 2014, Vice Chairman of the Commercial Bank of Iraq from 2006 to 2014, Chairman of Kuwait Finance House (Malaysia) Berhad from 2015 to 2016 and Chairman of Kuwait Finance House in Bahrain from 2015 to 2023.

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

Mr. Al-Marzouq commenced his professional career as an investment officer in US equity portfolios and derivatives in the Investment Department at Kuwait Investment Company from 1987 to 1990. He went on to hold several executive positions at the Central Bank of Kuwait, including Deputy Manager of the Technical Affairs Office in 1990. In addition, he served as the Deputy Manager and then Manager of the Financial Control Department from 1992 to 1996 and 1996 to 1998, respectively.

Mr. Abdulaziz Yacoub Al-Nafisi

Vice Chairman since 2014

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

Mr. Al-Nafisi received his BA in Economics from Whittier College in the US in 1977.

He holds the position of General Manager of Abdul Aziz Al-Nafisi General Trading Company. He also serves as Board Member of Ahli United Bank in Egypt since 2023.

Mr. Al-Nafisi has a wealth of experience in Kuwait and abroad, holding many prominent leadership positions in companies within the banking, financial, real estate and telecommunications sectors.

Mr. Al-Nafisi was a board member of Mobile Telecommunications Company (Zain Group) from 2005 to 2017, where he held the position of Vice Chairman until 2013. Additionally, he was a board member of Mobile Telecommunications Company Saudi Arabia (Zain KSA) from 2013 to 2019. He has held multiple positions on the board of directors of Zain Group MENA entities including Zain Iraq, Zain Jordan and Zain Sudan as well as many positions on the Board of Directors of Celtel (Zain Africa).

Mr. Al-Nafisi served as Chairman of Mada Communications from 2001 to 2011 and Chairman of Al Madar Finance and Investment from 1998 to 2004. He was a board member of Wethaq Takaful Insurance Company from 2000 to 2004 and of Kuwait Projects Company from 1993 to 1996. Additionally, he held the position of Chairman of KFIC Brokerage Company from 1989 to 1992.

Mr. Al-Nafisi commenced his professional career as Head of Banking Facilities at Burgan Bank from 1978 to 1981. He has since served in several executive positions, including CEO of Al-Nafisi National Real Estate Group Company from 1996 to 2010. He also served as Deputy General Manager of Yacoub Al-Nafisi Corporation for General Trading and Contracting from 1984 to 1990 and Managing Director of KFIC Financial Brokerage from 1989 to 1990.

Mr. Ahmad Abdullah Al-Omar

Board Member since 2023

Member of the Board Investment Committee and the Board Nomination and Remuneration Committee

Mr. Al-Omar received his BA in Commerce (Accounting) from Kuwait University in 1972.

Mr. Al-Omar served as a board member of several entities, including the Arab Turkish Bank in Istanbul from 1980 to 1985, Agricultural Food Products Company from 2000 to 2001, Arab Mining Company in Amman from 2000 to 2006, Livestock Transport and Trading Company in Kuwait from 2000 to 2006, National Industrial and Mining Company in Mauritania from 2002 to 2006, Kuwait Finance House from 2007 to 2017, Kuwait United Investments Company in Syria from 2008 to 2020 and Kuwait Investment Company from 2013 to 2015.

Mr. Al-Omar has also held numerous leadership positions, such as Accountant at Kuwait National Petroleum Company from 1972 to 1978, Manager of International IPOs at Kuwait Investment Company from 1978 to 1984, Manager of Local Investments at Kuwait Foreign Trading Contracting and Investment Company (KFICIC) from 1984 to 1989, and Executive Manager of the Debt Settlements Office at Kuwait Investment Authority from 1999 to 2017.

Sheikh Salem Abdulaziz Al-Saud Al-Sabah

Board Member since 2023

Chairman of the Board Governance and Sustainability Committee

Sheikh Al-Sabah received his BA in Economics from the American University of Beirut in 1977.

He has held several positions at the Central Bank of Kuwait since 1977, including Economic Analyst and Head of Studies in the Foreign Operations Department in 1978, Head of the Investments and Studies divisions and Deputy Director of the Foreign Operations Department in 1980, Manager of the Banking Supervision Department in 1984, Executive Director of Banking Supervision and Monetary Policy in 1985, and Deputy Governor of the Central Bank of Kuwait in 1986.

Sheikh Al-Sabah held the position of Governor and Chairman of the Board of Directors of the Central Bank of Kuwait from 1986 to 2012. During this period, he held the positions of Alternate Governor for the State of Kuwait at both the International Monetary Fund and the Arab Monetary Fund and was a board member of several government institutions in Kuwait including the Kuwait Investment Authority, the Supreme Council for Planning and Development and the Supreme Petroleum Council and also served as Chairman of the Institute of Banking Studies (IBS).

He held the positions of Deputy Prime Minister and Minister of Finance from 2013 to 2014, member of the International Islamic Liquidity Management Corporation (IILM) from 2010 to 2012, and member and Vice President of the Financial Stability Board (FSB) Regional Consultative Group for the Middle East and North Africa (RCG FSB MENA) from 2011 to 2012.

Sheikh Al-Sabah has received numerous awards and recognitions, including Governor of the Year from Euromoney Magazine in 1988, Banker of the Year from Arab Research Center in 1997, Banker of the Year at the 4th Conference for Islamic Banks and Financial Institutions held in Kuwait in 2004, and Best Central Bank Governor in the Middle East from The Banker magazine in 2006.

Sheikh Al-Sabah has also participated in several local and international conferences and seminars and has delivered 51 different speeches addressing central banks' concerns and areas of financial markets and monetary policies in the State of Kuwait. His speeches have been compiled and published in seven books in both Arabic and English.

Mr. Noorur Rahman Abid

Board Member since 2014

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

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

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

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

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

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

Mr. Salah Abdulaziz Al-Muraikhi

Board Member representing Kuwait Investment Authority since 2018

Member of the Board Audit and Compliance Committee, the Board Executive Committee and the Board Governance and Sustainability Committee

Mr. Al-Muraikhi earned his BA in Finance from Kuwait University in 1984.

He received his MA in Business Management and Financial Accounting from Claremont Graduate University in the US in 1987.

Mr. Al-Muraikhi has held several positions at Kuwait Investment Authority since 1996, including the head of Private Equity Department at Kuwait Investment Office in London, the Director of the Hedge Fund Department and then the Acting Executive Director of Alternative Investments Sector at KIA.

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

Mr. Mohammad Naser Al-Fouzan

Board Member since 2020

Member of the Board Risk Committee and the Board Investment Committee

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

Mr. Al-Fouzan has successfully completed many specialized training programs and obtained numerous specialized professional certificates, such as the Executive Development Program from The Wharton School in the US in 2001 and the Strategic Management Program from Harvard Business School in 2006.

Mr. Al-Fouzan has served as Chairman of Kuwait Finance House in Bahrain since 2023 and board member of Kuwait Finance House (Malaysia) Berhad since 2014. He previously held positions in various companies such as Chairman of K-Net Company from 2005 to 2008 and Chairman of International Turnkey Systems Group (ITS) from 2008 to 2012.

Mr. Al-Fouzan held the position of Vice Chairman of Kuwait Finance House in Bahrain from 2012 to 2023. He also held several executive positions at KFH Group including Group CEO Office Consultant from 2014 to 2018, Acting CEO in 2014 and Chief Retail Banking Officer from 2012 to 2014.

Mr. Ahmad Hamad Al-Thunayan

Board Member representing The Public Institution for Social Security since 2023

Member of the Board Risk Committee, the Board Investment Committee and the Board Nomination and Remuneration Committee

Mr. Al-Thunayan received his BA in Accounting from Kuwait University in 1990.

Mr. Al-Thunayan has been a board member of EPIC Investment Partners in the UK since 2021 and was a member of the Board of Directors of Al-Ahli Bank of Kuwait from 2022 to 2023. He also served as a board member of Agility Public Warehousing Company from 2019 to 2021 and Boursa Kuwait from 2019 to 2020.

Mr. Al-Thunayan has served as Head of the Operations Sector and Acting General Manager at the Public Institution for Social Security since 2017 and 2022, respectively. He previously held several senior positions, including Assistant Deputy Director of the Investment Department of Investment Accounting Affairs from 2010 to 2017, Head of the Tenders Committee from 2015 to 2016, and Chief Accountant from 1991 to 2000 at the Kuwait Fund for Arab Economic Development (KFAED). He has also held numerous positions at Zain Group, including Accounts Payable and Assets Department Manager from 2009 to 2010, member of the Financial Systems Development Committee in 2009, Procurement Manager from 2006 to 2008, Head of the Central Procurement Committee in 2006, Acting Treasury Manager from 2003 to 2005, and Accounts Payable Manager from 2000 to 2006.

Mr. Hamad Abdullateef Al-Barjas

Board member representing the General Authority for Minors Affairs since 2020 and representing the General Authority for Minors Affairs in alliance with Awqaf Public Foundation since 2023

Member of the Board Audit and Compliance Committee, the Board Nomination and Remuneration Committee and the Board Governance and Sustainability Committee

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

He has served as Acting Director General of the Public Authority for Minors Affairs (PAMA) since 2020, board member of Kuwaiti Zakat House since 2020, member of the Board of Trustees of the Martyrs Bureau since 2020, board member of Al-Durra for Manpower Company since 2019, member of the Kuwait Society of Engineers since 1993 and member of the Kuwait Red Crescent Society since 2011.

Previously Mr. Al-Barjas held several positions including Deputy Director General of Minors Affairs from 2017 to 2020, Deputy General Manager for the Administrative and Financial Affairs department of PAMA from 2016 to 2017, board member of REAM Real Estate Company from 2000 to 2004, board member of Al-Khaldiya Cooperative Society from 1998 to 2001, and member of the Media Bureau of the National Committee for Missing and POW Affairs (NCMPA) from 2001 to 2003. He also acted as the head of the technical task force charged with the design and construction of PAMA complexes in Mahboula and PAMA headquarters and branches in Ahmadi and Jahra governorates, in coordination with the Ministry of Public Works. Mr. Al-Barjas also served as a member of the committee charged the design and construction of the Heritage Markets Project (Al-Zal Market and Money Exchange Area) on BOT basis from 1995 to 1998. He held several other positions at PAMA, including Director of the Engineering Department and Head of the Construction Department in 1996 and Engineer in the Construction and Maintenance Department from 1994 to 1996. He also worked as an Engineer in the Engineering Department of the Shuaiba Refinery at the Kuwait National Petroleum Company.

Mr. Khalid Salem Al-Nisf

Board Member since 2014

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

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

Mr. Al-Nisf has served as a nonexecutive board member at Ahli United Bank in Bahrain since 2023 and as a board member of both Al-Shamiya Holding Company and Al-Tadamon Al-Kuwaitiya Holding Company since 2016.

Mr. Al-Nisf holds the position of Chairman of the Executive Board specializing in setting strategies and implementation at Al-Nisf Group of Companies. He has been CEO of Mohamed Bin Yusuf Al-Nisf and Partners Company, Al-Tadamon Al-Kuwaitiya Company, and Trading and Industrial Equipment Company since 2005.

Mr. Al-Nisf previously held several executive positions including Investment and Finance Manager at Al-Nisf Companies from 1997 to 2008, and was the Administration Manager from 1995 to 2007. He served as Deputy Chairman of the Kuwaiti Digital Computer Company from 2016 to 2019 and as a board member from 2001 to 2022.

He has 25 years of experience in the general trading, real estate investments and financial services sectors.

Mr. Fahad Ali Al-Ghanim

Board Member since 2014

Chairman of the Board Investment Committee and member of the Board Executive Committee and the Board Audit and Compliance Committee

Mr. Al-Ghanim received his BA in Civil Engineering from Kuwait University in 2002.

Mr. Al-Ghanim currently holds the positions of Board Member of Ahli United Bank - UK since 2023 and Ahli United Bank - Egypt since 2023, Chairman of Ali Al-Ghanim and Sons Automotive Company (K.S.C.P) since 2021, CEO of Ali Mohammed Thunayan Al-Ghanim and Sons Automotive Company since 2005, Vice Chairman of Aayan Leasing and Investment Company since 2022, Chairman of Global Auto Group BMW in Egypt since 2020 and The Chairman of Auto Mobility LLC (Geely), Egypt since 2022.

Additionally, he has been Chairman of Al-Ahlia Heavy Vehicles Selling and Imports Company since 2022, board member of Kuwait Building Materials Manufacturing Company since 2004, board member and Treasurer of Kuwait Sports Club since 2007 and a member of the Kuwait Society of Engineers since 2003.

Mr. Al-Ghanim has held many prominent leadership positions including Chairman of Aayan Leasing and Investment Company from 2011 to 2022, Chairman of the Restructuring Committee at Aayan Leasing and Investment Company from 2010 to 2011, Vice Chairman of Al-Ahlia Heavy Vehicles Selling and Imports Company from 2011 to 2022, Chairman and CEO of Al-Ahlia Heavy Vehicles Selling and Imports Company from 2005 to 2011, and board member of the Representatives Board of World Agents of McLaren Automotive (representatives of the Middle East) from 2010 to 2015.

Mr. Al-Ghanim has held board member positions in numerous local companies including the International Company for Electronic Payment (UPS) from 2005 to 2010 and Al-Oula Slaughterhouse Company from 2002 to 2006 and was CEO of Ali Al-Ghanim and Sons Group of Companies in the contracting sector from 2002 to 2005.

Mr. Ahmad Meshari Al-Fares

Board Member since 2020

Chairman of the Board Risk Committee and member of the Board Governance and Sustainability Committee.

Mr. Al-Faris received his BA in Accounting from the College of Business Administration at Kuwait University in 2000. He obtained his Master of Business Administration (MBA) in 2009 and Postgraduate Diploma in Business Administration in 2006 from Maastricht School of Management in Kuwait. He earned his Higher Diploma in Islamic Finance from the College of Graduate Studies at Kuwait University in 2010.

Mr. Al-Faris has been serving as Board Secretary of Kuwait Telecommunications Company since 2019 and is also Board Treasurer of Kuwait Transparency Society. In addition, Mr. Al-Faris was Acting Chief of the Internal Audit Department at Kuwait Telecommunications Company from 2019 to 2020, Assistant Undersecretary for Corporate Affairs and Commercial Licenses at the Ministry of Commerce and Industry from 2017 to 2018, board member of the Public Authority for Industry from 2017 to 2018, and board member of the Central Bank of Kuwait in 2018. He served as a board member, Chairman, and Board Secretary of the Kuwait Accountants and Auditors Association from 2007 to 2015, 2015 to 2017, and 2017 to 2019, respectively.

Mr. Al-Faris has earned multiple professional certifications, including Certified Compliance Officer (CCO) in 2019, Certified Merger & Acquisition Specialist (CMAS) in 2017, Certified Professional Internal Auditor (CPIA) from the US in 2015, Certified Risk Based Auditor (CRBA) in 2015 and Certified Risk Analyst (CRA) from Hong Kong in 2014.

Mr. Muad Saud Al-Osaimi

Board Member since 2014

Member of the Board Executive Committee, the Board Audit and Compliance Committee and the Board Investment Committee.

Mr. Al-Osaimi earned his BSc in Finance from George Mason University in the US in 2001.

Mr. Al-Osaimi has served as a nonexecutive board member at Ahli United Bank in Bahrain since 2023 and Chairman of Kuwait Finance House (Malaysia) Berhad since 2017. He has also been a board member of numerous companies including Kuwait Gate Holding Company from 2004 to 2014, Kuwait Financial Center Company from 2008 to 2011 and Al-Raya International Holding Company from 2005 to 2009.

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

Fatwa & Shari'a Supervisory Board's Report

Fatwa & Shari'a Supervisory Board

Sheikh Professor Dr.
Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e
Chairman of Fatwa & Shari'a Supervisory Board

Dr. Al-Tabtaba'e received his PhD in 1996, and his master's degree in 1993 from the Higher Judicial Institute at Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia. He received his bachelor's degree in 1988 from the College of Sharia at Imam Mohammad Ibn Saud Islamic University in Al-Qaseem. He received his professorship from Kuwait University in 2004.

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

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

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

Sheikh Professor Dr.
Mubarak Jaza Al-Harbi
Member of Fatwa & Shari'a Supervisory Board

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

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

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

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

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

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

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

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

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

Sheikh Dr.
Khaled Shuja' Al-Otaibi
Member of Fatwa & Shari'a Supervisory Board

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

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

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

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

Sheikh Dr.
Esam Abdulrahim Al-Ghareeb
Member of Fatwa & Shari'a Supervisory Board

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

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

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

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

The Annual Report of Fatwa and Shari'a Supervisory Board 2023
Kuwait Finance House

To the Respected KFH Shareholders,

السلام عليكم ورحمة الله وبركاته

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

We have reviewed and endorsed the policies, products, services and activities that KFH had carried out in 2023. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwas, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held (25) meetings during the year 2023, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Research and Advisory Department conducted its review on contracts, agreements; and policies and procedures as per Fatwa and Shari'a Supervisory Board's resolutions in addition to the Group Internal Shari'a Audit conducted audit exercises on randomly selected samples of all operations and transactions of KFH with the shareholders, investors, clients and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and subsidiaries. The Shari'a Board has also received the periodic reports that the Group Internal Shari'a Audit Department has prepared on the Shari'a audit process and operations, site visits and compliance status of the process and implementation of the fatwa and resolutions issued by the Fatwa and Shari'a Supervisory Board.

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

KUWAIT FINANCE HOUSE, KSCP | State of Kuwait Headquarters
Trade Registration No 26066 | Authorized, Issued and Paid Up Capital KD 1,476,445,657.200
P.O.Box 24989, Safat 13110, Kuwait | T: +965 180 0700 | F: +965 2245 5135
E: corp@kfh.com | www.kfh.com

بيت التمويل الكويتي، ش.م.ك.ع | المركز الرئيسي في دولة الكويت
رقم السجل التجاري ٢٦٠٦٦ | رأس المال المصرح به والمصدر والمدفوع ١,٤٧٦,٤٤٥,٦٥٧.٢٠٠ د.ك
ص.ب ٢٤٩٨٩ ، الصفاة ١٣١١٠ ، الكويت | ت: ٠٧٠٠ ١٨٠ ٩٦٥+ | ف: ٥١٣٥ ٢٢٤٥ ٩٦٥+
البريد الإلكتروني: corp@kfh.com | www.kfh.com

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

First; the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2023 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

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

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

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

Shaikh/ Professor Dr Sayyid Mohammad Sayyid Abdul Razaq Al-Tabtabae
Chairman, Fatwa & Shari'a Supervisory Board

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

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

Shaikh/ Dr. Esam Abdulrahim Ghareeb
Member, Fatwa & Shari'a Board Member

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

Date : 13 Jumada Al-Akhera 1445 H
Corresponding : 26 December 2023

KUWAIT FINANCE HOUSE, KSCP | State of Kuwait Headquarters
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بيت التمويل الكويتي، ش.م.ك.ع | المركز الرئيسي في دولة الكويت
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External Shari'a Audit Report during 2023

شورى للاستشارات الشرعية
Shura Sharia Consultancy

External Sharia Audit Report of KUWAIT FINANCE HOUSE (K.S.C.P)
for the Fiscal Year Ended 31 December 2023

To the Esteemed Shareholders

KUWAIT FINANCE HOUSE (K.S.C.P)

We have conducted the external Sharia audit over the contracts, operations and activities (transactions) of **KUWAIT FINANCE HOUSE (K.S.C.P)(the Bank)** for the fiscal year ended 31 December 2023, in accordance with the instructions of the Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016, which aim to obtain a reasonable and independent assurance that the Bank's contracts, operations, and activities (transactions) are carried out in compliance with Islamic Sharia rules and principles, in accordance with the resolutions and fatwas issued by the Bank's Sharia Supervisory Board **(Sharia Supervisory Board)**.

Opinion

In our Opinion, the contracts, operations, and activities (transactions) concluded and executed by the concerned departments at **the Bank** during the fiscal year ended 31 December 2023 comply with Islamic Sharia rules and principles according to the resolutions and fatwas issued by the **Sharia Supervisory Board**.

Basis for Opinion

We have conducted the external Sharia audit based on the following professional instructions and standards:

1. Instructions of the of the Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016.
2. External Sharia Audit Standard (No. 6) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
3. The International Standard on Assurance Engagements (Standard 3000), Assurance other than Audits or Reviews of Historical Financial Information.

These standards require us to adhere to the ethical requirements, plan and conduct the external Sharia audit to obtain reasonable and independent assurance that **the Bank** complies with Islamic Sharia rules and principles according to the resolutions and fatwas issued by the **Sharia Supervisory Board**.

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Shura Sharia Consultancy

Responsibility of the Management

The Bank's management is responsible for compliance with Islamic Sharia rules and principles in accordance with the resolutions and fatwas issued by the **Sharia Supervisory Board** in all contracts it concludes and transactions and activities it carries out, and relevant policies and procedures. The **Bank's** management is also responsible for establishing and maintain an efficient and effective system for internal Sharia control enables it to achieve compliance with Islamic Sharia rules and principles in all its transactions according to the resolutions and fatwas issued by the **Sharia Supervisory Board**.

Responsibility of the External Sharia Auditor

Our responsibility is to conduct the external Sharia audit in accordance with the instructions of Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016, which aim to obtain a reasonable and independent assurance that the Bank's operations and activities are carried out in compliance with Islamic Sharia rules and principles, in accordance with the resolutions and fatwas issued by the **Sharia Supervisory Board**.

Summary of External Sharia Audit Work

We have conducted the external Sharia audit work according to the External Sharia Audit Standard (No. 6) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Standard on Assurance Engagements (Standard 3000), Assurance other than Audits or Reviews of Historical Financial Information, and we carried out the external Sharia audit work according to the followings:

1. Planning for external Sharia audit based on the potential Sharia risks.
2. Examine the **Bank's** internal Sharia control system, not to express opinion on the efficiency and effectiveness of the system, but with the aim to design appropriate external Sharia audit procedures that enable us to obtain a reasonable and independent assurance.
3. Assessment of the potential Sharia risks based on the **Bank's** Sharia risks matrix.
4. Design external Sharia audit programs based on the results of the potential Sharia risks assessment.
5. Using external Sharia audit programs in examining transactions on products, operations and activities executed by **the Bank**, on a sample basis.

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شورى للاستشارات الشرعية
Shura Sharia Consultancy

6. Gathering the findings of the examinations and audits we conducted, discussing those findings – if any – with the departments responsible for execution such transactions at **the Bank**.
7. Issue a draft of the external Sharia audit report and discuss it with the concerned executive departments at the Bank.
8. Issue of the final external Sharia audit report.

We conducted several field audit visits to the concerned executive departments at **the Bank.** We conducted a number of 97 field audit visits. The first visit was on 17/5/2023 and the last one was on 10/1/2024.

Our External Sharia Audit included, mainly, the following concerned executive departments:

- **Sharia Supervisory Sector :**

(Secretariat of SSB - Research and Sharia Consultations - Internal Sharia Audit)

- **Kuwait KFH Sector**

(Corporate / Retail Banking -Marketing and Corporate Communication – Media and PR)

- **Treasury Sector**

(Financial Institutions – Kuwait Treasury)

- **Financial Control and Supervisory Reports Sector**

(Accounting and Financial Reporting -Investments, Planning and Reporting)

- **Group Compliance and Governance Sector**

(Regulations Compliance -Surveillance and Monitoring of Regulatory Information)

- **Human Resources and Group Transformation Sector**

(Human Resources & Remuneration Operations - Recruitments - General Services)

- **Group Transformation, Technology & Operations Sector**

(Banking Operations -Finance Operations)

- **Legal Group Sector**

(Legal of Banking Services – Legal of Real Estate - Legal of Credit & Corporate Finance)

- **Risk Management Sector**
- **Kuwait KFH Internal Audit Sector**

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Kuwait Finance House (K.S.C.P.) and Subsidiaries
Annual Report 2023
External Shari'a Audit Report

شورى للاستشارات الشرعية
Shura Sharia Consultancy

Our External Sharia Audit basically included the following:

1. Conduct discussions with the **Bank's** management on the Sharia supervisory and control system and the **Bank's** organizational and administrative structure.
2. Review the documents, systems, policies, and procedures adopted by **the Bank** to establish the framework for **the Bank's internal** Sharia control system, which included:
   - Review the minutes of **Sharia Supervisory Board** meetings.
   - Review the manuals of policies and procedures for the internal Sharia control system.
   - Review **the Bank's** policies and procedures related to recruitment and employees training procedures.
   - Review internal Sharia audit reports.
   - Review **the Bank's** policy related to reporting on Sharia violations - if any - in the executed activities and operations.
   - Review the policies and procedures related to correcting Sharia violations - if any -.
3. Review the resolutions and fatwas issued by the **Sharia Supervisory Board** during the fiscal year ended 31/12/2023, related to concluded contracts, and products, operations and activities provided by or entered by the Bank and to ensure that they are implemented by concerned departments at **the Bank**, in accordance with the **Sharia Supervisory Board's** approvals.
4. Review the manuals of policies and procedures related to the operations, products and activities carried out by the concerned departments at the Bank and reviewing them to ensure that they are approved by the **Sharia Supervisory Board**.
5. Review the terms, conditions, contracts, and documents related to banking and financing products and operations provided by **the Bank** and reviewing them to ensure that they are approved by the **Sharia Supervisory Board**.
6. Review the contracts concluded with external parties by the concerned executive departments at **the bank** and reviewing them to ensure that they are approved by the **Sharia Supervisory Board.**
7. Review **the Bank's** investment activities and operations to ensure that they are approved by the **Sharia Supervisory Board.**

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8. Examining the transactions executed by the concerned executive departments at **the Bank** - on a sample basis - of the banking and financing products, operations, and contracts of **the Bank** to ensure that they were carried out according to the Sharia terms of reference established for those transactions, as follows:
   - The forms and contracts approved by the **Sharia Supervisory Board**.
   - Manuals of policies and procedures that have been approved by the **Sharia Supervisory Board**.
   - Policies, terms, and conditions that have been approved by the **Sharia Supervisory Board**.
9. The banking, financing and investment contracts, operations and products that have been examined and reviewed include, for example but are not limited to the following:
   - Banking accounts.
   - Banking cards.
   - Treasury products, operations, and contracts.
   - Corporate finance contracts.
   - Retail financing contracts.
   - Investment funds and portfolios.
   - Contracts concluded with external parties.
10. Reviewing **Sharia Supervisory Board's** report for the fiscal year ended 31/12/2023.

Dr. Yazeed M. Alqattan

Shura Sharia Consultancy

28 Jumada Thani 1445 H
10 January 2024

State of Kuwait

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Economic Developments

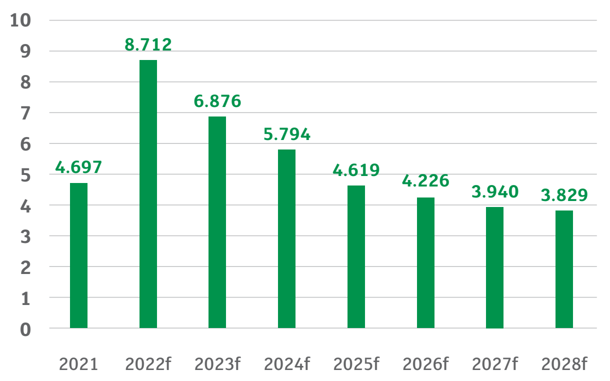
During 2023

Economic Developments During 2023

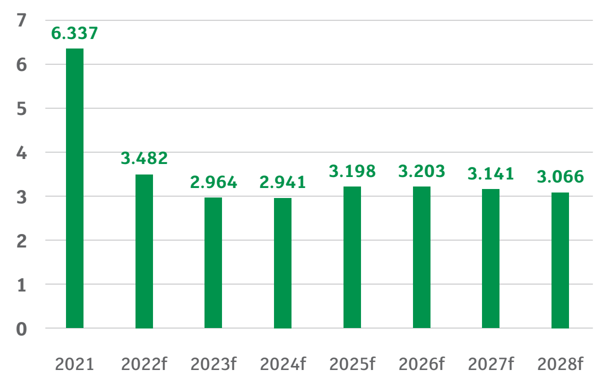
Global Economy:

Over three years have passed since the world economy faced its most severe setback in 75 years, and the path towards recovery persists despite the emerging disparities in growth among different regions. Although there was a significant initial rebound from the depths of the COVID-19 outbreak, the pace of recovery has now decelerated. Numerous factors are hindering this progress. Some of these factors are rooted in the long-term consequences of the pandemic, including the ongoing conflict between Russia and Ukraine, the persistent crisis in the Middle East, and the growing fragmentation of the global economy. On the other hand, certain obstacles are more cyclical in nature, such as the adverse effects of tightening monetary policies aimed at curbing inflation, the withdrawal of fiscal support due to mounting debts, and the impact of major weather-related events.

World Inflation (% Y/Y)



World GDP growth (% Y/Y)



*International Monetary Fund, World Economic Outlook Database

In the year 2022, inflation rates globally soared to levels not seen in decades. Although headline inflation has since subsided, the management of core indicators has posed greater challenges. The recent period of elevated inflation may have led to persistent inflation expectations, making it more difficult for central banks to bring inflation back to their desired targets.

In 2023, the annual inflation rate in the US reached 3.4% in December with a slight increase of 0.3% from November's rate of 3.1% which was the lowest reading in five months, The US saw its highest inflation rate level in January 2023, hitting 6.5%.

Meanwhile, the Euro Area has reached an important turning point. The continent is struggling to combat Inflation. Annual inflation in the Euro Area is forecasted to reach 5.5% in 2023 according to the latest (IMF) database.

The economies of the Euro Area have slowed this year, as expected. GDP growth in the Euro Area is forecasted to be 0.66% in 2023, down from 3.3% in the same period in 2022 This was due to tighter macroeconomic measures as well as rising energy costs.

As for the economies of the Gulf Cooperation Council (GCC), it has experienced slower growth in 2023 compared to the previous year this can be attributed to a decline in oil and gas revenues as well as a global GDP decline, according to the latest World Bank Gulf Economic Update (GEU). The GCC region is predicted to grow by 2.5% in 2023 and 3.2% in 2024. This is in stark contrast to the impressive GDP growth of 7.396% recorded in 2022, primarily driven by a substantial increase in oil production throughout that year and higher oil prices, as compared to 2023.

The weaker performance in 2023 is driven primarily by lower hydrocarbon GDP which is expected to decline by 1.3% in 2023 after the OPEC+ April 2023 production cut announcement and the global GDP slowdown. Despite these challenges, the non-hydrocarbon sector of the GCC region continues to exhibit strong growth momentum, fueled by heightened domestic demand, increased gross capital inflows, and successful implementation of economic reforms.

On a positive note, for GCC Countries inflation is under control, and current account surpluses remain high.

Kuwait Economic outlook:

Key Economy Indicators	2022	2023	2024	2025	2026	Estimates Start After
GDP Constant Price, % y-o-y	8.9	-0.6	3.6	4.1	2.4	2020
Inflation, % y-o-y	4.0	3.4	3.1	2.8	2.4	2022
Current account balance, USD bln	63.2	48.4	46.2	43.0	38.2	2022
Current account balance, % of GDP	36.0	30.3	27.7	25.0	21.8	2020
Real GDP (USD$ Bn)	175.4	159.7	167.0	172.1	175.6	2020

*Source: International Monetary Fund (IMF)

The International Monetary Fund estimated that Kuwait Gross Domestic Product (GDP) growth at constant prices in 2022 was 8.9%, while forecasted growth to be negative 0.6%, in 2023, 3.6%, 4.1% and 2.4% in 2024, 2025 and 2026 respectively. IMF also expected that the annual average inflation rate to decline to 3.4% in 2023, and a forecast of 3.1% in 2024.

In 2023, Central Bank of Kuwait (CBK) increased its discount rate by 75 basis points to 4.25%, as part of its efforts to preserve monetary and financial stability, boost the growth of the various economic sectors, especially the non-oil sectors, contain local inflationary pressures, and maintain the competitiveness and attractiveness of the national currency.

Due to the OPEC+ group's agreement to extend the previous reductions through the end of 2024, Kuwait's oil production is expected to remain steady. Nonetheless, the output of refined products in the country is expected to rise significantly in 2024. Kuwait's crude oil price stood at USD 79.6 pb as of the end of December 2023, down by 0.72% from the same period of the previous year.

Kuwait Oil Closing Prices

*Source: Boursa Kuwait

Nevertheless, it is imperative for Kuwait to continue work on improving the business environment and investing in human capital to ensure sustainable growth. With the right strategies in place, Kuwait can successfully navigate the dynamic global economic landscape and emerge as a model for economic development in the region.

Turkey Economic Outlook:

Key Economy Indicators	2022	2023	2004	2025	2026	Estimates Start After
GDP, % y-o-y	5.5	4.0	3.0	3.2	3.2	2022
Inflation, % y-o-y	72.3	51.2	62.5	52.5	48.1	2022
Current account balance, USD bln	-48.4	-48.5	-40.1	-39.3	-39.6	2022
Current account balance, % of GDP	-5.3	-4.2	-3.0	-2.8	-2.7	2022
Real GDP (USD$ bln)	905.8	1,154.6	1,340.7	1,402.1	1,454.2	2022

*Source: International Monetary Fund (IMF)

The GDP growth in 2022 is estimated to reach 5.5%, based on the International Monetary Fund (IMF) estimates, while it forecasts the GDP growth to be 4%, 3.0% and 3.2% in 2023, 2024, and 2025respectively.

The annual inflation rate in Turkey accelerated to 62% in November 2023, surpassing October's 61.4%. While IMF expected average annual inflation to record 51.2% in 2023, and 62.5% in 2024.

The Central Bank of Turkey increased its benchmark one-week repo rate by 500 basis points to 40% in November 2023, signaling a commitment to reducing the underlying trend of inflation. The central bank, has raised the rate by a total of 3,150 basis points since June.

Bahrain Economic Outlook:

Key Economy Indicators	2022	2023	2004	2025	2026	Estimates Start After
GDP, % y-o-y	4.9	2.7	3.6	3.2	2.7	2022
Inflation, % y-o-y	3.6	1.0	1.4	1.8	2.2	2022
Current account balance, USD bn	6.8	3.0	3.3	3.1	2.5	2022
Current account balance, % of GDP	15.4	6.6	7.0	6.3	4.9	2022
Real GDP (USD$ bln)	44.4	45.0	47.1	49.1	51.2	2022

*Source: International Monetary Fund (IMF)

According to the International Monetary Fund forecasts, Bahrain's economy growth registered a growth of 4.9% in 2022, while it is expected that GDP will record a growth of 2.7% in 2023 and 3.6% in2024. IMF expected average annual inflation to record 1.0% in 2023, and 1.4% in 2024.

Malaysia's Economic outlook:

Key Economy Indicators	2022	2023	2004	2025	2026	Estimates Start After
GDP, % y-o-y	8.7	4.0	4.3	4.4	4.4	2022
Inflation, % y-o-y	3.4	2.9	2.7	2.3	2.1	2022
Current account balance, USD bln	12.5	11.6	13.1	14.6	15.4	2022
Current account balance, % of GDP	3.1	2.7	2.8	2.9	2.9	2022
Real GDP (USD$ bln)	407.0	430.9	465.5	502.3	537.2	2022

*Source: International Monetary Fund (IMF)

The Malaysian GDP growth recorded 8.7% in 2022, while the forecasted GDP will be 4.0% in 2023 and 4.3% in 2024. The annual inflation rate in Malaysia according to IMF forecasts is expected to record 2.9% in 2023, and 2.7% in 2024.

Egypt Economic outlook:

Key Economy Indicators	2022	2023	2004	2025	2026	Estimates Start After
GDP, % y-o-y	6.7	4.2	3.6	5.0	5.4	2022
Inflation, % y-o-y	8.5	23.5	32.2	19.9	13.8	2022
Current account balance, USD bln	-16.6	-6.8	-8.6	-10.6	-12.5	2022
Current account balance, % of GDP	-3.5	-1.7	-2.4	-2.6	-2.7	2022
Real GDP (US$ bln)	475.2	398.4	357.8	408.9	461.1	2022

*Source: International Monetary Fund (IMF)

Egypt's GDP growth recorded 6.7% in 2022, while it is estimated to be 4.2% in 2023. In 2024, however, the IMF forecasted Egypt's GPD to reach 3.6%. Also, IMF expected average annual inflation to record 23.5% in 2023, and 32.2% in 2024. The inflation rate has eased from a historic high of 38.0% in September, but there is a forecasted risk of it accelerating again, especially if the government allows Egypt's currency to depreciate, as widely expected.

UK Economic Outlook:

Key Economy Indicators	2022	2023	2004	2025	2026	Estimates Start After
GDP, % y-o-y	4.102	0.48	0.636	1.983	2.05	2022
Inflation, % y-o-y	9.067	7.656	3.651	2.062	2	2022
Current account balance, USD bln	-116.144	-121.961	-131.372	-138.277	-146.503	2022
Current account balance, % of GDP	-3.769	-3.66	-3.662	-3.61	-3.588	2022
Real GDP (USD$ bln)	3,081.87	3,332.06	3,587.75	3,830.05	4,083.25	2022

*Source: International Monetary Fund (IMF)

According to the International Monetary Fund forecasts, UK's economy registered a growth of 4.102% in 2022, while the GDP is expected to record a slight growth of 0.48 % in 2023 and 0.636% in 2024. IMF expected average annual inflation to record 7.656% in 2023, and 3.651 % in 2024.

Iraq Economic outlook:

Key Economy Indicators	2022	2023	2004	2025	2026	Estimates Start After
GDP, % y-o-y	6.983	-2.739	2.941	4.043	3.604	2022
Inflation, % y-o-y	4.995	5.345	3.6	2.9	2.4	2022
Current account balance, USD bln	45.048	-4.944	-11.723	-16.616	-20.749	2022
Current account balance, % of GDP	17.25	-1.939	-4.318	-5.896	-7.117	2022
Real GDP (USD$ bln)	261.14	254.993	271.471	281.788	291.559	2022

*Source: International Monetary Fund (IMF)

The International Monetary Fund (IMF) assessed the GDP growth in 2022 to reach 6.983%, while it forecasts the growth to record a decrease of 2.739% in 2023.

The annual inflation rate in Iraq recorded 4.995% in 2022. IMF expected average annual inflation to record 5.345% in 2023, and 3.6% in 2024.

Acting Group Chief Executive Officer's Message & Key Achievements

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

Dear Esteemed Shareholders,
Assalamu Alaikum Warahmatu Allah Wabarakatuh.

Kuwait Finance House (KFH) Group demonstrated exceptional performance and attained unprecedented results across all business indicators. This has further enhanced the value, quality, and reputation of both KFH and its services, while providing significant benefits to its customers. Additionally, the Group's growth across various sectors was synergistically achieved through a network of banking services and groundbreaking digital financial products, thereby enhancing the overall customer experience. As a result, KFH Group has emerged as a leading financial and banking brand in the global markets where it operates.

One of the highlights from last year might have been the positive harmonious performance and cooperation across all departments and units within the Group. This was achieved through a unified and comprehensive vision, aiming to strengthen KFH's leadership and continue its success in various fields and markets. This success is substantiated by tangible indicators and promising growth prospects in the present and future.

Strategy

During 2023, the Strategic Planning adopted flexible strategies dealing with the principal pillars of KFH strategy to achieve the set objectives. In addition, it monitored with high efficiency the implementation of these strategies against clear, measurable, and realistic standard which enabled it to accomplish the previously determined strategic projects and proactively formed different targets which the KFH Group aims to fulfil in the next years.

The Strategy function developed the 2023 strategy by collaborating with the Group's subsidiaries located in key markets around the world. This was accomplished through conducting local, regional, and global market research, identifying the latest banking trends in addition to conducting a SWOT analysis on KFH's various departments to identify strengths, weaknesses, opportunities, and challenges. This analysis also aimed to overcome obstacles and achieve the plan's strategic objectives. As a result, several strategic initiatives were launched with the main pillars of the KFH Group. These included customer centricity, digital transformation, innovation, security, and regulatory compliance. These initiatives are under three elements of KFH's strategic map: customers, internal environment, and employees.

In addition to considering customers' perceptions and expectations of their banking experience with KFH, the Strategy function also strives to enrich their experience and strengthen their loyalty by staying updated and responsive to developments and changes through planning and analysis tools. During the first year of the strategic acquisition of Ahli United Bank – Bahrain, KFH Group successfully maximized its indicators, reflecting positively on the Group's market value as the highest in the Kuwaiti market.

Human Resources

As part of the continued efforts to care for employees, Group Human Resources and Transformation has demonstrated unprecedented achievements on the local and global stage, securing two gold and one bronze awards from The Brandon Hall Group in 2023. This exceptional recognition establishes KFH as the sole bank in the Middle East to attain such prestigious accolades in one year. While we are proud to have succeeded in building a culture of management that fosters empowerment, talent development and creative thinking at work, Group Human Resources and Transformation demonstrated the Bank's dedication to promoting nationalization through its massive recruitment efforts. KFH hired around 400 employees with a noteworthy 22% representation of women and an impressive nationalization rate of 100% among these new hires. In an effort to promote diversity and inclusion within its workforce, KFH championed opportunities for individuals with special needs to be hired and successfully integrated into KFH's workforce.

Moreover, the bank has actively embraced social responsibility, exemplified by its commitment to the Women's Empowerment Principles through agreements with UN Women and UN Global Compact.

KFH's commitment to employee well-being and development has fortified its standing in the banking sector. A remuneration survey conducted in 2022 by a global company positions KFH among the top 3 paying banks in the overall banking sector market.

The Bank's proactive approach extends to the enhancement of medical insurance benefits for the employees and their dependents in the 2023-2024 plan, ensuring comprehensive coverage. Additionally, KFH has invested significantly in the professional growth of its workforce, organizing an impressive array of training courses, workshops, and e-learning courses.

This direction has resulted in the collective logging of over 83,000 hours of training by 3,116 employees. Furthermore, KFH launched the "Excellence in Leadership" program, which entails "Building Leadership Excellence" and "Enterprise Leadership" programs in collaboration with prestigious universities and esteemed training institutions, with the aim of fostering the leadership capabilities of 50 executives and managers within KFH group, further solidifying the Bank's commitment to excellence and innovation. This is in accordance with the continuous drive to develop the staff by acquiring the best expertise and competencies at various administrative levels, especially from the national talent. Strengthening the position and developing the performance of these talents are at the forefront of our priorities. Therefore, we attracted a large number of employees and provided them with intensive training courses to acquire experience and skills to prepare them as future leaders.

Treasury and Financial Institutions

Due to the significant growth in the Group's assets, the Group Treasury took significant steps by foreseeing a higher yield environment, thus arranged cost effective liquidity and stable funding for Group businesses.

With its expertise in the market, KFH positioned itself as the largest bank in Kuwait, benefitting customer service by optimizing financing costs, increasing returns, and diversifying financing options. This allowed KFH to continuously serve customers in Kuwait and across the Group.

Thanks to our approach of improving financing and securing the lowest cost in 2023, KFH established a strong presence in the money markets and had the capability to offer advanced products to its customers, making it a competitive and active market maker in Dinar, Dollar, international and GCC currencies trades.

The Group Treasury continued its investment and trading activities in primary and secondary capital markets. While being one of the most active market makers, Group Treasury executed Sukuk transactions worth more than USD 13 billion during the year and persistently expanded its short term Sukuk trading in International Islamic Liquidity Management Corporation's (IILM) short term issuances. KFH Group Treasury maintained its leadership position in IILM market making and won the top rank Primary Dealer for the 7th time and 3rd consecutive year in a row for Secondary Dealer, affirming KFH position as a core player in the short-term IILM Sukuk market.

The Group Treasury increased its network of capital market counterparties to further improve access to competitive rates, enhanced trade opportunities and expanded connections to serve our Sukuk market trades. The KFH capital market Retail client activity amounted to USD 45 million in 2023 compared to USD 20 million in 2022; an increase of 125%. As a part of the Bank's ESG initiative, the Group Treasury expanded further its ESG Sukuk exposure by further increasing the ESG compliant Sukuk investments during the year. The total ESG Sukuk investments increased to reach USD 294 million in 2023 and increase of 362% from the previous year, exhibiting the Group Treasury commitment to responsible and sustainable investment growth practices.

The Group Treasury achieved USD 38 billion volume in FX transactions during the year and onboarded several new and current reputable corporate clients who has shown keen interest in FX Spot and Islamic derivatives hedging instruments and solutions. To further enhance the FX activities, the Group Treasury established a partnership with a leading global bank to become their exclusive Market Maker for GCC currencies. In addition, the Group Treasury went the extra mile by providing retail customers with live FX prices through its E-channels. This allowed customers to easily transact and obtain competitive and real-time FX market prices. Furthermore, the introduction of "KFH Global," an FX platform for Corporate FX, optimized transaction speed with real-time pricing. This expansion attracted even more customers seeking these services. Overall, the Group Treasury's achievements and added value initiatives in the FX arena were highly commendable and contributed to its continued success.

The Group Financial Institutions (FI) department under Group Treasury continued to grow its portfolio of interbank facilities with further participation in financing facilities with large regional banks in the GCC region. The FI department was also successful in raising competitive funding from several Asian banks with medium and long-term tenors which helped diversify KFH's funding base. This also demonstrates KFH's commitment to expand its cooperation framework with Regional and Global banking partners.

Sukuk

KFH Group continued its pioneering presence in the international Sukuk space. Through its sole investment arm, KFH Capital, the Group had successfully led and arranged Sukuk issuances exceeding USD 7.5 billion through diversified issuances covering sovereigns and institutions across various sectors and geographies. Additionally, KFH Capital demonstrated its key role by acting as Joint Lead Manager & Bookrunner for USD 2.5 billion sovereign Sukuk issuance for the Republic of Turkiye, USD 1 billion AlRajhi's Sukuk, USD 1 billion Dubai Islamic Bank's Sukuk, USD 600 million debut Sukuk for Air Lease's Corporation, USD 500 million First Abu Dhabi Bank's Sukuk , USD 500 million Qatar Islamic Bank's Sukuk and an additional issuance of USD 250 million, USD 1 billion EDO's - Government of Oman owned entity debut Sukuk, and the first sukuk issuance in Kuwaiti Dinars for Kuwait Projects Company Holding - KIPCO with an amount of KD 103.1 million, KFH Capital also acting as the sole structuring agent for the issuance.

In recognition for its various deals, KFH Capital won about 10 prestigious awards from different institutions in 2023. It successfully increased the capital of the REIT fund with a coverage of 149% and an amount of KD 46.1 million out of the required capital of KD 31 million. It also successfully marketed a UK Fund with a capital of KD 26 million consisting of six office assets located in major cities around the United Kingdom.

Through the advanced features and tools of "KFH Trade" service, we now offer greater flexibility and support, while the mobile app has made trading more convenient on-the-go, making it more accessible and efficient for KFH clients of all levels. As a result, the number of users exceeded 25,000.

Additionally, KFH Capital received the "Market Leader - Kuwait" rating in the investment banking category from the international Euromoney magazine.

Corporate Finance

KFH continued its role in financing major companies and projects at the local and regional levels. On the regional level, KFH participated in a club financing deal amongst several banks in favor of Saudi Electricity Company, where the total financing transaction amounted to USD 3.0 billion. It also participated in a financing deal for Ras Laffan Petrochemicals Company, where the total financing transaction amounted to 4.4 billion for the purpose of financing the construction, development, and operations of Ras Laffan Petrochemicals Project in the State of Qatar. In addition to participating in a deal with Dubai Aerospace Enterprise Funding Ltd, where the total financing transaction amounted to USD 1.6 billion, and a deal with the Government of Sharjah, where the total financing transaction amounted to USD 600 million. KFH also participated in a syndicated transaction with a certain cover from the Islamic Corporation for the Insurance of Investment and Export Credit, where the transaction was arranged by the International Trade Finance Corporation in favor of the Arab Republic of Egypt represented by the General Authority for Supply Commodities, which is part of a total financing transaction amounting to USD 882 million.

Since inception, KFH has played a vital role for the micro and SME community and further extended its support in relation to this segment as strategic partner while successfully growing its SME portfolio. Many SMEs have started their early journey with KFH, and they have grown to become market leaders in their industries.

KFH's achievements in the field of corporate service were recognized by being awarded the "Market Leader – Kuwait" rating in the Corporate Banking category by Euromoney magazine.

Group Operations

Throughout 2023, the Group Operations Sector showed the utmost resilience, dedication, and innovative spirit. As a leading bank, the commitment from Group Operations to enhancing customer experience, streamlining processes, and adopting cutting-edge technology has never been stronger.

The Financing Operations Department made significant strides, including the transformative achievements in CRM Workflow Automation for Corporate CAD and the centralization of direct products at Retail CAD, greatly enhancing the services we offer to our clients. The digital transformation by launching a state-of-the-art "Business Facility Origination System" tailored for corporate and individual financing clients has streamlined credit facility processing, enhancing efficiency, transparency, and customer experience. Our focus on data accuracy and reliability was manifested in the meticulous task of reviewing and cleansing our data repositories for having a centralized legal report.

Card Operations Department has been exceptionally active. The extension of credit card and prepaid card validity from 3 years to 5 years exemplifies our forward-thinking approach, aligning with the digital shift and wallet payments trend. The introduction of the Turkish Lira Foreign Currency Prepaid card reflects our dedication to meeting customer needs. The launch of Google Pay for KFH debit cards and the expedited processing time for ATM deposit claims further elevate the banking experience for our customers. Furthermore, Card Operations achieved an annual USD 42 million boost in Visa & MasterCard usage owing to enhanced approval rates by 11%, leading to over USD 1 million in revenue through strategic model adjustments, expanded card acceptance, and vigilant fraud rule oversight.

The Central Operations team showcased their adaptability with the successful transition to ISO 20022 for inward fund transfers and have orchestrated several efficient CRM based workflows for seamless processing of banking transactions. We have also witnessed an innovative approach in handling SWIFT message cases in Kuwaiti Dinar and optimizing processes for various charity standing orders, signaling our commitment to both technological adoption and community service.

As part of our strategy of expanding operational excellence and digitizing back-office processes, several Automation and Robotic Process Automation (RPA) initiatives were implemented during 2023 such as issuance of Clearance Certificate and Balance Certificate. As a result, a remarkable optimization has been realized by reducing the turnaround time of producing such certificates from several days to several minutes. In addition, such significant optimization has positively transformed the customer experience completely and reduced the operational costs/ efforts substantially.

The CSC under Operations have rolled out the usage of E-forms across multiple hubs in branches and balance confirmation certificate for corporate customers is fully automated and can now be printed on the spot, a process that used to take three business days earlier.

The Central Procurement Department has generated value at multiple opportunities. For example, the successful negotiation for the ongoing Oracle Fusion Procurement System Implementation resulted in significant cost savings of over USD 1.6 million. The emphasis on upskilling our procurement function, and centralizing contracts database exemplifies our focus on operational excellence. It is worth mentioning that Central Procurement Department has achieved a major milestone by enhancing the budgeting capabilities by incorporating the fixed assets and General Services as part of the internal process. Another aspect of improvement was GL reconciliations, accuracy and on-time payment to our service provider and suppliers.

A special mention must be made of our Real Estate Operations Department, which took the bold step of launching the first-of-its-kind Certified Real Estate Appraiser Program in Kuwait, setting a benchmark in the industry.

Our journey this year has been nothing short of transformational. As we move forward, we will continue to prioritize customer experience, innovate relentlessly, and stay committed to operational excellence.

Information Technology

KFH continued its efforts towards digital transformation and the development of all services, products, activities, and businesses based on modern technology. The Information Technology department has completed many advanced projects. Most notably, introducing an innovative customer recognition experience at KFH branches using facial recognition technology, where visitors to KFH branches are recognized using biometric facial ID. During this experience, a new meeting, greeting, and welcome message is displayed with a dynamic menu of various banking services, from which the visitor chooses the desired service, and this unique experience ends with obtaining a waiting number ticket within few seconds.

Through implementing RPA solution, a number of manual processes and functions for Operation & Risk departments were selected for robotizing, thus minimizing human intervention. The plan has been successfully applied to a number of operations and is now being shifted to other different processes.

In addition to upgrading Puffin system and integrating it with TAM App to enable push notifications, the department also enabled KFH POS terminals to support Refund/Partial Refund for Debit Cards (Contact & Contactless) and launched the first portable device on the market "D-POS" to onboard customers instantly. This will allow KFH to approach customers in several areas like ministries, universities, and shopping malls. This device aligns with KFH initiative "Keep it Green" as it will be digitalizing the customer onboarding process without the need for paperwork.

Furthermore, the availability of the civil ID card reader and NFC has the capability of adding extra functionalities in future phases such as the settlement of invoices.

We also succeeded in replacing the MasterCard (Credit / Prepaid) in a 3-minutes time through KFH Kiosk machines without the need to visit the branch during working hours.

KFH successfully launched the first corporate mobile banking application to the public with the following services:

- Visibility, access, and process pending requests under Requests Pool.
- Overview of accounts, holds, fixed deposits and margin accounts.
- Check account statement.
- View and share account IBAN.
- Report/stop corporate debit and credit cards.

The IT department upgraded and developed KFH's various systems to support integration with the GCC Cross-Border Payment System (AFAQ), that connects the Real Time Gross Settlement Systems (RTGSs) of GCC member states.

Additionally, KFH's customer can now open a saving account in FC from KFH Online as this used to be available in branches only. The department completed the Clearance SMS Disablement project, which originated from Digital Wallets payment services in the App payments as well as from international in-store POS transactions. A single SMS of both authorization and clearing is being sent to customers, resulting in saving of around a million SMS monthly.

The IT department successfully developed the call-back systems in the call center. The business teams are now able to input external agencies' (Moody's, Standard & Poor's, and Fitch) risk ratings of our customers into the Credit Lens platform, the central risks platform for the Risks team.

It also completed the Pre-Fact Automation Project, developed the Hunting Process for Commercial Collection, launched Merchant Management Automation System, and completed the VAT Accounting System project.

The department's achievements also included the going live of Kiosk Credit Cards re-issuance for VISA cards including renewal, damaged, lost, or stolen cards, in addition to automating a remarkable number of corporate reports, developing Cards Campaign Draw System, and enabling new enhancements on Gold product.

Furthermore, Baiti and Hesabi customers are now automatically classified based on their age. Once they have reached the maximum age limit, they will be automatically transferred to the next segment. KFH introduced three new Debit card products with wide features to be used by corporate customers. Most notably, K-Net cards that are issued with limited acceptance only on government KNET POS/PG terminals.

The IT department also upgraded KFH payment systems to support the new version of SWIFT ISO 20022. This would support benefiting from the new XML Payment format message and is expected to boost interoperability between banks.

In addition to launching new services related to Financing Origination System on Ezway, reporting systems inside and outside KFH, and integrated systems with Cinet.

Banking Services

With our extensive banking expertise and dedication to our customers, we strive to offer the best banking experience in the Kuwaiti market. Building on our reputation for exceptional banking services, KFH aimed to provide convenient and secure channels, products, and services that cater to the needs of our retail and corporate customers. Additionally, in the financial and private banking sectors, KFH initiated various customer-centric campaigns in collaboration with renowned companies and institutions for delivering exclusive offers. Recognizing the significance of investing in the younger generation, who embody the future, we introduced a significant milestone by launching Tam Digital Bank, Kuwait's first Shari'a Compliant digital bank focused on the youth segment.

Innovative Products

As a step in KFH's commitment to digital transformation and delivering top-notch services to the youth segment, KFH launched the first Islamic Digital Bank in Kuwait, Tam Digital Bank. The launch also included assigning a WhatsApp number exclusively for Tam customers, as well as the enhancement of Tam customer account services, to ensure the smooth activation of SMS services, e-cards, and prepaid services. Additionally, K-Net Claims System and ATMs are upgraded to cater to the needs of Tam customers.

We continued to provide innovative products and services in the market including:

- Expanding the scope of digital signature by linking with the Public Authority for Civil Information (PACI)
- Emergency Cash offering salaried customers the ability to get part of their salary in advance.
- Cash Gift granting up to KD 400 once the customer transfers his salary to KFH.
- "Zaheb" New digital payment platform launched, enabling merchants to accept cards payments through links and QR code without the need for a POS machine.
- Google Pay offering cardholders with a new channel for making payments.
- Kuveyt Turk – KFH Kuwait Staff rotation with our subsidiary in Turkiye which improved customer relations, satisfaction levels and bridged language barriers.
- Kuveyt Turk Service Center launched through the successful initiative of the staff rotation where customers can perform selected services without having to travel to Turkiye.

In recognition of its remarkable success, Euromoney magazine awarded KFH with the "Market Leader – Kuwait" rating in the digital solutions category.

As a result of KFH's collaboration with companies operating in the market, we initiated various campaigns that encompassed benefits for all products categories. These include a competitive selection of personal finance options at favorable rates, the option to delay payment for a certain installment, and credit card benefits tailored to customer's lifestyle requirements.

In an effort to prioritize environmentally friendly housing solutions, KFH introduced the Green Finance service, the first of its kind at the market level. This initiative affirms our dedication to developing environmentally friendly housing solutions by financing sustainable infrastructure and offering customized eco-friendly financing options. By taking the lead in this initiative, we not only meet the rising demand for eco-friendly housing choices, but also enhance KFH's involvement in environmental consciousness.

Shari'a Control

During 2023, KFH's Shari'a Control diligently fulfilled its responsibilities covering all areas, initiatives, and strategies. This included the notable endeavor of merging with Ahli United Bank, for which KFH's Internal Shari'a Audit Department conducted meticulous audits of the Bank's sectors and departments, as per the 2023 approved plan. Additionally, the Shari'a Research and Advisory Department conducted shari'a revision on contracts, products, agreements, and policies submitted by KFH sectors and departments, addressed Shari'a-related queries and concerns, and submitted them, whenever required, to the Fatwa and Shari'a Supervisory Board to obtain Shari'a opinion. In terms of spreading awareness and Shari'a culture among customers and employees, the department answered Shari'a inquiries received from customers via phone. It also published economic jurisprudential bulletins through the e-channels available at KFH.

Legal

The Group's Legal Department played a significant role in offering legal assistance to every division and branch of KFH and its subsidiaries, defending the organization's right in courts and other relevant bodies. It also examined the responsibilities outlined in contracts and agreements pertaining to KFH's diverse range of activities.

Social Responsibility

KFH persistently maintained its leading position in sustainable community development by actively engaging in social responsibility and implementing value-added community initiatives that catered to various segments of society. These initiatives encompassed supporting community capabilities, caring for individuals with special needs, launching awareness campaigns, safeguarding the environment, and promoting sustainable practices.

Moreover, KFH demonstrated continuous commitment to community welfare by supporting strategic and relief social initiatives both within Kuwait and abroad. KFH contributed with an amount of USD 20 million to aid in relief efforts following the earthquake that affected regions in Turkiye and Syria. This collaboration was carried out in collaboration with the Kuwait Red Crescent Society to provide immediate assistance to those affected and fulfill their urgent needs.

Euromoney's recognition of KFH as the "CSR Market Leader" in Kuwait for the second consecutive year is an affirmative gesture that underlines KFH's diverse and inclusive social role. It also highlights KFH's efforts in promoting sustainable development and establishing new foundations for the private sector's role in development, reinforcing KFH as an exemplary and a benchmark in the market.

25 Prestigious Awards

KFH's winning of 25 awards at the local, regional, and international levels is a testimony to its commitment to innovation and advanced banking services and products. These accolades also solidify KFH's leading position in digital transformation, enhancing the banking experience and meeting customer expectations. Furthermore, KFH's strong financial performance and leadership in the Islamic finance industry are further recognized through these awards. Notably, in 2023, KFH received prestigious awards such as the "World's Best Islamic Financial Institution" from Global Finance, the "Bank of the Year 2023 – Kuwait" from The Banker, and the "Best Islamic Bank for ESG- global category 2023" award from Euromoney International Magazine.

I would like to note that in light of the increasing role of technology, intense competition, and rapid regulatory developments, KFH remains fully committed to its customers, shareholders, employees, and the community, striving to achieve the highest levels of profitability while maintaining security, privacy, transparency, and governance standards.

We take pride in the qualitative achievements we made this year, marking a significant shift in our business. These achievements were accomplished as we confidently navigate a challenging business environment, placing strong emphasis on prioritizing the customer experience, fostering innovation, and maintaining operational excellence. I have full confidence that, with our dedicated team and strategic vision, the future holds even greater accomplishments.

Finally, I would like to express my sincere gratitude and appreciation to His Highness the Amir of Kuwait Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard him, and His Highness, the Prime Minister Sheikh Dr. Mohammed Sabah Al-Salem Al-Sabah.

Our thanks and appreciation are also extended to the Central Bank of Kuwait and all the regulatory authorities for their constant support to the banking sector in the State of Kuwait.

May Allah grant us success.

Acting Group Chief Executive Officer
Abdulwahab Iesa Al-Rushood

Financial Performance

For Year 2023

The unprecedented results achieved by KFH Group during the first full year after the completion of the acquisition of AUB-Bahrain Group, testified to the success of the acquisition steps at all levels, as KFH became the largest bank in Kuwait in terms of total Assets amounting to KD 38 billion as of 31 December 2023, and it is the second-largest Islamic bank in the world.

The acquisition contributed to raise the level of profitability, as KFH succeeded in achieving the best levels and profit rates in the Kuwaiti banking sector, in addition to achieving the highest return rates on main indicators during 2023.

KD 584.5 million Net Profit for Shareholders

Net profit for shareholders for the year 2023 approximated KD 584.5 million, marking an increase by 63.4% compared to 2022. Earning per share reached 38.49 Fils for the year 2023 compared to 29.71 Fils last year i.e. an increase by 29.6%.

65.9% growth in total financing income and 20.7% growth in net financing income

Total financing income for the year 2023 approximated KD 2,194 million, marking an increase by 65.9% compared to last year. Net financing income for the year 2023 approximated KD 965.9 million i.e. an increase by 20.7% compared to last year.

36.2% growth in total operating income and 30.7% growth in net operating income

Total operating income for the year 2023 approximated 1,461 million i.e. an increase by 36.2% compared to last year, accompanied by an increase in net financing income. Net operating income for the year 2023 approximated KD 945.4 million, marking an increase by 30.7% compared to last year.

Total Operating Expenses/ Total Operating Income

Total operating expenses to total operating income ratio remained at good levels reaching 35.3% for the year 2023. It has improved during the past years as it was above 51% in 2014.

28.5% decline in charged provisions of KFH Group for the year 2023

Total provisions and impairments declined at the Group level to reach KD 44.4 million i.e., a decline by 28.5% compared to 2022.

2.8% Growth in Group Assets

KFH Group assets reached KD 38.01 billion, marking an increase by 2.8% or KD 1.04 billion compared to 2022.

3.3% Growth in Financing Portfolio

KFH Group financing receivables reached KD 19.4 billion i.e., an increase by 3.3% or KD 624.7 million compared to 2022. The financing portfolio's contribution to total assets is 51% and represents 89% of depositors' accounts.

15.1% Growth in Investment in Debt Securities

Investment in debt securities reached KD 7.0 billion i.e. an increase by 15.1% or KD 920.9 million compared to 2022. Investment in debt securities represents 18% of the total assets mainly representing sovereign debt instruments.

Non-performing Finance Ratio (NPF)

Low NPF ratio at 1.51% (as per CBK calculation) as of the end of 2023 (2022:1.32%).

3.7% Growth in Depositors Accounts

KFH positive performance indicators continued to attract new and maintain existing customers base. Depositors' accounts increased to reach KD 21.8 billion, an increase by KD 782.4 million or 3.7% compared to 2022.

Return on Average Assets (ROAA) and Average Tangible Shareholders Equity (ROATE)

Return on average assets reached 1.8% for 2023 compared to 1.7% for 2022. Return on average tangible equity reached 20.5% for 2023 compared to 16.5% for 2022.

Capital Adequacy

Capital adequacy ratio has improved to reach 18.18% in 2023 (2022: 17.66%) which is higher than CBK minimum ratio.

Shareholders Equity

Shareholders equity reached KD 5.3 billion as of the end of 2023.

Proposed Dividends to Shareholders

The strong financial position of KFH group has enhanced the Bank's ability to increase cash dividend distributions to its shareholders. The Board of Directors of KFH have proposed cash dividend of 10 Fils per share to the shareholders for the year 2023, besides what was distributed for the first half of 2023. With a total cash dividend distribution of 20% for the year 2023, compared to a cash dividend of 15% for 2022. The Board of Directors also proposed distributing 9% bonus shares (2022:10%) to the shareholders. These proposed distributions are subject to the ordinary general assembly approval as well as the regulatory and legal procedures.

The proposed board of directors' remuneration of KD 1,308 thousand for 2023 (2022: KD 1,096 thousand) falls within the permissible limits as per local regulations, subject to the general assembly approval.

KD Million

	2023	2022	2021	2020	2019
Net Profit attributable to shareholders of the Bank	584.5	357.7	243.4	148.4	251.0
Earning Per Share (Fils)	38.49	29.71	23.64	14.67	24.87
Net Financing Income	965.9	800.5	585.7	614.2	530.3
Total Operating Income	1,460.9	1,072.3	811.0	795.6	814.4
Net Operating Income	945.4	723.3	503.1	499.6	510.1
Total Assets	38,010	36,969	21,788	21,502	19,391
Financing Receivables	19,425	18,801	11,355	10,748	9,474
Investment in Debt Securities	7,006	6,085	2,735	2,742	2,292
Depositors' Accounts	21,813	21,030	15,038	14,056	12,676
Equity attributable to the Shareholders of the Bank	5,316	5,358	1,932	1,936	2,060

Executive Management

Mr. Abdulwahab Issa Al-Rushood

Acting Group CEO

Mr. Al-Rushood received his BA in Mathematics and Computer Science from Western Oregon State College in the US in 1987. He completed successfully the Strategic Leadership Program at Harvard Business School, in addition to numerous professional courses in Banking.

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

He possesses vast banking experience, spanning more than 35 years. During his professional career, he held numerous prominent leadership roles, starting in the Treasury Department at Gulf Bank. Upon transitioning to Kuwait Finance House, Mr. Al-Rushood has been promoted to various leadership positions within the Treasury Department since 2002, ultimately becoming the General Manager - Kuwait Treasury from 2013 until 2015.

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

Mr. Shadi Ahmed Zahran

Senior Deputy Group CEO - Finance

Mr. Zahran obtained his BSc in Accounting from the University of Jordan in 1992. He earned his Master of Business Administration (MBA) in Finance from the University of Manchester in the UK in 2014. He later completed the General Management Program at Harvard Business School in 2021. He is currently a doctorate researcher in SME finance at the Hult International Business School.

He has earned several professional certifications, including Certified Public Accountant (CPA) from the state of Illinois in the US in 1996, JCPA certificate from the Jordanian Council of the Auditing Profession in 1996, Certified Bank Auditor (CBA) from the Bank Administration Institute (BAI) in 1999 and Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in 2006.

Mr. Zahran is currently Senior Deputy Group CEO - Finance. Additionally, he serves as Vice Chairman of KFH Capital Investment Company and is a board member at Kuwait Finance House Bahrain, Kuveyt Turk Participation Bank, and Ahli United Bank UK. He is also a member of the Board of Trustees at AAOIFI and Vice Chairman of the Board of Trustees of the General Council for Islamic Banks and Financial Institutions (CIBAFI).

Throughout his career, he has held several executive positions, including Head of Financial Controlling at Ahli United Bank in Bahrain from 2005 to 2009, Chief Financial Officer at Ahli United Bank in Kuwait from 2009 to 2014 and Group Chief Financial Officer at Kuwait Finance House from 2014 to 2023. He previously served as Head of Financial Systems Management and Operations Department at Al Rajhi Bank in the Kingdom of Saudi Arabia from 2000 to 2005. Mr. Zahran formerly worked as an external auditor at international external audit firms such as Ernst & Young.

Mr. Khaled Yousef Al-Shamlan

Chief Executive Officer KFH Kuwait

Mr. Al-Shamlan received his BA in Economics from Kuwait University in 1995. He has completed numerous specialized courses in Leadership, Financial Analysis and Risk Management, such as the Managing Strategically and Leading for Results conducted by Harvard Business School and a 2-year specialized training program for graduates at Kuwait Investment Authority (KIA).

Currently, Mr. Al-Shamlan has been the Group Chief Executive Officer KFH Kuwait since August 2023. Also, he serves as a board member of KFH Capital Investment Company, the Shared Electronic Banking Company (KNET), and Ahli United Bank- Bahrain.

His extensive experience in the banking industry spans over 25 years, and has been accumulated over an extended professional career. He held numerous leadership roles at Kuwait Finance House including Group Chief Retail and Private Banking Officer from March 2022 to August 2023, Group General Manager Retail Banking from January 2021 to March 2022 and General Manager Corporate Banking -Kuwait from January 2018 to January 2021.

Mr. Fahad Khaled Al-Mukhaizeem
Group Chief Strategy Officer

Mr. Al-Mukhaizeem earned his Bachelor of Science in Engineering (BSE) and BA in Economics from Tufts University in the US in 1996. He received his Master of Business Administration (MBA) and MA in Economics from Boston University in the US in 2000. He has successfully completed numerous advanced training programs, including the Leadership Development Program at Harvard Business School in 2008.

He has held the office of Group Chief Strategy Officer at Kuwait Finance House since 2015. In addition, he has served as Chairman of International Turnkey Systems Group (ITS) since 2014. He also supervises and consults on duties related to the Head of GCEO Office Support.

Mr. Al-Mukhaizeem possesses vast banking experience spanning more than 20 years. He has held multiple prominent leadership roles at Kuwait Finance House including Group General Manager of Strategy and Corporate Affairs from 2013 to 2015. He previously held several executive positions within retail banking and other areas.

Throughout his career, he has successfully supervised the execution of several initiatives concerning the bank's business development in addition to being a valuable contributor in numerous restructuring programs and the establishment of various departments at Kuwait Finance House.

Mr. Zeyad Abdulla Al-Omar
Group Chief Human Resources and Transformation Officer

Mr. Al-Omar received his BA in English Language from Kuwait University in 1986. He possesses vast human resources experience spanning more than 30 years.

He has been the Chief Human Resources and Transformation Officer at Kuwait Finance House since 2021.

In 1986, he joined the Kuwait National Petroleum Company and was promoted to various high-level positions until being appointed General Superintendent of Salaries and Industrial Relations in 2001. He went on to hold several executive positions with other entities, including Human Resources Director and Chief Regulatory Officer at Wataniya Telecom from 2002 to 2011 and Corporate Affairs Director and Human Resources Director at Zain Group from 2011 to 2013.

Mr. Al-Omar has since served in various prominent leadership roles at Kuwait Finance House, including General Manager of Human Resources from 2013 to 2015.

Mr. Abdullah Mohammed Abu Al-Hous
Group Chief Operations Officer

Mr. Al-Hous received his BA in Business Administration specializing in Finance and Banking from Kuwait University in 1987. He attended the Senior Executive Leadership Program at Harvard Business School in the US in 2008 in addition to numerous professional courses and executive programs from the world's most reputable and prestigious business schools and financial institutions, including London Business School, INSEAD and the Wharton School. In 2019, he attended courses with J.P. Morgan, and in 2022, he completed the Global Banking Program at Columbia University in New York.

He has served as Group Chief Operations Officer at Kuwait Finance House since 2015. In addition, he serves as a board member of International Turnkey Systems Group (ITS). He previously held several executive positions including Group General Manager of Operations at Kuwait Finance House from 2012 to 2015, Chief Operations Officer at Warba Bank from 2011 to 2012 and Deputy General Manager of Operations Group at the National Bank of Kuwait from 2005 to 2011.

Mr. Gehad Mohamed El-Bendary
Group Chief Risk Officer

Mr. El-Bendary received his Bachelor of Commerce in Accounting from Tanta University in Egypt in 1996 and his Finance and Risk Management Diploma from the University of Wales in the UK in 2014. He has completed numerous specialized training programs, including the Enterprise Leadership course at INSEAD University, the Network Leadership Program at IMD University and the Advanced Risk Management program at the Wharton School. He also holds numerous professional certifications, including the International Certificate in Banking Risk and Regulation (ICBRR) from the Global Association of Risk Professionals (GARP), which he received in 2009.

He has been Chief Risk Officer at Kuwait Finance House since 2018. He brings over 23 years of experience in risk management, auditing, and internal control systems in financial institutions. He previously held several executive positions at Kuwait Finance House, including Head of the Risk Unit from 2007 to 2012, Head of the Enterprise Risk Management Unit from 2012 to 2013, Deputy General Manager of Portfolio and Enterprise Risk Management from 2013 to 2016, and General Manager Risk Management from 2016 to 2018. He is currently a board member at Kuveyt Turk Participation Bank (KTPB).

Mr. El-Bendary has spearheaded several initiatives, including the development of a robust enterprise-wide risk management program for KFH Group. In this project, he was responsible for establishing a framework, reviewing policies and designing a governance structure ensuring independent oversight for assessing adherence to board-defined strategy, risk policies, and risk standards, including Risk Appetite. He also oversaw the implementation of regulators' instructions, including Basel I, II and III, IFRS9 and liquidity frameworks and guidelines.

Mr. Wissam Sami El-Kari

Group Chief Internal Auditor

Mr. El-Kari received his BA in Business Administration from the American University of Beirut in Lebanon in 1996 and his Master of Applied Finance from the University of Melbourne in Australia in 2002. He also earned numerous specialized professional certifications in the US, including Certified Management Accountant (CMA) and Certified Internal Auditor (CIA) in 2001, Certified Bank Auditor (CBA) in 2007, Certified Fraud Examiner (CFE) in 2008, Financial Risk Manager (FRM) in 2012, and Certified Information Systems Auditor (CISA) and Certified Anti-Money Laundering Specialist (CAMS) in 2020. He has also completed many training programs, such as the Leading Strategy Execution in Financial Services at Harvard Business School in 2015.

He has held the title of Chief Internal Auditor at Kuwait Finance House since 2017, contributing his 24 years of knowledge and experience in assessing internal controls, risk management, and governance processes. During his career, he has served in prominent leadership roles while heading the Internal Audit Department at Kuwait Finance House since 2012. Prior to his tenure at KFH, he served as Assistant General Manager of Internal Audits and Banking Operations at Burgan Bank in Kuwait from 2005 to 2012.

Mr. Haitham Abdulaziz Al-Terkait

Group Chief Technology, Digital Transformation and PMO Officer

Mr. Al-Terkait obtained his BA in Mechanical Engineering Technology from Metropolitan State University in the US in 1989. He has also participated in several leadership training programs from institutions such as Harvard Business School.

He has held the position of Chief Information Officer at Kuwait Finance House since 2021. In addition, he serves as a board member of International Turnkey Systems Group (ITS).

Mr. Al-Terkait brings more than 30 years of knowledge and experience in information technology. Throughout his professional career, he has held numerous prominent leadership positions including Infrastructure Services Department Manager at Kuwait Finance House from 2002 to 2012, board member of the Shared Electronic Banking Company (KNET) from 2014 to 2018, and Chief Technology Officer at Warba Bank from 2012 to 2021.

Mr. Fawaz Munawer Al-Enezi

Group Chief Legal Officer and Board Secretary

Mr. Al-Enezi received his BA in Law from Cairo University in 2001 and his MA in Law from Tanta University in Egypt in 2006.

He has obtained many additional certifications, such as Diploma in Private Law, Diploma in Administrative Sciences, and Certified Trainee. He has completed several specialized courses in corporate governance and judicial arbitration from the Kuwait Bar Association Arbitration Center, in addition to various courses in Shari'a principles and legal and administrative matters.

Since 2023, Mr. Al-Enezi has held the position of Chief Legal Officer and has also served as Board Secretary of Kuwait Finance House since 2013. Additionally, he is currently Chairman of the board of directors of Al-Salam International Hospital Company (KSC) and a board member of Sidra Real Estate Company in the Kingdom of Saudi Arabia.

He has held several high-level titles, including Chairman of Modern Technology Factory for Drinking Water Bottling Company (Abraj), board member of Public Services Company, member of the Kuwaiti Bar Association, and member of the Arab Bar Association. In addition, he has served in several positions at KFH, including Senior Lawyer in the Legal Department from 2007 to 2011, Assistant Board Secretary from 2012 to 2013 and Deputy General Manager of the Legal Group from 2020 to 2023. He previously worked as a lawyer and legal consultant in various law firms from 2001 to 2007.

Mr.Isa Abdulla Al-Dowaishan

Group Chief Internal Shari'a Auditor

Mr. Isa Al-Dowaishan received his Master's of Science in Banking and Finance from the Arab Academy for Banking and Financial Sciences in The Hashemite Kingdom of Jordan in 2000, majoring in Islamic Banking. He earned his BA in Accounting from Imam Muhammad Bin Saud Islamic University -Academy of Shari'a and Islamic Studies, in 1991. Moreover, he has completed an Advanced Diploma in Islamic Commercial Jurisprudence from Bahrain Institute of Banking and Finance in 2014. In addition to his academic qualifications, he is a Certified Shari'a Auditor (CSA) accredited by Central Bank of Kuwait, a Certified Shari'a Advisor and Auditor (CSAA) by Accounting and Auditing Origination for Islamic Financial Institutions (AAOIFI) in 2007, and an Arabic Certified Public Accountant (A-CPA) in 1997.

Mr. Al-Dowaishan is currently the Group Chief Internal Shari'a Auditor at Kuwait Finance House since 2015. He is also a Shari'a Board Member at Kuwait Finance House (Malaysia) Berhad since 2012, and also a Shari'a Board Member at the International Islamic Financial Markets (IIFM) since 2019. Moreover, he is currently the Chairman of Technical Committee to review Islamic Shari'a Standards at Bahrain Association of Banks (BAB), and Chairman of Shari'a Committee at Kuwait Banking Association.

Mr. Ahmad Eissa Al-Sumait
General Manager Treasury Kuwait

Mr. Al-Sumait received his BA in Political Science from Kuwait University in 1999. He has attended a vast range of prestigious training programs, including the Senior Executive Leadership Program (SELP) and Decision-Making Strategies course at Harvard Business School, among others. He possesses vast banking experience spanning more than 23 years.

He has served as General Manager of Treasury (Kuwait) at Kuwait Finance House since 2017.

Throughout his career, he has held numerous prominent leadership roles at Kuwait Finance House, including both Senior and Executive Money Market Manager. He was promoted to various leadership positions within the Treasury Department from 2006 until 2015.

Additionally, Mr. Al-Sumait served as a board member of Liquidity Management House from 2012 to 2013. He also held the position of Chairman of the Board of Directors of Energy House Holding Company from 2015 to 2020. He is currently Chairman of Kuwait Financial Markets Association.

Mr. Mazyed Abdulatif Al-Mazyed
General Manager Digital Transformation and Innovation

Mr. Al-Mazyed received his BA in Computer Science from Kuwait University in 1993. He has also completed several specialized training programs, such as the Managing Strategically and Leading for Results course at Harvard Business School in 2013, the Network Leadership Program at IMD University in 2017 and the Enterprise Leadership Program at INSEAD in 2018.

He has been General Manager of Digital Transformation and Innovation at Kuwait Finance House since 2021. He possesses vast information technology experience spanning more than 30 years. He has held numerous prominent leadership roles at Kuwait Finance House during his career, including Deputy General Manager of Information Technology from 2013 to 2016 and of System Development from 2016 to 2021. Prior to these roles, he was promoted to various leadership positions within the Information Technology Department from 2001 to 2013.

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

Mr. Dherar Al-Reshaid
General Manager Internal Audit KFH Kuwait

Mr. Al-Reshaid received his BA in Accounting and Auditing from Kuwait University in 1999. He holds many specialized professional certificates including Certified Information Systems Auditor (CISA) and Certified Internal Auditor (CIA), which he earned in the US in 2002, as well as Certified Investments and Derivatives Auditor (CIDA), also completed in the US in 2005. He has also completed several leadership training programs at Harvard Business School and the International Institute for Management Development (IMD).

Since 2022, Mr. Al-Reshaid has served as General Manager of Internal Audits (Kuwait) at Kuwait Finance House. He brings vast experience spanning more than 23 year and is an expert in assessing internal controls, risk management, and governance processes. During his career, he has held numerous prominent leadership titles, including Internal Audit Director at Kuwait Telecom Company (STC) from 2009 to 2012 and at Capital Markets Authority (CMA) from 2012 to 2020.

Mr. Yousef Al-Mutawa
General Manager Corporate Banking

Mr. Al-Mutawa received his Bachelors of Arts in the US in 2000. He has also completed several professional development programs at respected institutions, including Colombia Business School, INSEAD and Harvard Business School. He has built an impressive career in the banking industry and brings diverse experience and expertise in the financial sector.

He has joined Corporate Banking at Kuwait Finance House in 2017. Prior to this, he held prominent leadership positions at various banks in Kuwait, working at the National Bank of Kuwait (SAK) from 2000 to 2009 and serving as Head of Commercial Banking at the National Bank of Abu Dhabi (PJSC) from 2009 to 2017.

Mr. Jamal El Din Al-Humiari

General Manager Financial Control and Regulatory Reporting

Mr. Al-Humiari received his Bachelor of Commerce in Accountancy from Cairo University in Egypt in 1989.

He earned his Master of Business Administration (MBA) from Kuwait Maastricht Business School in 2009. He became a Certified Public Accountant (CPA) in the State of California in the US in 2000.

In 2021, he completed several advanced leadership courses, including the Harvard Business Publishing Transformational Leadership Program, the IMD Network Leadership Program and the Headspring Transactional Leadership Program.

Mr. Al-Humiari began his career as Chief Accountant in the commercial sector at KFH in 1995 and continued with the company until 2001. He rejoined KFH Group as Deputy General Manager in 2015 and was promoted to General Manager in 2022. Currently, he is serving as Acting Chief Financial Officer.

He previously held the position of Executive Manager of the Financial Control and Reporting Department at Boubyan Bank in Kuwait from 2005 to 2015.

Abdullah Abdulhameed Al-Marzouq

General Manager Financial Institutions

Mr. Al-Marzouq earned his BSc in Mechanical Engineering from Tufts University in 1994 and his MBA in Financial Management from the Massachusetts Institute of Technology Sloan School of Management in 2002.

With 28 years of extensive banking and investment expertise, Mr. Al-Marzouq has spent the past 15 years at KFH, currently serving as the General Manager for Group Financial Institutions. In 2013, he held the position of Deputy General Manager for International Banking and Investments. Presently, he serves on the boards of KFH Bahrain and Hayat Investment Company. He previously represented KFH on the boards of Saudi Kuwait Finance House (a CMA licensed investment company), Baitek Real Estate in Saudi Arabia, and Ibdar Bank in Bahrain.

Before joining KFH, Mr. Al-Marzouq worked as an investment banker with HSBC in the Middle East. Preceding this, he led Stocklord Asset Management—a derivatives trading hedge fund with a focus on energy, commodities, and real estate. His banking career commenced in 1995 at the National Bank of Kuwait, where he rose to head Corporate Finance before departing in 2004.

Corporate Governance Report 2023

Introduction

Kuwait Finance House adopts a governance framework in line with the best global practices and adheres to the regulatory instructions issued by the relevant authorities in the countries in which the Group operates. KFH Board of Directors exerts unremitting and continuous efforts to ensure that work within KFH Group proceeds in accordance with this framework. The Board works continuously on developing this framework to achieve the highest levels of governance and good management.

The Board also periodically reviews the applied governance policies and procedures to ensure full compliance with the governance instructions and all mandatory requirements issued by the regulators. KFH implements governance rules and regulations adopted at Kuwaiti banks level in addition to Shari'a Control governance instructions at Kuwaiti Islamic banks level issued by CBK. The Group also ensures that all subsidiaries implement the instructions imposed by other regulatory authorities to which these subsidiaries are subject.

KFH Board of Directors is keen on enhancing the governance culture within the Bank and implementing a flexible governance framework to achieve KFH's objectives and visions towards sustainable development for the benefit of its shareholders and the communities in which it operates. This will ensure the smooth and secure operation of KFH's business, allowing it to adapt to the fast developments witnessed in both conventional and Islamic banking.

KFH Board Governance and Sustainability Committee assists the Board in supervising the governance framework, enhancing the transparency and disclosure principles, and supervising the sustainability periodic reporting process. In 2023, the Governance and Sustainability Committee supervised the issuance of KFH Sustainability Report 2022 in accordance with GRI Sustainability Reporting Standards.

KFH reviews regularly the governance updates and the standards issued by global organizations on governance. It also conducts a periodical review on governance and disclosure applications to assess their efficiency at the Group level to protect the interests and rights of shareholders and stakeholders and ensure the availability of all information in a timely manner with transparency and neutrality in implementation of KFH approved disclosure policy.

The governance practices of subsidiaries are subject to auditing and periodic review according to the Group's approved corporate governance policy. Additionally, they must comply with the instructions imposed by other regulatory authorities inside and outside Kuwait.

Moreover, KFH lays absolute emphasis on its commitment to the teachings and provisions of Islamic Shari'a in all its transactions. To fulfill this commitment, KFH developed a Shari'a Supervisory System that aligns with the nature of its business and adheres to the highest international standards in this field. This system comprises the following:

1- Fatwa and Shari'a Supervisory Board:

KFH Fatwa & Shari'a Supervisory Board enjoys full independence and support of the Board to conduct its activities of monitoring the Bank's business and ensuring its compliance with the Shari'a principles. The Committee comprises highly reputable and recognized scholars, having vast experience in Shari'a. The General Assembly of the Bank assigns these scholars and determines their remuneration. The Fatwa and Shari'a Supervisory Board bases its ruling on the consensus of the majority of its members. In the case of a tie and continued disagreement the Board of Directors shall refer the issue to the Central Bank of Kuwait's Higher Committee of Shari'a Supervision.

2- Shari'a Research and Advisory

KFH Shari'a Research and Advisory department is responsible for the preparation of research and development of products and services offered by KFH. It also provides technical support and guidance to the Executive Management, oversees the daily operations of various departments in accordance with the provisions of Shari'a, and assists the Fatwa and Shari'a supervisory Board in conducting its duties effectively.

3- Group Internal Shari'a Audit

KFH has a specialized Shari'a team that supports the Fatwa & Shari'a Supervisory Board. Through its direct and constant supervision conducted by its supervisors deployed in all business units, the department ensures KFH's compliance with Shari'a provisions and Fatwa & Supervisory Board Committee decisions in all the Bank's businesses, activities, products, services, and contracts.

4- External Shari'a Audit

KFH assigns an independent external Shari'a auditor to verify that Fatwa & Shari'a Supervisory Board decisions are being implemented properly to ensure more impartiality and the implementation of regulatory instructions. This supports the Shari'a regulatory system at KFH and preserves the integrity of the approach, and the good application of Shari'a rules and fatwas.

KFH Corporate Governance framework is prepared and published on KFH's website. Overall, KFH has taken the lead in implementing all various aspects of governance principles and standards, ensuring adherence to all new standards, and continuing its ongoing efforts to develop governance systems and mechanisms at the Group level by applying the best global practices.

Highlights of KFH's Governance and Sustainability Practices in 2023:

In 2023, KFH continued to prioritize sustainability standards in the environmental, societal, and governance areas. This commitment was demonstrated through various initiatives aimed at benefiting customers, shareholders, and communities as one of the leading banks in the region. KFH also ensured implementing a sustainability strategy approved by the Board of Directors that aligns with the State of Kuwait 2035 vision and the United Nations Sustainable Development Goals (SDGs).

During this year, KFH successfully completed the merger by amalgamation with Ahli United Bank - Kuwait, which further strengthened the financial sustainability and benefited shareholders. The Bank also remained dedicated to supporting environmental projects through its "Keep it Green" campaign. Furthermore, 2023 marked an important milestone for the youth segment with the launch of Tam Digital Bank, First Shari'a-Compliant Digital Bank in Kuwait, in addition to launching "Zaheb" digital platform which is specialized in offering smart payment solutions for SMEs.

In terms of green financing and sustainable products, KFH launched the first financing of its kind aimed at funding private housing for citizens. This initiative involves constructing houses in line with environmental standards, utilizing recycled materials and other resources that help conserve nature and reduce energy consumption, in addition to employing solar energy for generating electricity.

KFH made its first participation in the United Nations' Conference of the Parties (COP28) which took place in Dubai, United Arab Emirates. During the conference, KFH was keen to showcase its significant role in sustainability by presenting its key achievements and initiatives in the field and conducting various workshops at KFH's booth in collaboration with the United Nations Development Program (UNDP).

Governance:

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

First line: Functions comprising risks.

Second line: Risk management functions and Regulatory Compliance functions.

Third Line: The Internal Audit functions.

This model led to resilience and flexibility in conducting business and meeting regulatory requirements, as well as carrying through the vision of the KFH Board of Directors in achieving its strategic objectives and providing harmony between different stakeholders. KFH's adoption of sustainable business principles over the past years contributed to enhancing leadership and ability to overcome obstacles while maintaining business excellence and adding value to all stakeholders.

In 2023, KFH undertook initiatives to enhance governance and sustainability across its business. Most notable of these initiatives are the following:

1- Disclosure and Transparency:

KFH's disclosure policy constitutes one of the pillars of corporate governance. KFH adopts a clear framework that enhances the principle of disclosure and transparency and ensures fairness and equality in the timely delivery of information to stakeholders as required by the regulatory authorities and in line with the best international practices. Additionally, the Board reviews this policy periodically and ensures its implementation accordingly.

Our external auditors of the Group are EY and Deloitte & Touche. In addition to the audit and review of our financial reports, EY and Deloitte provide other services throughout the year comprising of other assurance and non-assurance services including audit and review of subsidiaries, other statutory assurance and agreed upon procedures services to Group, tax services etc. Total remuneration of the external auditors for group audit and other services was KD 2,533 thousand, comprising of audit fees of KD 1,653 thousand, and other assurance and services of KD 880 thousand. We have processes in place to maintain the independence of our external auditor, including the nature of expenditure on non-audit services.

2- Enhancing the Code of Business Conduct:

At KFH, we rely on the highest standards of adherence to the Code of Business conduct, starting from the members of the Board of Directors to all employees of KFH. Therefore, the Board of Directors has been keen to strengthen the framework of the code of business conduct through strict policies and procedures to ensure that KFH enjoys integrity, credibility and maintains the Group's strong reputation.

The Board annually reviews the policies and procedures regulating the framework for professional behavior, which consists of the following:

- Code of Business Conduct policy.
- Conflict of Interest policy.
- Related Party policy.
- Information Security policy.
- Whistle Blowing policy.
- Anti-Bribery and Corruption policy.

The Board of Directors reviews, signs, and commits to these policies. KFH employees also review and sign these policies on an annual basis. At KFH, we are committed to promoting the culture of adherence to ethical standards through periodic training programs and awareness publications.

3- Taking Care of KFH Employees:

At KFH-Kuwait, we are proud of establishing an ethical, fair, and balanced work environment to prepare our employees as future leaders in alignment with Islamic principles and our corporate values. Accordingly, our business model is based on value creation to empower and actively engage our employees at all levels of management. Their needs and feedback are reflected in all our strategic initiatives and practices, which can be summarized in five main pillars:

- Attractive and engaging work environment.
- Professional growth and career development.
- Effective communication between the Executive Management and employees.
- Culture, professional ethics and transparency.

In KFH, we believe that human capital is the basis of our success and employees are partners in that success. Therefore, we ensure the development of our human capital and attraction of the best talents to carry on our leadership legacy. We invest in training and development through our partnerships with the best service providers in the world, offering the best training programs for our employees.

KFH provided programs and training courses using modern technology. Throughout the year, 3123 employees received training programs and courses at a rate of 88,028 training hours, with an average of 28 hours per employee. We have contracted with world-class training service providers such as: Deloitte– Euromoney – Headspring - Destination Outdoors Learnings Solutions - Diversified Integrated Sports Clinic (DISC) -National Leadership Institute (NLI) -Bbusiness -Dcarbon -Leantech - Seattle/CISI - Gulf University for Science & Technology (GUST) - IBS - KFAS/ Said Business School - United Development Company (UDC) - BSI Training Academy - Women Mentor Forum - Global Knowledge - SUMOU- KPMG.

The Training Department evaluates the programs periodically to ensure their effectiveness. It also assesses employees' need for training courses, relative to each employee's field, competence, and experience, in order to provide tailored programs that cover the Bank's business. In addition, the department arranges leadership programs to develop KFH human capital according to the approved succession plans for qualifying future leaders.

Each year, KFH grants opportunities for employees to continue their studies by providing scholarships for Master's degree. KFH also supports newly graduated employees by enrolling them in its (Forssah) training program in which KFH trains and refines their skills preparing them to assume leadership positions within the Bank in the future. The program includes practical training in the Bank as well as intensive training courses inside and outside the State of Kuwait.

KFH is keen to have professional and flexible communication tools to represent employees, support their requirements and respond to their inquiries. The Bank has 6 business partners assigned by the Bank's various departments. They represent a point of contact between multiple business areas.

In recognition of the vital role women play in the workplace and the economic arena, KFH takes pride in its female employees who comprised 22.5% of the total workforce by the end of 2023, while emphasizing its endeavor to increase the percentage by attracting and recruiting female talents that fit KFH's strategic vision.

4- Social Responsibility:

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

- The second edition of KFH Obstacle Challenge, the biggest of its kind in Kuwait as part of KFH's endeavors to support the youth and the community.
- The biggest walking challenge throughout the month of Ramadan, in collaboration with V-Thru, KFH's strategic partner.
- The launch of "Increase Good Deeds in Ramadan" campaign which focused on various societal initiatives. These included Iftar meals, sporting events, Qur'an related contests, daily interaction with the public, valuable competitions and prizes, Gerge'an events, awareness videos in collaboration with doctors and nutritionists as well as videos on traffic awareness in collaboration with the Ministry of Interior.
- The honoring ceremony to celebrate high school toppers for the year 2022, in the literary, scientific and religious studies sections in addition to students at private schools.
- The extension of the strategic partnership with Sadu House which commenced in 2019 to sponsor activities for different group ages and solidify the Bank's strategy in sustainability and social responsibility.
- The signing of the Design and Supervision Contract for Al Mubarakiya Reconstruction Project under which KFH sponsored restoring the damaged area in Al Mubarakiya fire incident.
- The support of the social relief aid inside and outside the State of Kuwait such as the contribution of a USD 20 million amount to aid the areas affected by the earthquake in Syria and Turkiye. This included offering urgent needs for the victims in collaboration with Kuwait Red Crescent Society.
- The renewal of the strategic partnership with CODED Academy as part of the social responsibility and keenness to support innovation and technology under KFH's sustainability and digital transformation enhancement strategy.
- The signing of a MoU with the Australian University (AU) for strengthening cooperation between the two sides in terms of training, teaching, and attracting talents, in addition to organizing workshops, educational and social programs, as well as supporting students and academic initiatives to raise educational standards and scientific research.
- The sponsorship of the "Future Makers" program graduates as part of reinforcing youth capabilities and advancing education in the community.
- The continued sponsorship of the graduates' projects in the Engineering Design Exhibition, in which the Bank sponsored more than 50 projects during the exhibition and over 100 students design projects throughout the academic year.

- The extension of the Kuwait Winter Wonderland project with the Touristic Enterprises Company.
- The launch of the third program edition for the training of students with special needs at various KFH departments. The program grants students with special needs the opportunity to engage with society, learn new skills and gain experience through direct interaction with employees and customers.
- The launch of the annual breast cancer awareness campaign titled "You are Stronger" to educate women on protective measures. The campaign was held throughout the month of October coinciding with Breast Cancer Awareness Month.
- The launch of "Movember" campaign to raise awareness of men health issues and the right preventive measures.

KFH's Social Contributions in 2023:

"Value in Kuwaiti Dinar"

Humanitarian & Social Donations & Contriburions	Contribution made to KFAS	National labor Support tax (NLST)	Contribution made to Institute of Banking Studies
43,828,514	3,248,672	9,258,797	674,381

5- Environment Protection:

KFH pays special attention to issues related to climate change and the environment for their significant impact on economy and sustainable development of society. Therefore, KFH works closely with local and international bodies and institutions interested in environmental issues. This is achieved through partnerships such as our partnerships with the United Nations Development Program and Kuwait's Environment Public Authority to provide many important contributions to various projects and initiatives focusing on preserving the environment and mitigating the negative impacts of climate change. The Bank also supports the efforts towards a zero-carbon economy at the Group level and its units in different countries.

During 2023, KFH launched several initiatives including:

- The participation in the 3-day Climate Change Hackathon conference organized by Gulf University for Science and Technology (GUST) to support environment preservation efforts.
- The announcement of the strategic partnership with the Scientific Center, a subsidiary of Kuwait Foundation for the Advancement of Sciences, to encourage cooperation in areas of environmental preservation and sustainability.
- The replacing of plastic bottles with reusable bottles in collaboration with the Scientific Center.
- The launch of the Sustainability Academy in partnership with SEEDs under KFH's sustainability strategy and "Keep it Green" campaign for environment preservation.
- The organizing of the first roundtable discussion on Takaful's role in mitigating climate risks in cooperation with the UNDP.
- Participation in the 28th Conference of Parties (COP28), in collaboration with the UNDP, which took place in Expo City, Dubai. This participation is part of the Bank's commitment towards supporting sustainability initiatives, countering climate change implications, and promoting the role of green finance.
- The launch of Printer Management Solution initiative which aims to observe international standards in sustainable printing, adopt digital solutions, and raise awareness of the importance of preserving the environment by rationalizing the use of paper and ink in most of its dealings.
- The launch of the internal initiative to reduce the use of plastic among employees and preserve the environment by replacing plastic water bottles with insulated stainless-steel ones which maintain liquids temperature for longer hours.

6- Shareholders and Stakeholders' Rights:

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

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

We also ensure the protection of stakeholders' rights including employees, depositors, creditors, vendors and others by adhering to policies and procedures that ensure the protection of their rights.

Governance Requirements in the Annual Report

Ownership shares as on 31/12/2023

Authority	Ownership form	Country	Ownership ratio
Kuwait Investment Authority	Direct	Kuwait	16.658%
Public Institution for Social Securities	Direct and indirect	Kuwait	9.18%
Public Authority for Minor Affairs	Direct	Kuwait	7.253%
General Foundation of Awqaf	Direct	Kuwait	5.048%

Board Members' Duties and Responsibilities

1- General responsibilities of the Board of Directors

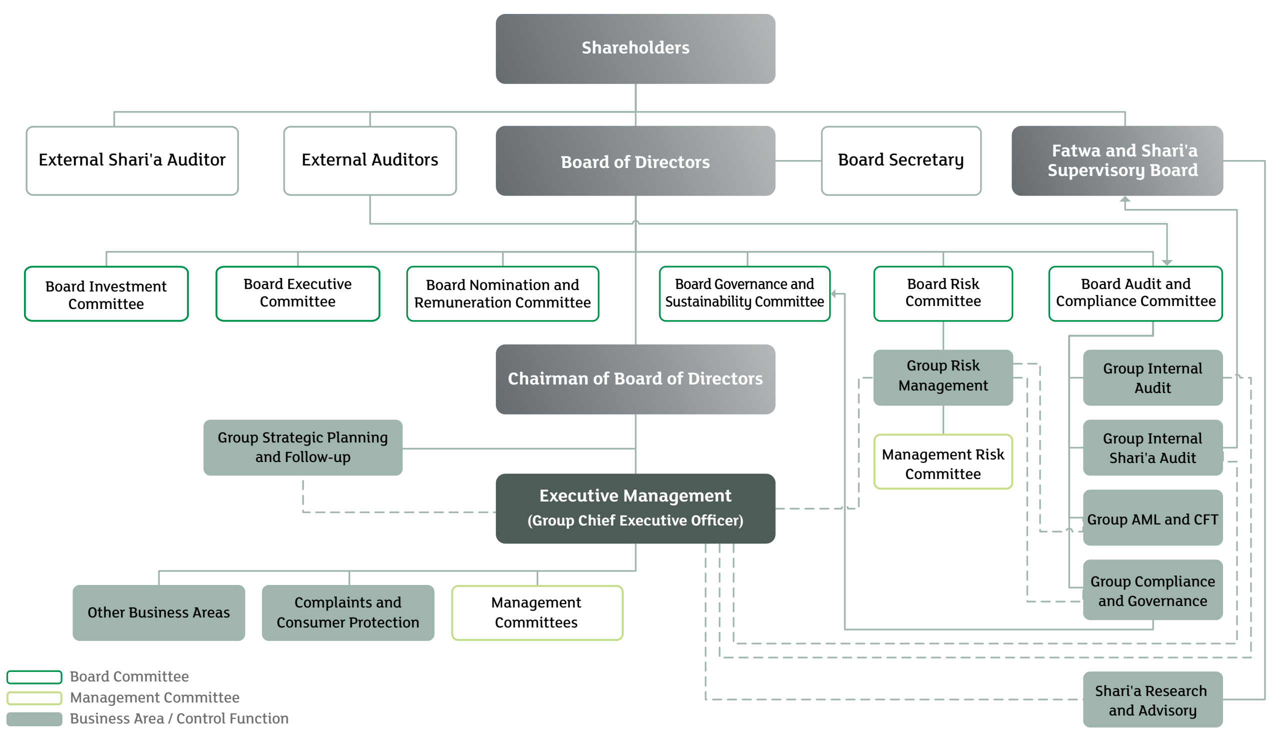
The Board of Directors bears full responsibility for KFH. It sets strategic goals, risk strategy and all matters related to governance standards. Accordingly, the Board is responsible for overseeing the implementation and supervising the proper execution of these goals and standards, in addition to its responsibility of supervising the Executive Management. Additionally, the Board bears all the responsibilities related to KFH's operations and its sound financial position. It ensure KFH's compliance with the requirements of Central Bank of Kuwait, Capital Market Authority, and relevant laws. The Board ensures preserving the interests of the shareholders, depositors, creditors, employees and other stakeholders. Also, the Board ensures that KFH is managed in a professional and prudent manner in line with KFH's applicable rules, regulations, and bylaws while fully complying with Islamic Shari'a principles.

Governance Structure

Board structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise fourteen (14) members including four (4) independent members. The Ordinary General Assembly shall, by a secret ballot, elect the members for a three renewable years term in the Board. The term of membership of the independent member shall expire upon the expiry of the Board's term for which the members were selected. The Ordinary General Assembly may select them for one another term subject to the Companies Law and its amendments in addition to the instructions of the other regulatory authorities. The Board of Directors shall, by a secret ballot, elect a Chairman and a Vice Chairman for a term of three years.

KFH Board Governance Structure



1.2. Chairman's role

Considering the significance of this role, the Chairman ensures proper functioning of the Board, maintains mutual trust and collaboration among Board members, and ensures that the decision–making process is based on sound principles and information. Also, the Chairman encourages effective discussions, fosters the exchange of viewpoints within the Board, and ensures timely reporting of sufficient information to the Board members. Furthermore, the Chairman plays a key role in maintaining a productive relationship between the Board of Directors and the Executive Management.

2- The Relationship between the Board of Directors and the Executive Management

KFH maintains cooperation and clear segregation of powers between the Board of Directors and Executive Management. As such, the Board's responsibility is to provide guidance and leadership, and adopt strategies, plans and policies. The Executive Management, on the other hand, takes responsibility for implementing the strategies and policies approved by the Board while ensuring that the Board and its members are totally independent from the Executive Management. The Board also ensures that Executive Management is implementing the policies preventing and limiting the activities and relations which might affect or limit sound principles of corporate governance i.e., Conflict of Interests and the Remuneration Policy.

3- Organizing Board of Directors Activities

The Board of Directors held (21) meetings in 2023 during its current 16th session, whereas it held (16) meetings in 2022. The meetings are held whenever the need arises. The number of meetings exceeded the the regulatory requirements stipulated in the Companies Laws and the corporate governance guidelines issued by CBK. According to these requirements, a minimum of (6) meetings per year is required, with at least one meeting every quarter. The decisions made during these meetings shall be binding and part of KFH's records.

In 2023, the Board of Directors adopted (41) resolutions by passing, while the Board committees adopted (29) resolutions by passing during the same period.

The Chairman of the Board consults with the Senior Executive Management on important matters to be considered for inclusion in the Board meetings' agenda and provides Board members with the sufficient information well in advance of the meetings to facilitate necessary decision-making. The Board secretary records all Board discussions, recommendations and voting results in the meeting. The responsibilities of the Chairman and members of the Board are set in writing and determined as per related legislations and regulations.

4- Board Meetings

Date of meeting	11 Jan.	1 Feb.	9 Feb.	13 Feb.	16 Feb.	6 Mar.	13 Mar.	10 Apr.	8 May	29 May	8 Jun.	12 Jun.	10 Jul.	31 Jul.	11 Sep.	18 Sep.	1 Oct.	10 Oct.	19 Oct.	6 Nov.	11 Dec.	Total attendance	Total absence	Total meetings
Name/number of meetings	**50**	**51**	**52**	**53**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**			
Hamad Abdulmohsen Al Marzouq	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Abdulaziz Yacoub Al Nafisi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Ahmad Abdullah Al Omar	Member since 16 Feb. 2023				√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	17	-	17
Sheikh/ Salem Abdulaziz Al Sabah	Member since 16 Feb. 2023				√	√	√	√	√	√	√	√	X	√	√	√	√	√	√	√	√	16	1	17
Noorur Rahman Abid	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Salah Abdulaziz Al Muraikhi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Mohammad Naser Al Fouzan	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Ahmad Hamad Al Thunayan	Member since 16 Feb. 2023				√	√	√	√	√	√	√	√	X	√	√	√	√	√	√	√	√	16	1	17
Hamad Abdellatif Al Barjas	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Khalid Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Fahad Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	X	√	√	√	√	√	20	1	21
Ahmad Meshari Al Fares	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	21	-	21
Hanan Yousef Ali	√	√	√	√	Membership ended on 16 Feb. 2023																	4	-	4
Motlaq Mubarak Al-Sanei	√	√	√	√	Membership ended on 16 Feb. 2023																	4	-	4

5- Board Committees

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

The Board sub-Committees are:

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

Formation of Board Committees		Board Sub-Committees					
Board of Directors		Executive	Audit & Compliance	Nomination & Remuneration	Risk	Governance & Sustainability	Investment
Chairman	Hamad Abdulmohsen Al Marzouq	●				●	
Vice Chairman	Abdulaziz Yacoub Al Nafisi	●		●			
Members	Sheikh/ Salem Abdulaziz Al Sabah					●	
	Ahmad Abdullah Al Omar			●			●
	Fahad Ali Al Ghanim	●	●				●
	Muad Saud Al Osaimi	●	●				●
	Khalid Salem Al Nisf	●			●		●
	Noorur Rahman Abid		●	●			
	Hamad Abdellatif Al Barjas		●	●		●	
	Salah Abdulaziz Al Muraikhi	●	●			●	
	Ahmad Hamad Al Thunayan			●	●		●
	Mohammad Naser Al Fouzan				●		●
	Ahmad Meshari Al Fares				●	●	
	Kuwait Investment Authority representative (not yet assigned)				●	●	

For additional details, kindly refer to the specific section on the Board of Directors in this report.

5.1. Audit and Compliance Committee

The Audit and Compliance Committee was formed to assist the Board in fulfilling its supervisory responsibilities over the Bank's accounting operations, financial control systems, internal audit function, compliance, AML/CTF, in addition to the management of financial reports in coordination with internal and external auditors to ensure compliance with regulatory requirements. The Audit Committee is comprised of five Board members and chaired by one of the independent members. At least two of the members must have knowledge of financial matters to perform their duties as members of the committee. Their membership of this Committee must coincide with their Board membership term.

Meetings are held whenever the need arises, provided that the number of meetings in one year is not less than four meetings. During 2023, the committee held (5) meetings and issued (6) resolutions by passing.

The key duties of the committee include but are not limited to the following:

- Supervise KFH's internal controls and systems and ensure sufficiency of human resources required for control functions.
- Provide recommendations concerning external auditors' appointment, dismissal, fees, qualifications, and objectivity of their professional opinion and circulate auditing partners in accordance with regulatory requirements.
- Ensure the Bank's compliance with the laws and instructions issued by the regulatory authorities.
- Appointing or dismissing the head of the internal audit, head of compliance and head of anti-money laundering and combating the financing of terrorism and make recommendations to the Board in this respect as well as assess their performance and determine their remunerations.
- Review the quarterly and annual financial statements with the Executive Management and the external auditor.
- Review accounting issues having significant impact on the financial statements.
- Review provisions required and ensure their adequacy thereof and arrange discussions with the Executive Management in this regard.

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

Names of the Audit and Compliance Committee members and the number of meetings held in 2023

Date of meeting	10 Jan.	9 Apr.	9 Jul.	9 Oct	10 Dec.	Total attendance	Total absence	Total meetings
Name/number of meetings	15	1	2	3	4			
Mr. Noorur Rahman Abid (Chairman)	√	√	√	√	√	5	-	5
Mr.Salah Abdulaziz Al Muraikhi	√	√	√	√	√	5	-	5
Mr. Mohammad Naser Al Fouzan	√	Membership in the committee ended on 16 Feb. 2023				1	-	1
Mr. Hamad Abdellatif Al Barjas	√	√	√	√	√	5	-	5
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	5	-	5
Mr. Muad Saud Al Osaimi	Committee member since 16 Feb. 2023	√	√	√	√	4		4

5.2. Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed to assist the Board of Directors in meeting its obligations regarding the selection of qualified individuals for the Board and Senior Management membership and assess the performance of the Board and its committees. The committee assists the Board in supervising short and long-term remuneration systems. The committee also recommends the remunerations of the Board members and employees. It is comprised of 5 members and chaired by one of the independent members.

Committee meetings are held whenever the need arises, provided that the number of meetings in one year is not less than two meetings. During 2023, the committee held (9) meetings and issued (6) resolutions by passing.

The key functions of the Committee include but are not limited to the following:

- Recommend nomination of persons qualified to act as Board members based on CBK approved policies, standards, and instructions regarding membership nominations.
- Recommend appointment of the CEO and his deputies, except the Chief Risk Management who shall be elected by the Risk Committee and the Chief of Audit and the Chief of Compliance who shall be elected by the Audit and Compliance Committee.
- Conduct an annual review of the required Board membership skills, determining the skills to be enjoyed by the Board members and the subcommittees, as well as present suggestions on the organizational structure.
- Annual evaluation of the overall performance of the Board and the performance of members individually and provide recommendations on the members' remunerations.
- Provide suggestions on Bank fixed and variable remuneration policy structure and submit the same to the Board for approval.
- Conduct periodical review on the remuneration policy or when recommended by the Board and present recommendations to the Board to amend/ update such policy.
- Conduct independent annual revision of the remuneration system to evaluate the Bank's compliance with the financial remuneration practices, either through internal Audit Department or an outsource consultancy bureau.
- Study the replacement plan and apply election and evaluations standards for possible replacements of high officials at the Bank including changes in emergency cases and in case of any vacant posts and present the same to the Board of Directors for approval.
- Recommend to the Board of Directors, the nomination, renomination or termination of the membership in the Fatwa and Shari'a Supervisory Board and ensure transparency of appointment and reappointment of members of the Fatwa and Shari'a Supervisory Board.

Names of the Nominations and Remuneration Committee members and the number of meetings held in 2023

Date of meeting	9 Jan.	01 Feb.	12 Feb.	09 Apr.	18 Jun.	09 Jul.	10 Sep.	08 Oct.	10 Dec.	Total ttendance	Total absence	Total meetings
Name/number of meetings	**19**	**20**	**21**	**01**	**02**	**03**	**04**	**05**	**06**			
Mr. Noorur Rahman Abid (Chairman)	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Abdulaziz Yacoub Al Nafisi	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Motlaq Mubarak Al-Sanei	√	√	√	Membership ended on 16 Feb. 2023						3	-	3
Mr. Hamad Abdellatif Al Barjas	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Ahmad Abdullah Al Omar	Member since 16 Feb. 2023			√	√	√	√	√	√	6	-	6
Mr. Ahmad Hamad Al Thunayan	Member since 16 Feb. 2023			√	√	X	√	√	√	5	1	6

5.3. Risk Committee

The Risk Committee was formed to support the Board in meeting its responsibilities of overall supervision of the risk conditions, risk strategies and the Bank's risk appetite towards credit, banking, real estate, and investment activities.

The committee comprises (5) members chaired by one of the independent members. It holds its meetings whenever the need arises provided that the total number of meetings in a year is not less than (4). During 2023, the committee held (6) meetings and issued (3) resolutions by passing.

The committee performs several duties and responsibilities as follows:

- Ensure the adequacy of the risk appetite adopted by the Bank with the Board's tendencies in this respect and ensure identification of key risks.
- Review adequacy of the Bank's risk management practices on at least quarterly basis.
- Review risk management standards and internal controls to ensure proper management of material risks in the Bank's businesses and provide supervision over credit risk, capital market risk, liquidity risk, asset and liability management risks, legal risks in addition to all relevant risks.
- Review internal audit results for capital adequacy, stress tests, and liquidity to ensure the Bank's resilience to emerging or new risks.
- Review and supervise Risk Department structure, duties, and responsibilities, in addition to assessing the performance of the department's head.

Names of the Risk Committee members and the number of meetings held in 2023

Date of meeting	29 Jan.	15 Mar.	1 May	16 Jul.	10 Sep.	16 Nov.	Total ttendance	Total absence	Total meetings
Name/number of meetings	**18**	**1**	**2**	**3**	**4**	**5**			
Mr. Ahmed Meshari Al Faris (Chairman)	√	√	√	√	√	√	6	-	6
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	6	-	6
Mr. Muad Saud Al Osaimi	√	Membership in the committee ended on 16 Feb. 2023					1	-	1
Mr. Motlaq Mubarak Al-Sanei	√	Membership ended on 16 Feb. 2023					1	-	1
Ms. Hanan Yousif Ali Yousif	√	Membership ended on 16 Feb. 2023					1	-	1
Mr. Mohammed Nasser Al Fouzan	Committee member since 16 Feb. 2023	√	√	√	√	√	5	-	5
Mr. Ahmad Hamad Al Thunayan	Member since 16 Feb. 2023	√	√	√	√	√	5	-	5

5.4. Governance and Sustainability Committee

The Board Governance and Sustainability Committee was formed to assist the Board in meeting its supervisory responsibilities of implementing the Governance rules and standards, developing governance policies, monitoring compliance with these policies as well as monitoring compliance with the governance framework adopted by the Board.

The Board Governance and Sustainability Committee comprises (5) members chaired by an independent member. Meetings are held whenever the need arises, provided that the number of meetings in one year is not less than two meetings. During 2023, the committee held (6) meetings and issued (2) resolutions by passing.

The Governance and Sustainability Committee duties include the following:

- Review and develop the governance framework.
- Ensure KFH and its subsidiaries' compliance with the Group's Governance Policy.
- Review and assess the professional code of ethics and code of conduct in addition to other approved policies.
- Review the governance section in KFH's annual report.
- Supervise the implementation of the Bank's sustainability strategy and prepare the sustainability periodic reports.

Names of the Governance and Sustainability Committee members and the number of meetings held in 2023

Date of meeting	29 Jan.	4 May	17 Jul.	5 Nov.	21 Nov.	12 Dec.	Total ttendance	Total absence	Total meetings
Name/number of meetings	10	1	2	3	4	5			
Sheikh/ Salem Abdulaziz Al Sabah (Chairman)	Since 16 Feb. 2023	√	√	√	√	√	5	-	5
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	√	6	-	6
Mr. Hamad Abdul Mohsen Al Marzouq	√	√	√	√	√	√	6	-	6
Mr. Hamad Abdullateef Al Barjas	√	√	X	X	√	X	3	3	6
Mr. Ahmed Meshari Al Faris	√	√	√	√	√	√	6	-	6
Ms. Hanan Yousif Ali Yousif	√	Committee membership ended on 16 February 2023					1	-	1

5.5. Executive Committee

The key role of the Executive Committee is to assist the Board in fulfilling its supervisory obligations regarding investment and banking activities according to the authorities delegated by the Board. The Board may assign to the committee any other duties that may assist the Board in performing its duties and responsibilities.

The Executive Committee comprises (6) members and holds its meetings whenever the need arises, provided that the number of meetings in one year is not less than (4). During 2023, the committee held (9) meetings and issued (12) resolutions by passing.

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

- Review and approve finance transactions and investment offers presented by the Executive Management according to the authorizations and delegation protocols set by the Board.
- Periodic revision of the diversity and solidity of the finance portfolio.
- The executive committee may make exceptions during the periods between the Board meetings to take the following actions:
  - Grant, renew or extend credit facilities, regular review thereof and amend granting conditions to customers whether retail, corporate or institutions regarding amounts exceeding the Board Executive Committee authorities.
  - Approve entry, exit and settlement of KFH investments or transfer assets at the Group level.
  - View and endorse periodic reports presented by the Executive Management.
  - Sale and purchase of treasury shares.
  - Appoint KFH representatives in Board of Directors of subsidiaries and associates.

Names of the Executive Committee members and the number of meetings held in 2023

Date of meeting	06 Feb.	08 Mar.	17 Apr.	22 May	13 Jun.	26 Jul.	4 Oct.	6 Nov.	29 Nov.	Total ttendance	Total absence	Total meetings
Name/number of meetings	34	1	2	3	4	5	6	7	8			
Mr. Hamad Abdulmohsen Al Marzouq (Chairman)	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Abdulaziz Yacoub Al Nafisi	X	√	√	√	√	√	√	√	√	8	1	9
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	√	√	√	√	9	-	9
Mr. Salah Abdulaziz Al-Muraikhi	Since 16 Feb. 2023	√	√	√	√	√	√	√	√	8	-	8
Mr. Motlaq Mubarak Al-Sanei	√	His membership ended on 16 Feb. 2023, and he was replaced by Mr. Salah Abdulaziz Al-Muraikhi								1	-	1

5.6. Investment Committee

The committee was formed with the aim of assisting the Board in meeting its supervisory obligations on investment operations and the investment activities of KFH and its subsidiaries as per the authorities entrusted to the committee by the Board.

The committee comprises (6) members and holds its meeting whenever the need arises, provided that the meetings are not less than (4) meetings in one year. During 2023, the committee held (4) meetings.

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

- Review the reports related to the development and changes in the Bank's investments and the conditions of the local and international financial markets.
- Follow up the implementation of the strategic policies and goals set by the Board regarding all investment activities.
- View all newly proposed investments and submit a recommendation to the Board in this respect.
- Submit a recommendation to the Board should the committee view it necessary to increase or decrease the capital of the companies in which the Bank is a shareholder.

Names of Investment Committee members and the number of meetings held in 2023

Date of meeting	01 Feb.	22 May	23 Jul.	29 Oct.	Total ttendance	Total absence	Total meetings
Name/number of meetings	13	01	02	03			
Mr. Fahad Ali Al Ghanim (Chairman)	√	√	√	√	4	-	4
Mr. Khaled Salem Al Nisf	√	√	√	√	4	-	4
Mr. Muad Saud Al Osaimi	√	√	√	√	4	-	4
Mr. Salah Abdulaziz Al-Muraikhi	√	Committee membership ended on 16 February 2023			1	-	1
Mr. Mohammed Nasser Al Fouzan	√	√	√	√	4	-	4
Mr. Ahmad Abdullah Al Omar	Since 16 February 2023	√	√	√	3	-	3
Mr. Ahmad Hamad Al Thunayan	Since 16 February 2023	√	√	√	3	-	3

Meetings of the Fatwa & Shari'a Supervisory Board during 2023

The General Assembly of KFH appointed the honorable members of the Fatwa & Shari'a Supervisory Committee for the year 2023. The Committee consists of 5 members. It issues Shari'a opinions and decisions and ensures KFH compliance with Shari'a regulations. During 2023, the Fatwa & Shari'a Supervisory Committee held 25 meetings.

Names of Members of the Fatwa and Shari'a Supervisory Committee and No. of Meetings held during 2023.

Meetings During 2023

Board Members	Attendance Frequency	Attendance Percentage %
Sheikh/ Professor Dr Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e Chairman, Fatwa & Shari'a Supervisory Board	25	100
Sheikh/ Dr. Anwar Shuaib Al-Abdulsalam Member, Fatwa & Shari'a Supervisory Board	22	88
Sheikh/ Professor Dr. Mubarak Jeza Al-Harbi Member, Fatwa & Shari'a Supervisory Board	23	92
Sheikh/ Dr. Esam Abdulrahim Al-Ghareeb Member, Fatwa & Shari'a Supervisory Board	23	92
Sheikh/ Dr. Khaled Shujaa' Al-Otaibi Member, Fatwa & Shari'a Supervisory Board	19	76

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

- **Financing Facilities: KD 252,161**
- **Credit Cards: None**

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

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

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

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

The Board also reviews the management letters issued by the bank's external auditors and reviews the report on Accounting and Other Records and Internal Control System (ICR) issued by the ICR external auditors; the ICR report did not refer to any observation that has a material impact on the fair presentation of the financial statements for the year ended 31 December 2022.

The Board believes that the internal control systems adopted and operated during the year ended 31 December 2023 are adequate to provide reasonable assurance regarding the achievement of KFH Group's objectives.

External Auditor Report about Internal Control Systems

June 26, 2023

Board of Directors

Kuwait Finance House K.S.C.P.

State of Kuwait

Subject: Report on Internal Controls Review for the year ended 31 December 2022

Purpose of this Report

In accordance with our letter of engagement dated 10 April 2023, we have examined and evaluated the internal control systems of Kuwait Finance House K.S.C.P, referred to as "the Bank" or the "Group" and its banking and financial subsidiaries, which were applied during the year ended December 31, 2022.

We covered the following departments / areas of the Bank:

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

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

- Kuwait Finance House, Bahrain (B.S.C.C)
- Kuwait Finance House (Malaysia) Berhad
- Kuwait Turkish Participation Bank Inc.
- AUB Bahrain (B.S.C)
- Saudi Kuwait Finance House S.A.S. (closed)
- KFH Capital Investment Company (K.S.C.C)

Our approach and procedures carried out in accordance with the requirements of the letter issued by the Central Bank of Kuwait (CBK) to the bank dated 10 January 2023 and CBK requirements contained in the manual of General Directives concerning Internal Controls Review (ICR) issued by the CBK dated 15 June 2003 and guidelines relating to corporate governance issued by the CBK on 20 June 2012, and updated on 10 September 2019, instructions dated 14 May 2019 concerning anti money laundering and combating financing of terrorism related, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank.

Responsibilities of Bank

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

Our Responsibilities

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

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

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

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

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

Procedures and Findings

In regard to the nature and scale of its business, during the year ended December 31, 2022, the internal control systems in the areas examined by us were evaluated and maintained in proportion to the size of the risks and business in Bank, except for the matters specified in the report presented to the Board of Directors.

The findings raised do not have a material impact on the fair presentation of the financial statements of the bank for the year ended 31st December 2022, and the actions taken by the bank to address the findings referred in the report are considered satisfactory.

Yours faithfully,

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

Remuneration Report

Remuneration Policy :

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

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

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

Remuneration Components

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

a. Basic salary.

b. Benefits and allowances.

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

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

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

First: Remuneration Disclosures as per the CBK Corporate Governance Instructions

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

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

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

As per the CBK Corporate Governance Instructions, this section must include the total remuneration charged for the year 2023 to the 5 highest paid senior executive officers, which includes their salaries and short and long-term incentives for the year. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5.

Hence, this section includes the total remuneration cost in 2023 of the top 5 highest executives at KFH as well as 2 mandatory positions which were not part of the top 5. The total for this group (top 5+2) amounted to KD 2,785,232 The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

Third: Remuneration by Specific Staff Categories at Kuwait Finance House

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

For 13 respective executives, the total remuneration charged for the year 2023 to this category amounted to KD 4,327,650. The remuneration package of each executive in this category included fixed and variable pay components including salaries (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

• Financial Control and Risk Staff:

For 151 respective staff, the total remuneration charged for the year 2023 to this category amounted to KD 6,119,186 The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable components including salaries (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and end of service benefits.

• Material Risk Takers:

For 5 respective executives, the total remuneration charged for the year 2023 to this category amounted to KD 2,070,832. The category includes the top management and the divisional heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

Risk Management and Governance Requirements

KFH has given special attention and meticulous care to risk management and governance requirements as they are considered amongst the most significant pillars of prudent management in banking. The Group Risk Department has made a clear imprint at KFH level as it plays a vital role in decision-making based on the principle of risk and return trade-off. It has the primary role of identifying, evaluating, and mitigating risks.

As economic and geopolitical developments continued to dominate the public scene, tremendous fluctuations were noticed in the fundamental risk factors of the global economy. Nonetheless, the Group Risk Department has succeeded in completing its strategic initiatives to enhance the Group’s capital and improve asset quality.

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

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

Building an adequate capital base to promote business growth, absorb unexpected losses and comply with regulatory requirements is considered as one of the main pillars of risk strategy at KFH. Based on this concept, the Group Risk Department continued to apply the capital management program, which includes internal initiatives to assess risk-weighted assets to improve capital adequacy ratio through internal levers and external levers in line with the Group’s strategy and plans. At the end of the year, the capital adequacy ratio reached 18.18%, i.e., higher than the regulatory minimum.

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

Credit Risk Department has succeeded in dealing with the current economic changes and the related financial risks by adopting the best practices and processes in accordance with international credit risk measurement, management and mitigation practices and standards. As a result, the group asset quality level was maintained.

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

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

Compliance and Regulatory Information Department has overseen the bussiness course of the group through the reports presented by subsidiaries to ensure that KFH Group has complied with the regulatory authorities’ instructions in various countries where KFH operates.

KFH has anchored several functions under the umbrella of non-financial risks in accordance with KFH Group Risk Department strategy and business framework. Non-financial risks include several specialized departments e.g., Operational Risk Department, Business Continuity Department, IT Risk Department and Cyber Security Risk Unit.

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

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

Technology Risk Department supports IT on achieving extreme efficiency of IT services and oversight implementation of compliance requirements within an effective internal control environment.

Business Continuity Department is actively involved in the development and implementation of the business continuity frameworks including business recovery strategies, crisis management plans and business resilience programs to provide the ability to effectively respond to disruptive events whilst protecting the interests of the Bank, its customer, and shareholders. Furthermore, the crisis management plans are regularly aligned with any requirements change.

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

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

Capital Adequacy Disclosures

Basel III

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

First: Group structure

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

1. Principal operating material subsidiaries

1.1 Kuwait Turkish Participation Bank:

62% (2022: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, and investment of funds on a profit/loss sharing basis.

1.2 Ahli United Bank B.S.C. (AUB)*:

100% (2022: 100%) owned bank registered in the Kingdom of Bahrain. Its main activities include providing retail banking, corporate banking, treasury and investment services, private banking and wealth management services.

1.3 Kuwait Finance House B.S.C.:

100% (2022: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing Sharia compliant products and banking services, management of investment accounts on a profit-sharing basis, and corporate finance.

1.4 Kuwait Finance House (Malaysia) Berhad:

100% (2022: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.5 Saudi Kuwaiti Finance House S.S.C. (Closed):

100% (2022: 100%) owned subsidiary, registered in the Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.6 Kuwait Finance House Capital Investment Company K.S.C. (Closed)**:

99.9% (2022: 99.9%) owned investment company. Its activities comply with Islamic Sharia including investments, Islamic finance services, equity trading, private equity investments, real estate investments, and asset management services.

1.7 KFH Real Estate Company K.S.C (Closed)**:

99.9% (2022: 99.9%) owned subsidiary. The company's activities include the provision of real estate rental and development services.

1.8 Al Enma'a Real Estate Company K.S.C.P:

56% (2022: 56%) owned subsidiary. The company's main activities include real estate development investment and trading.

1.9 Baitak Real Estate Investment Company S.S.C.:

100% (2022: 100%) owned real estate investment company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.10 International Turnkey Systems Company K.S.C. (Closed):

98% (2022: 98%) owned subsidiary whose activities include hardware and software maintenance and provision of specialized technical consultancies.

1.11 Al Salam Hospital K.S.C. (Closed):

76% (2022: 76%) owned subsidiary engaged in all activities related to the field of healthcare services.

1.12 Ahli United Bank (U.K.) PLC (AUBUK):

100% (2022: 100%) owned bank registered in the United Kingdom. Its activities include providing banking services, management of investment accounts, and corporate finance.

1.13 Ahli United Bank K.S.C.P. (AUBK)***:

85.6% (2022: 67.3%) owned bank registered in Kuwait. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.14 Ahli United Bank (Egypt) S.A.E. (AUBE):

95.7% (2022: 95.7%) owned bank registered in the Arab Republic of Egypt. Its activities include providing banking services, management of investment accounts, and corporate finance.

1.15 Commercial Bank of Iraq P.S.C. (CBIQ):

80.3% (2022: 80.3%) owned bank registered in the Republic of Iraq. Its activities include providing banking services, management of investment accounts, and corporate finance.

*AUBUK, AUBK, AUBE, and CBIQ are indirectly held subsidiaries through AUB.

**Effective ownership percentage is 100% (2022: 100%).

***Effective ownership percentage is 95.1% (2022: 74.9%).

2. Major associates of the Group

2.1 Sharjah Islamic Bank P.J.S.C.:

18% (2022: 18%) owned bank registered in Sharjah, United Arab Emirates since 1975. its main activities include providing Islamic banking and finance services and products, corporate finance, treasury investments, and asset management services.

2.2 Ahli Bank S.A.O.G. (ABO):

35% (2022: 35%) owned bank registered in Sultanate of Oman. Its main activities include providing a variety of investment products and services including the issuance of Islamic bonds, wealth management, treasury investments, and investments in various economic sectors.

2.3 Aviation Lease and Finance Company K.S.C.P. (ALAFCO):

46% (2022: 46%). Its main activities include aircraft leasing and financing services.

Second: Regulatory capital structure and balance sheet reconciliation

A. Regulatory capital structure

The Bank's regulatory capital comprises the following:

1. Tier 1 (T1) capital, which comprises:

- Common Equity Tier 1 (CET1) – comprising shareholder's equity, retained earnings, reserves, and eligible portion of non-controlling interests.
- Additional Tier 1 (AT1) – comprising eligible Tier1 perpetual Sukuk and eligible portion of non-controlling interests.

2. Tier 2 (T2) capital – comprises eligible portion of non-controlling interests and eligible portion of general provisions (limited to a maximum of 1.25% of credit risk-weighted assets).

As of 31 December 2023, Tier (1) "core capital" amounted to KD 3,591,896 thousand (2022: 3,605,225 thousand), Tier (2) "supplementary capital" amounted to KD 382,154 thousand (2022: 377,993 thousand).

KD 000's

Regulatory capital components	2023	2022
CET1: Common Equity Tier 1 capital (before regulatory adjustments)	5,703,943	5,763,571
Regulatory adjustments for CET1	2,657,013	2,704,295
Total Common Equity Tier 1 (CET1)	**3,046,930**	**3,059,276**
Additional Tier 1 capital **(AT1)**	555,809	545,949
Regulatory adjustments for AT1	10,843	-
Total Tier 1 (T1=CET1+AT1)	**3,591,896**	**3,605,225**
Tier 2 capital **(T2)**	382,154	377,993
Total capital (TC=T1+T2)	**3,974,050**	**3,983,218**
Total risk-weighted assets	**21,865,093**	**22,552,464**
Capital adequacy ratios		
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.94%	13.57%
Tier 1 (as percentage of risk-weighted assets)	16.43%	15.99%
Total capital (as percentage of risk-weighted assets)	18.18%	17.66%
Minimum capital ratio		
Common Equity Tier 1 minimum ratio	11.5%	10.0%
Tier 1 minimum ratio	%13.0	%11.5
Total capital minimum ratio	%15.0	%13.5

B. Reconciliation of regulatory capital:

1. Common disclosure template:

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

KD 000's

	Common Equity Tier 1 capital: Instruments and reserves	2023	2022
1	Directly issued qualifying common share capital plus related stock surplus	5,088,210	4,953,988
2	Retained earnings	329,873	277,331
3	Reserves	(32,844)	155,423
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0	0
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	177,442	242,607
6	Proposed issue of bonus shares	141,262	134,222
	Common Equity Tier 1 capital before regulatory adjustments	**5,703,943**	**5,763,571**
	Common Equity Tier 1 capital: Regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	2,098,980	2,127,198
9	Other intangibles (net of related tax liability)	298,888	335,427
10	Proposed Cash dividends	146,042	199,907
11	Deferred tax assets relying on future profitability, excluding those arising from temporary differences (net of related tax liability)		
12	Cash flow hedge reserve		
13	Shortfall of provisions to expected losses		
14	Taskeek gain on sale (as set out in para 72 of these guidelines)		
15	Gains and losses due to changes in own credit risk on fair valued liabilities		
16	Defined benefit pension fund net assets (para 68)		
17	Investments in treasury shares (if not already netted off paid-in capital on reported balance sheet)	113,103	41,763
18	Reciprocal cross holdings in common equity		
19	Investments in the capital of banking, financial, and insurance entities which are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold of the Bank's CET1 capital)		
20	Significant investments in the common stock of banking, financial, and insurance entities which are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of the Bank's CET1 capital)		
21	Mortgage servicing rights (amount above 10% threshold of the Bank's CET1 capital)		
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
23	Amount exceeding the 15% threshold		
24	of which: significant investments in the common stock of financials		
25	of which: mortgage servicing rights		
26	of which: deferred tax assets arising from temporary differences		
27	National specific regulatory adjustments		

28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
29	Total regulatory adjustments to Common Equity Tier 1	2,657,013	2,704,295
	Common Equity Tier 1 capital (CET1)	**3,046,930**	**3,059,276**
	Additional Tier 1 capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	502,381	501,666
31	of which: classified as equity under applicable accounting standards	502,381	501,666
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	53,428	44,283
35	of which: instruments issued by subsidiaries subject to phase-out		
	Additional Tier 1 capital before regulatory adjustments	**555,809**	**545,949**
	Additional Tier 1 capital: Regulatory adjustments		
36	Investments in own Additional Tier 1 instruments		
37	Reciprocal cross holdings in Additional Tier 1 instruments	10,843	-
38	Investments in the capital of banking, financial, and insurance entities which are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
39	Significant investments in the capital of banking, financial, and insurance entities which are outside the scope of regulatory consolidation (net of eligible short positions)		
40	National specific regulatory adjustments		
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
42	Total regulatory adjustments to Additional Tier 1 capital	10,843	-
	Additional Tier 1 capital (AT1)	**544,966**	**545,949**
	Tier 1 capital (T1 = CET1 + AT1)	**3,591,896**	**3,605,225**
	Tier 2 capital: Instruments and provisions		
43	Directly issued qualifying Tier 2 instruments plus related stock surplus		
44	Directly issued capital instruments subject to phase-out from Tier 2		
45	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	137,463	126,866
46	of which: instruments issued by subsidiaries subject to phase-out		
47	General provisions included in Tier 2 capital	244,691	251,127
	Tier 2 capital before regulatory adjustments	**382,154**	**377,993**
	Tier 2 capital: Regulatory adjustments		
48	Investments in own Tier 2 instruments		
49	Reciprocal cross holdings in Tier 2 instruments		
50	Investments in the capital of banking, financial, and insurance entities which are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		

51	Significant investments in the capital banking, financial, and insurance entities which are outside the scope of regulatory consolidation (net of eligible short positions)		
52	National specific regulatory adjustments		
53	Total regulatory adjustments to Tier 2 capital		
	Tier 2 capital (T2)	**382,154**	**377,993**
	Total capital (TC = T1 + T2)	**3,974,050**	**3,983,218**
	Total risk-weighted assets (after applying 50% additional weighting)	**21,865,093**	**22,552,464**
	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	%13.94	%13.57
55	Tier 1 (as a percentage of risk-weighted assets)	%16.43	%15.99
56	Total capital (as a percentage of risk-weighted assets)	%18.18	%17.66
57	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk-weighted assets)	11.5%	10.0%
58	of which: capital conservation buffer requirement	2.5%	1%
59	of which: bank specific countercyclical buffer requirement		
60	of which: D-SIB buffer requirement	%2.0	%2.0
61	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	%6.94	%6.57
	Minimum capital ratios		
62	Common Equity Tier 1 minimum ratio	11.5%	10.0%
63	Tier 1 minimum ratio	13.0%	11.5%
64	Total capital minimum ratio	15.0%	13.5%
	Amounts below the thresholds for deduction (before risk-weighting)		
65	Non-significant investments in the capital of other financials		
66	Significant investments in the common stock of financials		
67	Mortgage servicing rights (net of related tax liability)		
68	Deferred tax assets arising from temporary differences (net of related tax liability)	74,630	28,945
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 with respect to exposures subject to standardized approach (prior to application of cap)	757,083	695,261
70	Cap on inclusion of provisions in Tier 2 under standardized approach	244,691	251,127
71	Provisions eligible for inclusion in Tier 2 with respect to exposures subject to internal ratings-based approach (prior to application of cap)		
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		

2. Reconciliation requirements form:

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

Step 1

For the year ending 31-12-2023: KD 000's

Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref.
	2023	2023	
Assets			
Cash and balances with banks and financial institutions	3,612,104	3,612,104	
Due from banks	2,971,422	2,971,422	
Financing receivables	19,425,221	19,425,221	
of which: General Provisions (netted above) capped for Tier 2 inclusion	244,691	244,691	A
Investment in debt securities	7,006,323	7,006,323	
Trading properties	105,267	105,267	
Investments	310,241	310,241	
Investment in associates and joint ventures	542,948	542,948	
Investment properties	376,616	376,616	
Other assets	903,238	903,238	
Intangible assets and goodwill	2,397,868	2,397,868	
of which: goodwill	2,098,980	2,098,980	B
of which: other intangibles	298,888	298,888	C
Property and equipment	358,692	358,692	
Total assets	**38,009,940**	**38,009,940**	
Liabilities			
Due to banks	4,777,278	4,777,278	
Due to financial institutions	3,206,512	3,206,512	
Sukuk payable and term financing	635,532	635,532	
Depositor accounts	21,812,815	21,812,815	
Other liabilities	1,414,464	1,414,464	
Total liabilities	**31,846,601**	**31,846,601**	
Equity attributable to the shareholders of the Bank			
Share capital	1,476,445	1,476,445	D
Share premium	3,611,765	3,611,765	E
Treasury shares	(113,103)	(113,103)	F
Proposed issue of bonus shares	141,262	141,262	G
Reserves	53,499	53,499	
of which: statutory reserve	464,864	464,864	H
of which: voluntary reserve	261,995	261,995	I
of which: treasury share reserve	15,028	15,028	J
of which: fair value reserve	(11,698)	(11,698)	
of which: eligible as CET1 capital	(14,657)	(14,657)	K
of which: eligible as depositor accounts	2,959	2,959	
of which: foreign currency translation reserve	(790,198)	(790,198)	
of which: eligible as CET1 capital	(726,930)	(726,930)	L
of which: eligible as depositor accounts	(63,268)	(63,268)	
of which: other reserves	(46,415)	(46,415)	
of which: eligible as CET1 capital	(33,144)	(33,144)	M
of which: eligible as depositor accounts	(13,271)	(13,271)	
of which: retained earnings	159,923	159,923	
of which: modification loss on financing receivables	(23,908)	(23,908)	
of which: retained earnings of previous years	183,831	183,831	N
Proposed cash dividends	146,042	146,042	O
Total equity attributable to the shareholders of the Bank	**5,315,910**	**5,315,910**	
Perpetual capital securities and Sukuk – Tier1	502,381	502,381	P
of which: Perpetual capital securities and Sukuk – Tier1	491,538	491,538	
of which: Reciprocal cross holdings in capital of FIs	10,843	10,843	Q
Non-controlling interests	345,048	345,048	
Non-controlling interests eligible as CET1 capital	177,442	177,442	R
Non-controlling interests eligible as AT1 capital	53,428	53,428	S
Non-controlling interests eligible as Tier 2 capital	137,463	137,463	T
Total equity	**6,163,339**	**6,163,339**	
Total liabilities and equity	**38,009,940**	**38,009,940**	

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

Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Ref.
	2022	2022	
Assets			
Cash and balances with banks and financial institutions	3,155,813	3,155,813	
Due from banks	3,869,894	3,869,894	
Financing receivables	18,800,543	18,800,543	
of which: general provisions (netted above) capped for Tier 2 inclusion	251,127	251,127	A
Investment in debt securities	6,085,453	6,085,453	
Trading properties	95,110	95,110	
Investments	246,641	246,641	
Investment in associates and joint ventures	519,656	519,656	
Investment properties	399,868	399,868	
Other assets	999,239	999,239	
Intangible assets and goodwill	2,462,625	2,462,625	
of which: goodwill	2,127,198	2,127,198	B
of which: other intangibles	335,427	335,427	C
Property and equipment	334,603	334,603	

Total assets	**36,969,445**	**36,969,445**	
Liabilities			
Due to banks	4,936,831	4,936,831	
Due to financial institutions	2,696,472	2,696,472	
Sukuk payable and term financing	784,191	784,191	
Depositor accounts	21,030,408	21,030,408	
Other liabilities	1,235,442	1,235,442	
Total liabilities	**30,683,344**	**30,683,344**	
Equity attributable to the shareholders of the Bank			
Share capital	1,342,223	1,342,223	D
Share premium	3,611,765	3,611,765	E
Treasury shares	(41,763)	(41,763)	F
Proposed issue of bonus shares	134,222	134,222	G
Reserves	111,451	111,451	
of which: statutory reserve	403,348	403,348	H
of which: voluntary reserve	251,206	251,206	I
of which: treasury share reserve	15,028	15,028	J
of which: fair value reserve	47,135	47,135	
of which: eligible as CET1 Capital	44,176	44,176	K
of which: eligible as depositor accounts	2,959	2,959	
of which: foreign currency translation reserve	(603,493)	(603,493)	
of which: eligible as CET1 capital	(540,225)	(540,225)	L
of which: eligible as depositor accounts	(63,268)	(63,268)	
of which: other reserves	(31,381)	(31,381)	
of which: eligible as CET1 capital	(18,110)	(18,110)	M
of which: eligible as depositor accounts	(13,271)	(13,271)	
of which: retained earnings	29,608	29,608	
of which: modification loss on financing receivables	(47,816)	(47,816)	
of which: retained earnings of previous years	77,424	77,424	N
Proposed cash dividends	199,907	199,907	O
Total equity attributable to the shareholders of the Bank	**5,357,805**	**5,357,805**	
Perpetual capital securities and Sukuk – Tier1	501,666	501,666	
of which: Perpetual capital securities and Sukuk – Tier1	501,666	501,666	P
of which: Reciprocal cross holdings in capital of FIs	-	-	Q
Non-controlling interests	426,630	426,630	
Non-controlling interests eligible as CET1 capital	242,607	242,607	R
Non-controlling interests eligible as AT1 capital	44,283	44,283	S
Non-controlling interests eligible as Tier 2 capital	126,866	126,866	T
Total equity	**6,286,101**	**6,286,101**	
Total liabilities and equity	**36,969,445**	**36,969,445**	

Step 2 of reconciliation requirements

KD 000's

	Item	Component of regulatory capital	Component of regulatory capital	Source based on reference letters of the balance sheet from step 1
		2023	**2022**	
	Common Equity Tier 1 capital: Instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	5,088,210	4,953,988	D + E
2	Retained earnings	329,873	277,331	N + O
3	Reserves	(32,844)	155,423	H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	177,442	242,607	R
5	Proposed issue of bonus shares	141,262	134,222	G
6	**Common Equity Tier 1 capital before regulatory adjustments**	**5,703,943**	**5,763,571**	
	Common Equity Tier 1 capital: Regulatory adjustments			
7	Goodwill	(2,098,980)	(2,127,198)	B
8	Other intangible assets	(298,888)	(335,427)	C
9	Treasury shares	(113,103)	(41,763)	F
10	Proposed cash dividends	(146,042)	(199,907)	O
11	**Total regulatory adjustments to Common Equity Tier1**	**(2,657,013)**	**(2,704,295)**	
12	**Common Equity Tier 1 capital (CET1)**	**3,046,930**	**3,059,276**	
	Additional Tier 1 capital: Instruments			
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	53,428	44,283	S
14	Perpetual capital securities and Sukuk – Tier1	502,381	501,666	P
15	**Additional Tier 1 capital before regulatory adjustments**	**555,809**	**545,949**	
	Additional Tier 1 capital: Regulatory adjustments			
16	Reciprocal cross holdings in capital of FIs	(10,843)	-	Q
17	**Total regulatory adjustments to Additional Tier 1**	**(10,843)**	**-**	
18	**Additional Tier 1 capital**	**544,966**	**545,949**	
19	**Total Tier 1 capital**	**3,591,896**	**3,605,225**	
	Tier 2 capital: Instruments and provisions			
20	Common share capital issued by subsidiaries and held by third parties (minority interest)	137,463	126,866	T
21	General provisions included in Tier 2 capital	244,691	251,127	A
22	**Total Tier 2 capital**	**382,154**	**377,993**	
	Total capital	**3,974,050**	**3,983,218**	

Kuwait Finance House (K.S.C.P.) and Subsidiaries
Annual Report 2023
Capital Adequacy Disclosures - Basel III

3. Main features template:

	Disclosure template for main features of regulatory capital instruments			
1	Issuer	Kuwait Finance House Tier 1 Sukuk Limited	Ahli United Bank K.S.C.P.	Ahli United Bank B.S.C.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS2338912665	XS2342243875	XS1133289832
3	Governing law(s) of the instrument	English law	English law	English law
	Regulatory treatment			
4	Type of Capital (CET1, AT1 or T2)	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Eligible at solo/group/group and solo	Group and Solo	Group and Solo	Group and Solo
6	Instrument type	Subordinated Debt – Mudaraba Sukuk	Subordinated Debt - Mudaraba Sukuk	Perpetual Capital Instruments
7	Amount recognized in regulatory capital	USD 750 million (KWD 225.734 million)	USD 600 million (KWD 158.548 million)	USD 400 million (KWD 118.099 million)
8	Par value of instrument	USD 1,000/-	USD 1,000/-	USD 1,000/-
9	Accounting classification	Equity Tier 1	Equity Tier 1	Equity Tier 1
10	Original date of issuance	30 June 2021	31 December 2021	29 April 2015
11	Perpetual or dated	Perpetual	Perpetual	Perpetual
12	Original maturity date	No maturity	No maturity	No maturity
13	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	30 June 2026	17 June 2026	Any Periodic Distribution
15	Subsequent call dates, if applicable	30 June beginning from 30 June 2026 or on any Periodic Distribution	17 June and 17 December beginning from 17 June 2026	Any Periodic Distribution
	Coupons/ dividends			
16	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
17	Coupon rate and any related index	3.6%	3.875%	5.839%
18	Existence of a dividend stopper	Yes	Yes	Yes
19	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary
20	Existence of step up or other incentive to redeem	No	No	No
21	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
22	Convertible or non-convertible	non-convertible	non-convertible	non-convertible
23	If convertible, conversion trigger (s)	Not applicable	Not applicable	Not applicable
24	If convertible, fully or partially	Not applicable	Not applicable	Not applicable
25	If convertible, conversion rate	Not applicable	Not applicable	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable	Not applicable	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable	Not applicable	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable	Not applicable
29	Write-down feature	Yes	Yes	Yes
30	If write-down, write-down trigger (s)	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.	A contractual approach A Non-Viability Event means that the Financial Regulator has informed the Bank that it has determined that a Trigger Event has occurred. A Trigger Event would have occurred if any of the following events occur: a) the Bank is instructed by the Financial Regulator to write-off or convert such instruments into common equity, on the grounds of non-viability; or b) An immediate injection of capital is required, by way of an emergency intervention, without which the Bank would become non-viable.
31	If write-down, full or partial	Partially/Fully	Partially/Fully	Partially/Fully
32	If write-down, permanent or temporary	Permanent	Permanent	Permanent
33	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable	Not applicable
34	Position in subordination hierarchy in liquidation (specify instrument type	Deeply subordinated, senior to ordinary shares, and Liabilities related to Common Equity Tier 1 Capital	Deeply subordinated, senior to ordinary shares, and Liabilities related to Common Equity Tier 1 Capital	Deeply subordinated, senior to ordinary shares, and Liabilities related to Common Equity Tier 1 Capital
35	Non-compliant transitioned features	No	No	No
36	If yes, specify non-compliant features	Not applicable	Not applicable	Not applicable

Third: Risk-weighted assets and minimum capital requirement

a) Credit risk

KFH credit risk management follows a specific framework to ensure:

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

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

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

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

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

(c) Activating a credit committee with the adequate level of membership and authority to review and approve or recommend credit requests from the Board and higher-level committees.

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

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

1- Credit risk capital requirements:

For the year ending 31-12-2023: KD 000's

Ser.	Required capital	Risk-weighted assets	Net exposures	Total exposures	Credit risk exposures
1	Cash item	286,871	286,871	-	-
2	Claims on sovereigns	8,004,311	8,004,311	2,371,674	355,751
3	Claims on public sector entities	1,576,135	1,572,192	563,093	84,464
4	Claims on MDBs	153,119	153,119	804	121
5	Claims on banks	4,373,861	4,373,861	1,075,931	161,390
6	Claims on corporates	12,026,855	10,751,713	7,801,997	1,170,300
7	Regulatory retail exposure	5,894,918	5,599,780	3,738,148	560,722
8	Qualifying residential housing financing facilities	350,510	219,573	56,496	8,474
9	Past due exposures	400,827	300,234	130,202	19,530
10	Inventory and commodities	15,975	15,975	22,020	3,303
11	Real estate investments	1,287,480	515,802	758,376	113,756
12	Investment and financing with customers	1,103,923	875,100	958,576	143,786
13	Other exposures	1,790,788	1,790,788	1,585,604	237,841
	Total	**37,265,573**	**34,459,319**	**19,062,921**	**2,859,438**

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

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

2- Total credit risk exposures classified as self-financed or financed from investment accounts:

For the year ending 31-12-2023: KD 000's

Ser.	Finance from investment accounts	Total exposures	Self-financed	finance from investment account
1	Cash item	286,871	146,248	140,623
2	Claims on sovereigns	8,004,311	4,080,640	3,923,671
3	Claims on public sector entities	1,576,135	803,522	772,613
4	Claims on MDBs	153,119	78,061	75,058
5	Claims on banks	4,373,861	2,229,818	2,144,043
6	Claims on corporates	12,026,855	6,131,355	5,895,500
7	Regulatory retail exposure	5,894,918	3,005,261	2,889,657
8	Qualifying residential housing financing facilities	350,510	178,692	171,818
9	Past due exposures	400,827	204,344	196,483
10	Inventory and commodities	15,975	8,144	7,831
11	Real estate investments	1,287,480	656,364	631,116
12	Investment and financing with customers	1,103,923	562,786	541,137
13	Other exposures	1,790,788	912,953	877,835
	Total	**37,265,573**	**18,998,188**	**18,267,385**

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

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

3- Net credit exposures classified as rated or unrated

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	286,871	278,068	8,803
2	Claims on sovereigns	8,004,311	8,004,311	-
3	Claims on public sector entities	1,572,192	1,565,691	6,501
4	Claims on MDBs	153,119	153,119	-
5	Claims on banks	4,373,861	3,998,823	375,038
6	Claims on corporates	10,751,713	1,233,519	9,518,194
7	Regulatory retail exposure	5,599,780	-	5,599,780
8	Qualifying residential housing financing facilities	219,573	-	219,573
9	Past due exposures	300,234	-	300,234
10	Inventory and commodities	15,975	-	15,975
11	Real estate investments	515,802	-	515,802
12	Investment and financing with customers	875,100	-	875,100
13	Other exposures	1,790,788	-	1,790,788
	Total	**34,459,319**	**15,233,531**	**19,225,788**

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

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	252,524	242,732	9,792
2	Claims on sovereigns	7,621,901	7,621,901	-
3	Claims on public sector entities	1,392,644	1,378,536	14,108
4	Claims on MDBs	121,109	121,109	-
5	Claims on banks	4,805,434	4,555,036	250,398
6	Claims on corporates	10,038,104	850,065	9,188,039
7	Regulatory retail exposure	5,709,803	-	5,709,803
8	Qualifying residential housing financing facilities	302,275	-	302,275
9	Past due exposures	298,604	-	298,604
10	Inventory and commodities	17,025	-	17,025
11	Real estate investments	543,195	-	543,195
12	Investment and financing with customers	717,468	-	717,468
13	Other exposures	1,569,859	-	1,569,859
	Total	**33,389,945**	**14,769,379**	**18,620,566**

4- Average credit risk exposures, average self-financed assets, and average assets financed from investment accounts on a quarterly basis:

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Average credit risk exposure	Average self-financed	Average finance from investment accounts
1	Cash item	334,729	180,802	153,927
2	Claims on sovereigns	7,742,348	4,202,710	3,539,638
3	Claims on public sector entities	1,514,030	819,636	694,394
4	Claims on MDBs	139,050	75,110	63,940
5	Claims on banks	4,157,325	2,252,779	1,904,546
6	Claims on corporates	11,637,348	6,321,685	5,315,663
7	Regulatory retail exposure	5,990,740	3,260,400	2,730,340
8	Qualifying residential housing financing facilities	401,014	219,330	181,684
9	Past due exposures	402,591	218,616	183,975
10	Inventory and commodities	16,856	9,167	7,689
11	Real estate investments	1,314,568	713,959	600,609
12	Investment and financing with customers	924,613	500,421	424,192
13	Other exposures	1,825,327	986,843	838,484
	Total	**36,400,539**	**19,761,458**	**16,639,081**

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

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

5- Excess risk concentrations:

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

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

a. Geographical distributions for credit risk exposure

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	MENA	North America	Europe	Asia	Other	Total
1	Cash item	144,248	-	136,317	6,306	-	286,871
2	Claims on sovereigns	4,630,756	61,709	2,797,771	514,075	-	8,004,311
3	Claims on public sector entities	1,431,969	-	144,166	-	-	1,576,135
4	Claims on MDBs	41,095	-	-	-	112,024	153,119
5	Claims on banks	2,446,253	546,197	1,231,632	82,085	67,694	4,373,861
6	Claims on corporates	7,812,317	314,782	3,309,043	588,637	2,076	12,026,855
7	Regulatory retail exposure	4,658,147	-	1,130,189	106,582	-	5,894,918
8	Qualifying residential housing financing facilities	178,776	-	105,421	66,313	-	350,510
9	Past due exposures	360,205	-	22,706	17,916	-	400,827
10	Inventory and commodities	15,975	-	-	-	-	15,975
11	Real estate investments	1,253,534	3,833	1,816	28,297	-	1,287,480
12	Investment and financing with customers	1,088,856	-	15,067	-	-	1,103,923
13	Other exposures	1,268,395	90,005	414,065	16,744	1,579	1,790,788
	Total	**25,330,526**	**1,016,526**	**9,308,193**	**1,426,955**	**183,373**	**37,265,573**

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

Ser.	Credit risk exposures	MENA	North America	Europe	Asia	Other	Total
1	Cash item	111,402	-	130,893	436	9,793	252,524
2	Claims on sovereigns	4,615,657	6,126	2,417,210	496,298	86,610	7,621,901
3	Claims on public sector entities	1,371,521	-	-	-	25,235	1,396,756
4	Claims on MDBs	41,050	-	-	-	80,059	121,109
5	Claims on banks	2,662,723	595,933	1,292,442	212,346	41,990	4,805,434
6	Claims on corporates	7,181,797	337,235	2,810,014	513,688	215,558	11,058,292
7	Regulatory retail exposure	4,723,204	-	1,033,446	125,419	28,754	5,910,823
8	Qualifying residential housing financing facilities	209,642	-	164,526	68,032	-	442,200
9	Past due exposures	324,418	-	16,523	21,527	9,531	371,999

10	Inventory and commodities	17,025	-	-	-	-	17,025
11	Real estate investments	1,324,309	3,746	1,718	29,340	3,278	1,362,391
12	Investment and financing with customers	874,686	-	16,391	-	-	891,077
13	Other exposures	1,200,763	20,387	305,645	2,602	40,462	1,569,859
	Total	**24,658,197**	**963,427**	**8,188,808**	**1,469,688**	**541,270**	**35,821,390**

b. Maturities of total credit risk exposures

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	286,871	-	-	286,871
2	Claims on sovereigns	5,032,214	835,671	2,136,426	8,004,311
3	Claims on public sector entities	379,049	329,740	867,346	1,576,135
4	Claims on MDBs	-	8,300	144,819	153,119
5	Claims on banks	2,629,928	597,565	1,146,368	4,373,861
6	Claims on corporates	2,835,426	2,576,320	6,615,109	12,026,855
7	Regulatory retail exposure	608,552	930,907	4,355,459	5,894,918
8	Qualifying residential housing financing facilities	2,735	9,320	338,455	350,510
9	Past due exposures	93,903	56,832	250,092	400,827
10	Inventory and commodities	-	-	15,975	15,975
11	Real estate investments	129,236	244,462	913,782	1,287,480
12	Investment and financing with customers	609,949	276,966	217,008	1,103,923
13	Other exposures	160,754	64,940	1,565,094	1,790,788
	Total	**12,768,617**	**5,931,023**	**18,565,933**	**37,265,573**

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

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

c. Main sectors of total credit risk exposures

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Manufacturing and trade	Banks and financial institutions	Construction and real estate	Government	Other	Total
1	Cash item	-	286,871	-	-	-	286,871
2	Claims on sovereigns	-	-	-	8,004,311	-	8,004,311
3	Claims on public sector entities	436,649	-	3,355	-	1,136,131	1,576,135
4	Claims on MDBs	-	153,119	-	-	-	153,119
5	Claims on banks	-	4,373,861	-	-	-	4,373,861
6	Claims on corporates	3,964,746	1,202,361	3,559,420	-	3,300,328	12,026,855
7	Regulatory retail exposure	495,346	-	379,950	-	5,019,622	5,894,918
8	Qualifying residential housing financing facilities	-	-	-	-	350,510	350,510
9	Past due exposures	82,607	-	165,269	-	152,951	400,827
10	Inventory and commodities	-	-	-	-	15,975	15,975
11	Real estate investments	-	-	466,558	-	820,922	1,287,480
12	Investment and financing with customers	-	-	930,424	-	173,499	1,103,923
13	Other exposures	308,926	581,546	175,127	-	725,189	1,790,788
	Total	**5,288,274**	**6,597,758**	**5,680,103**	**8,004,311**	**11,695,127**	**37,265,573**

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

Ser.	Credit risk exposures	Manufacturing and trade	Banks and financial institutions	Construction and real estate	Government	Other	Total
1	Cash item	-	252,524	-	-	-	252,524
2	Claims on sovereigns	-	-	-	7,621,901	-	7,621,901
3	Claims on public sector entities	327,181	2,609	3,876	-	1,063,090	1,396,756
4	Claims on MDBs	-	121,109	-	-	-	121,109
5	Claims on banks	-	4,805,434	-	-	-	4,805,434
6	Claims on corporates	3,614,697	1,205,819	3,781,446	-	2,456,330	11,058,292
7	Regulatory retail exposure	378,280	-	385,960	-	5,146,583	5,910,823
8	Qualifying residential housing financing facilities	-	-	-	-	442,200	442,200
9	Past due exposures	5,598	-	265,010	-	101,391	371,999
10	Inventory and commodities	-	-	-	-	17,025	17,025
11	Real estate investments	-	-	500,996	-	861,395	1,362,391
12	Investment and financing with customers	-	16,391	765,828	-	108,858	891,077
13	Other exposures	273,403	544,085	166,924	-	585,447	1,569,859
	Total	**4,599,159**	**6,947,971**	**5,870,040**	**7,621,901**	**10,782,319**	**35,821,390**

6- Past due and impairment provisions

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

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

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

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

As of 31 December 2023, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 321,845 thousand (2022: KD 271,274 thousand). A specific provision of KD 208,124 thousand (2022: KD 206,745 thousand) has been made, as detailed below:

a. Exposures based on standard portfolios

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Impaired	Specific provision	Specific provision write-off	Past due
1	Claims on sovereigns	0	0	0	22,206
2	Claims on corporate	213,206	152,662	24,920	183,092
3	Regulatory retail exposure	58,372	35,782	13,430	245,641
4	Qualifying residential housing financing facilities	5,931	357	2,547	17,796
5	Investments properties	16,981	16,981	0	52,980
6	Investment and financing with customers	27,355	2,342	3,294	61,403
	Total	**321,845**	**208,124**	**44,191**	**583,118**

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

Ser.	Credit risk exposures	Impaired	Specific provision	Specific provision write-off	Past due
1	Claims on sovereigns	0	0	0	21,664
2	Claims on corporate	193,692	182,313	24,173	364,858
3	Regulatory retail exposure	28,245	20,753	13,026	118,936
4	Qualifying residential housing financing facilities	4,150	1,507	968	22,036
5	Investments properties	0	0	0	35,157
6	Investment and financing with customers	45,187	2,172	1,520	59,382
	Total	**271,274**	**206,745**	**39,687**	**622,033**

b. Exposures based on geographical

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Impaired	Specific provision	Specific provision write-off	Past due
1	Middle East and North Africa	280,342	154,897	32,961	512,906
2	Europe	29,234	49,033	7,865	38,918
3	Asia	12,269	4,194	3,365	31,294
	Total	**321,845**	**208,124**	**44,191**	**583,118**

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

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

c. Exposures based on Industrial

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Impaired	Specific provision	Specific provision write-off	Past due
1	Manufacturing and trade	37,562	34,518	33,521	149,510
2	Banks and financial institutions	143	171	0	34
3	Construction and real estate	145,194	76,302	1,294	165,688
4	Other	138,946	97,133	9,376	267,886
	Total	**321,845**	**208,124**	**44,191**	**583,118**

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

Ser.	Credit risk exposures	Impaired	Specific provision	Specific provision write-off	Past due
1	Manufacturing and trade	31,496	45,999	18,286	134,510
2	Banks and financial institutions	125	2,260	0	11
3	Construction and real estate	117,296	67,590	2,803	129,487
4	Other	122,357	90,896	18,598	358,025
	Total	**271,274**	**206,745**	**39,687**	**622,033**

d. General provision allocation

KD 000's

Ser.	Credit risk exposures	2023	2022
1	Claims on sovereigns	15,089	7,082
2	Claims on PSEs	23,605	27,426
3	Claims on banks	21,296	21,871
4	Claims on corporates	396,312	361,114
5	Regulatory retail exposures	209,914	231,203
6	Investment Properties	35,573	38,994
7	Investment and financing with customers	37,789	31,467
	Total	**739,578**	**719,157**

7- Applicable risk mitigation methods

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

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

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

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

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

KFH only accepts collaterals that are Sharia compliant and has stated the acceptable forms of collateral, which include:

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

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

a) Risk mitigation means of total credit risk exposures

For the year ending 31-12-2023: KD 000's

Ser.	Credit risk exposures	Gross credit exposures	Eligible collaterals
1	Cash item	286,871	-
2	Claims on sovereigns	8,004,311	-
3	Claims on public sector entities	1,576,135	3,943
4	Claims on MDBs	153,119	-
5	Claims on banks	4,373,861	-
6	Claims on corporates	12,026,855	1,275,141
7	Regulatory retail exposure	5,894,918	295,139
8	Qualifying residential housing financing facilities	350,510	130,937
9	Past due exposures	400,827	100,593
10	Inventory and commodities	15,975	-
11	Real estate investments	1,287,480	771,679
12	Investment and financing with customers	1,103,923	228,823
13	Other exposures	1,790,788	-
	Total	**37,265,573**	**2,806,255**

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

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

b) Market risk

Market risk-weighted exposure during the financial year 2023 amounted to KD 261,194 thousand (2022: KD 285,625 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 39,179 thousand (2022: KD 38,559 thousand).

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

c) Operational risk

Operational risk-weighted exposures calculated during the year 2023 amounted to KD 2,540,978 thousand (2022: KD 2,620,802 thousand), as per the Basic Indicator Approach. The amount calculated for operational risk-weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 381,147 thousand (2022: KD 353,808 thousand).

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

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

1. Straight sum of Pillar 2 capital calculation of the individual subsidiaries and Kuwait results: This method is used for credit concentration risk, remaining credit risks, liquidity risk, FX risk, legal risk, reputational risk, strategic risk, remaining operational risk, and profit rate risk. This ensures conservatism by eliminating the impact of any correlation between these risks.
2. Pillar 2 solo performed on the individual subsidiary level and at the group level: This method is used for equity price risk. For example, VaR is calculated at the subsidiary portfolio level using relevant variance/covariance matrices as well as at the group aggregated portfolio level. This method allows KFH to account for diversification benefit when VaR calculations are performed on the group portfolio exposures.

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

Fourth: Risk management

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

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

Risk Strategy is formulated under three pillars:

Group capital planning and risk-weighted assets optimization:

- Focus is to have a solid capital base that supports planned business growth, absorbs potential losses (if any), and complies with regulatory requirements.
- Under this pillar, initiatives have been taken to employ a capital adequacy ratio and enhance rating systems capabilities.

Improving asset quality and risk appetite:

- Enhancing Group risk appetite to support management to maintain/improve asset quality alongside business growth.
- Asset quality has been significantly improved as a result of enhancing financing underwriting criteria and establishing appropriate governance in line with best practices.

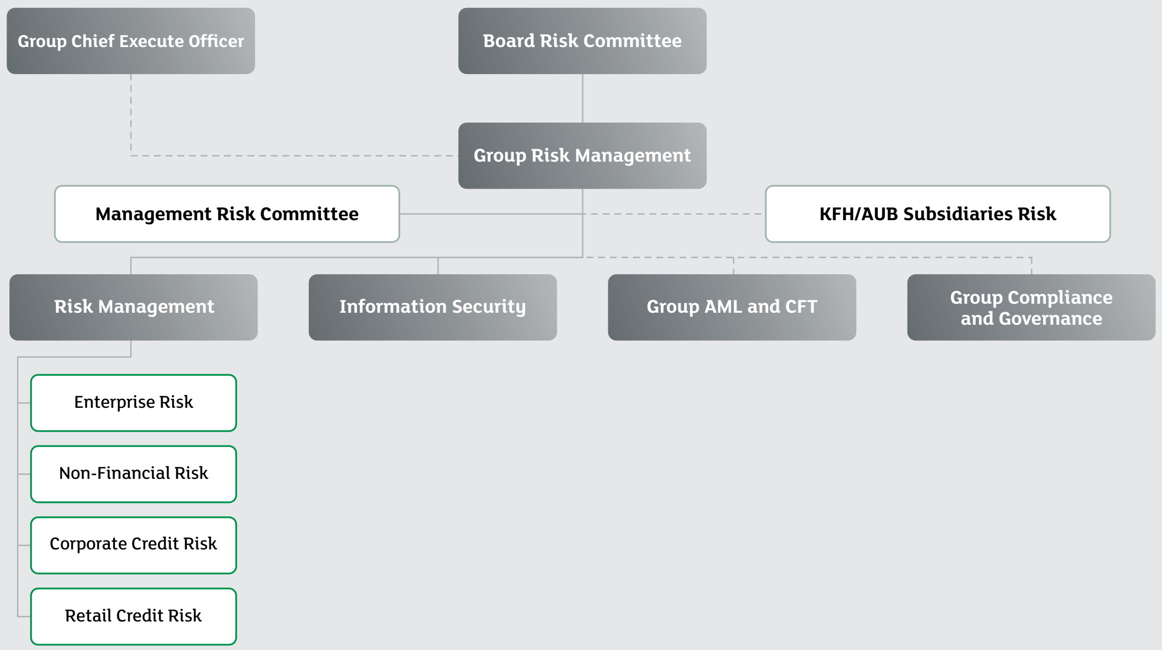
Group integration:

- Enhancing risk governance, culture, and integration across the Group.
- Policies are being reviewed on a regular basis for any potential enhancement from the governance perspective and to reflect regulatory requirements.
- Best practices which improve governance are being implemented across KFH banking subsidiaries.

Organizational structure

KFH has shifted its organizational structure at the bank level from a function-based structure to a more effective one to process current and future business needs and facilitate opportunities.

Risk management organizational structure of Kuwait Finance House in Kuwait



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

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

Culture of risk management, training, and awareness-raising

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

Risk management by risk type

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

a) Credit risk

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

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

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

Governance and organizational structure

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

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

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

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

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

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

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

Internal Audit: Provides the Board and senior management with an independent assurance process for credit risk controls across the organization.

Methods and processes

KFH credit risk management follows a specific framework to ensure:

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

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

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

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

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

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

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

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

b) Market risk

Sources of risk

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

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

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

Profit rate risk: Given the Sharia-compliant activities of the Bank, profit rate risk results from the effect of the changes in market profit rates that would distress KFH's future cash flows and the fair value of some assets.

Governance and organization

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

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

Assets and Liabilities Committee (ALCO) and Group Assets and Liabilities Committee (GALCO): Responsible for maintaining oversight and managing the structure/composition of the balance sheet (Group and Kuwait standalone) to ensure alignment with the Board-approved risk appetite and bank wide strategy. The ALCO/GALCO also sets the treasury strategy. ALCO/GALCO is held on a regular basis with the option to meet more frequently if required. The committee ensures at a high level that all approved market risk policies are complied with and that exceptions are duly approved. It also decides on the hedging policy of the Bank and on the hedging mechanisms and products.

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

Risk Management Department: Independently monitors, follows up, and controls the treasury and investment activities and proposes the necessary limits. Market Risk Management identifies and measures market risk exposure to the Bank. Such risks are presented and discussed in more than one committee. It also manages market risk from a comprehensive Bank perspective to track potential concentrations and to raise necessary recommendations to mitigate risk when necessary. It also oversees compliance with market risk policies and limits.

Internal Audit: Provides the Board and senior management with an independent assurance process for market risk controls across the organization.

Methods and processes

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

The market risk framework operates within the Bank's strategy and approved risk appetite and related risks, taking into consideration the following:

- Earnings at risk
- Economic value of equity
- FX open positions
- Investment exposure by type
- Value at Risk (VaR)
- Duration and convexity

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

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

The Bank also conducts a periodic valuation of its real estate investments using two different valuation sources as per CBK requirements.

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

c) Assets and liabilities management and liquidity risk

Assets and liabilities management risk

Sources of risk

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

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

Governance and organization

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

Board of Directors and Board Risk Committee: Responsible for establishing and reviewing the Assets and Liabilities Management Policy and assuring that the Bank's balance sheet is managed in accordance with this policy.

Group Asset and Liabilities Committee and Assets and Liabilities Committee GALCO/ ALCO: Assets and Liabilities Committees are the senior management committees of the Bank within the Group having the responsibility of managing the asset and liability profile. The Board has delegated the task of overseeing the management of the Bank's profit rate as well as its capital to ALCO and GALCO.

Group Chief Risk Officer and Chief Risk Officer(s): Ensure the development of sound policies, profit rate risk, and capital management at the Bank and identify profit rate mismatch in the Bank's balance sheet in conjunction with the Head of Treasury and Group Chief Treasury Officer.

Group Chief Treasury Officer and Head(s) of Treasury: Responsible for treasury business activities. The GCTO and Head of Treasury are responsible for ensuring that the Bank has a sound organizational and governance framework to manage ALM risks.

Group Chief Financial Officer and Chief Financial Officer(s): Responsible for ensuring application of appropriate accounting standards for the Bank's portfolios, including transaction accounting, hedge effectiveness, and adjustments.

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

Methods and processes

The ALM risk framework operates within the Bank strategy and approved risk appetite and related risks, taking into consideration the following:

- Earnings at risk
- Economic value of equity

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

Liquidity risk

Sources of risk

KFH identifies the following sources of liquidity risk:

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

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

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

Governance and organization

The KFH Board, ALCO/GALCO, and the Treasury Department are ultimately responsible for the management of the Group liquidity risk. However other parties within the organization contribute to ensuring the liquidity risk management framework is in place and operating effectively:

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

ALCO/GALCO: Tasked with the active oversight of funding and liquidity risk management for KFH Kuwait and KFH Group. They approve the policy framework and monitor its implementation at regular meetings.

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

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

Internal Audit: Provides the Board and senior management with an independent assurance process for liquidity risk controls across the organization.

Methods and processes

To manage liquidity risk, the Bank has adopted the policies of liquidity risk including operational management of liquidity risk, a contingency financing plan, and the distribution of responsibilities. The framework of liquidity risk at KFH undertakes to ensure sufficient liquidity to meet expected or unexpected demands of customers and money markets at an acceptable price for KFH and in compliance with the Islamic rules of Sharia. The contingency plan has been implemented to enable KFH to manage liquidity in case of liquidity crisis.

As set out in Basel III guidelines and in reference to the best practices of managing and monitoring the Bank's liquidity risk, KFH has adopted the Basel III liquidity ratios: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). LCR and NSFR are measured frequently throughout KFH Kuwait and KFH Group as per the CBK guidelines to ensure that KFH always manages liquidity risks, remains well-funded, and complies with regulators' liquidity limits of those ratios.

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

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

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

d) Operational risk

Sources of risk

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

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

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

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

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

Governance and organization

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

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

Board of Directors / Board Risk Committee: The Committee is ultimately responsible for ensuring effective operational

risk management. It sets the operational risk appetite for the Bank and approves the major policies for managing operational risk.

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

Internal Audit: Provides the Board and senior management with an independent assurance process for operational risk controls across the organization.

Methods and processes

The objective of KFH's operational risk management framework is to manage and control operational risks in a cost-effective manner within targeted levels of operational risk consistent with the approved risk appetite.

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

RCSAs have been conducted and completed for business units according to Operational Risk Management's plan. The Bank has also defined several operational KRIs which are currently being measured and monitored for key business activities. The bank also systematically captures risk event data from the businesses and functional departments through the loss data management system and collection workflow.

KFH has adopted the basic indicator approach to measuring the capital required for operational risk under Pillar 1. In addition, the bank simulated under Pillar 2 the expected losses from 7 different operational loss events: (1) internal fraud, (2) external fraud, (3) employment practices and workplace safety, (4) clients, products., & business practices, (5) damage to physical assets, (6) business disruption & system failures, (7) and execution, delivery, & process management. Residual risks resulting from operational risks are covered by the capital requirements estimated as part of the Monte Carlo simulations conducted under Pillar 2 to test the mitigates of operational risk. The bank also calculates capital required to cover losses from legal risk under Pillar 2.

Fifth: Investment Accounts Related Information

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

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

Information on Long Term Investment Plans and Deposits

KFH provides many types of investment deposits for customers to avail large number of investment tools that help customers to invest and achieve safe and secured profits. KFH offers these deposit accounts in different maturities with many advantages, be it in Kuwaiti Dinar or foreign currencies. These deposit accounts include "Al Nuwair" investment deposit – "Al Dima" investment deposit – "Continuous" investment deposit – "Al Khumasiya" investment deposit – "Al Kawther" investment deposit – "Foreign Currencies" investment deposit – "Al Sidra" investment deposit.

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

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

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

Gold Account

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

Having the option to invest either in Swiss or Turkish gold, customers will have their digital experience elevated by the newly added following features:

Send your gold via a message: this service allows customers to create and send/share a link with the beneficiary to receive gold bullions in the gold account or transferring the gold amount to the account. This service is available through KFH Online mobile application (iPhone, Android, Huawei) free of charge only for KFH customers.

Gold delivery service: gold delivery service for KFH customers through a specialized company is a service which will transport the gold from one place to another designated area based on the customers approval. Customers can use this service through KFH Online. The gold is delivered within 2 working days the delivery charge is KD 5 for all areas in Kuwait. The gold is only received by the account owners who have made the purchase with their original civil ID.

Live rates: lives prices updated automatically in line with international market prices.

Gold purchase service via KNET: enabling KFH customers to buy gold from KFH Online through local bank accounts using KNET payment gateway where the amount is transferred from local banks to the customer's account in the Kuwait Finance House, then the gold purchase process takes place.

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

Sixth: Sharia controls

Fatwa and Sharia Supervisory Board

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

1. Develop Sharia training programs for KFH employees at both basic and advanced levels in coordination with the Training and Development Human Resources and General Services Department.
2. Ensure compliance of KFH's sectors and departments with presenting all their activities to the FSSB to review and approve contracts and agreements, policies, procedures and financing structures, ensuring they do not violate any Sharia prohibitions.
3. Review the periodical and final Sharia audit reports related to all KFH sectors and departments as raised by the Sharia Control and Consultancy Department, ensure compliance with Sharia regulations.
4. Ensure that all revenues recognized from non-Sharia compliant sources or by means prohibited by Sharia have been disposed, to be used for charity purposes.
5. Calculate Zakat following CBK approval of KFH financial statements.
6. The General Assembly shall determine the remuneration of the FSSB members.

Consolidated Financial Statements

31 December 2023

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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 2023, 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 material 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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Credit losses on financing receivables

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

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

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

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

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Credit losses on financing receivables (continued)
With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected a sample of financing facilities outstanding as at the reporting date, which included rescheduled financing facilities, and evaluated the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. We involved our specialists to review the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") and the overlays considered by management in view of the ongoing inflationary pressure and high profit rate environment, in order to determine ECL taking into consideration CBK guidelines. For a sample of credit facilities, we have evaluated the Group's staging criteria and computation of ECL including the eligibility and value of collateral considered in the ECL models used by the Group. We have also evaluated the various inputs and assumptions used by the Group's management to determine ECL.

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

b) Accounting for business combinations
During 2022, the Group completed the acquisition of Ahli United Bank B.S.C. ("AUB"), by issuing new shares of the Parent Company to the AUB shareholders at a total purchase consideration of KD 3,305,084 thousand. This transaction was accounted for in accordance with IFRS 3 *Business Combinations* ("IFRS 3") using the acquisition method.

The Group, assisted by an external expert, accounted for the cost of the acquisition in 2022 by determining the provisional fair values of the assets and liabilities acquired including intangible assets of KD 326,803 thousand, with the balance resulting in a preliminary goodwill of KD 2,142,182 thousand at the date of the acquisition. During 2023, the purchase price allocation was finalized with no material retrospective adjustments in the previously estimated fair value of identifiable assets, liabilities and related goodwill.

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Accounting for business combinations (continued)
We have assessed the design and implementation of controls over the process of accounting for the business combination. We have evaluated whether the external expert appointed by management to assist them with the purchase price allocation exercise has the necessary competency, capabilities and objectivity for audit purposes and reviewed their terms of engagement with the Group to determine whether it was sufficient for audit purposes. We also have utilized our internal specialists to assess the estimates made, judgments applied, and valuation techniques used in the purchase price allocation with respect to the intangible assets recognized and fair valuation of the identified assets and liabilities.

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

c) Impairment assessment of goodwill
The Group had goodwill with a carrying value of KD 2,082,374 thousand as at 31 December 2023, recognised on the acquisition of AUB in 2022. IFRSs requires management to assess goodwill for impairment at each reporting date with any impairment loss to be charged to profit or loss. Goodwill was allocated to individual cash-generating units during 2022 and there has been no change in the allocation during 2023. Management engaged an external expert to assist them in performing the impairment assessment of goodwill. The impairment assessment of goodwill is significant to our audit because the assessment of the recoverable amount of goodwill, based on the higher of fair value less cost to sell (FVLCTS) and the value-in-use (VIU), is complex and requires management to apply significant judgements. Estimates of future cash flows used in VIU includes estimates such as management's view of the growth in the banking sector and economic conditions, for example economic growth and expected inflation rates and yield rates. For FVLCTS, the estimation of comparable market transactions required management to apply considerable judgement. Therefore, we have considered the impairment assessment of goodwill as a key audit matter.

As part of our audit procedures, where management applied the VIU basis to determine the recoverable amount, we have obtained management's impairment calculations and assessed the key assumptions, including profit forecasts, growth rates and discount rates. We have evaluated whether the external expert appointed by management has the necessary competency, capabilities and objectivity, and reviewed their terms of engagement with the Group to determine whether it was sufficient for audit purposes. We have also involved our valuation specialists and challenged management to substantiate the assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We have reperformed the mathematical accuracy of the calculations and corroborated certain information with third party sources. We have agreed the underlying cash flows to approved budgets and assessed growth rates and discount rates by comparison with third party information, the Group's cost of capital and relevant risk factors.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

c) Impairment assessment of goodwill (continued)

For FVLCTS, we have challenged management's use of comparable transactions. We have further evaluated management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions. We have agreed the results and inputs into the calculations to the amounts disclosed in the consolidated financial statements. We have also assessed the controls over the impairment process to determine if they had been appropriately designed and implemented.

We have also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in note 18 to the consolidated financial statements, against the requirements of IFRSs.

Other Information included in the Group's 2023 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2023 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 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, 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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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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 2023 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 2023 that might have had a material effect on the business of the Bank or on its financial position.

SHEIKHA AL FULAIJ	BADER A. AL-WAZZAN
LICENCE NO. 289 A	LICENCE NO. 62A
EY	DELOITTE & TOUCHE
(AL-AIBAN, AL-OSAIMI & PARTNERS)	AL-WAZZAN & CO.

31 January 2024
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Notes	2023	KD 000's 2022
INCOME			
Financing income		**2,194,191**	1,322,323
Finance cost and distribution to depositors		**(1,228,263)**	(521,819)
Net financing income		**965,928**	800,504
Investment income	4	**184,231**	44,207
Fees and commission income		**136,463**	90,279
Net gain from foreign currencies		**140,174**	93,389
Other income	5	**34,063**	43,904
TOTAL OPERATING INCOME		**1,460,859**	1,072,283
OPERATING EXPENSES			
Staff costs		**(286,746)**	(209,079)
General and administrative expenses		**(150,123)**	(94,588)
Depreciation and amortisation		**(78,578)**	(45,322)
TOTAL OPERATING EXPENSES		**(515,447)**	(348,989)
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENT AND NET MONETARY LOSS		**945,412**	723,294
Provisions and impairment	6	**(44,372)**	(62,088)
Net monetary loss	38	**(72,813)**	(127,632)
OPERATING PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		**828,227**	533,574
Taxation	7	**(151,818)**	(97,875)
Proposed directors' fees	24	**(1,308)**	(1,096)
PROFIT FOR THE YEAR		**675,101**	434,603
Attributable to:			
Shareholders of the Bank		**584,516**	357,716
Non-controlling interests		**90,585**	76,887
		675,101	434,603
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	8	**38.49 fils**	29.71 fils

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	KD 000's 2022
Profit for the year	**675,101**	434,603
Items that will not be reclassified to consolidated statement of income in subsequent periods:		
Revaluation gain on equity investments at fair value through other comprehensive income	**652**	940
Net change in pension fund reserve	**(2,735)**	(7,527)
Items that are or may be reclassified subsequently to consolidated statement of income:		
Investments in Sukuk at fair value through other comprehensive income:		
Net change in fair value during the year	**(97,426)**	15,234
Net transfer to consolidated statement of income	**(344)**	20,932
Net (loss) gain on investments in sukuk at fair value through other comprehensive income	**(97,770)**	36,166
Share of other comprehensive loss of associates and joint ventures	**(181)**	(4,154)
Net change in fair value of cash flow hedges	**6**	(676)
Exchange differences on translation of foreign operations	**(262,630)**	(231,231)
Other comprehensive loss for the year	**(362,658)**	(206,482)
Total comprehensive income	**312,443**	228,121
Attributable to:		
Shareholders of the Bank	**341,589**	167,048
Non-controlling interests	**(29,146)**	61,073
	312,443	228,121

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 KD 000's	2022 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	9	**3,612,104**	3,155,813
Due from banks	10	**2,971,422**	3,869,894
Financing receivables	11	**19,425,221**	18,800,543
Investment in debt securities	12	**7,006,323**	6,085,453
Trading properties		**105,267**	95,110
Investments	13	**310,241**	246,641
Investment in associates and joint ventures	14,15	**542,948**	519,656
Investment properties	16	**376,616**	399,868
Other assets	17	**903,238**	999,239
Goodwill and intangible assets	18	**2,397,868**	2,462,625
Property and equipment		**358,692**	334,603
TOTAL ASSETS		**38,009,940**	36,969,445
LIABILITIES			
Due to banks		**4,777,278**	4,936,831
Due to financial institutions		**3,206,512**	2,696,472
Sukuk payables and term financing		**635,532**	784,191
Depositors' accounts	20	**21,812,815**	21,030,408
Other liabilities	21	**1,414,464**	1,235,442
TOTAL LIABILITIES		**31,846,601**	30,683,344
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	23	**1,476,445**	1,342,223
Share premium	23	**3,611,765**	3,611,765
Proposed issue of bonus shares	24	**141,262**	134,222
Treasury shares	23	**(113,103)**	(41,763)
Reserves	22	**53,499**	111,451
		5,169,868	5,157,898
Proposed cash dividends	24	**146,042**	199,907
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**5,315,910**	5,357,805
Perpetual Tier 1 Capital Securities and Sukuks	26	**502,381**	501,666
Non-controlling interests		**345,048**	426,630
TOTAL EQUITY		**6,163,339**	6,286,101
TOTAL LIABILITIES AND EQUITY		**38,009,940**	36,969,445

HAMAD ABDOUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

ABDULWAHAB ISSA ALRUSHOOD
(ACTING GROUP CHIEF EXECUTIVE OFFICER)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

KD 000's

	Attributable to the shareholders of the Bank								Perpetual Tier 1 Capital Securities and Sukuks	Non-controlling interests	Total equity
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 22)	Subtotal	Proposed cash dividends	Subtotal			
Balance as at 1 January 2023	1,342,223	3,611,765	134,222	(41,763)	111,451	5,157,898	199,907	5,357,805	501,666	426,630	6,286,101
Profit for the year	-	-	-	-	584,516	584,516	-	584,516	-	90,585	675,101
Other comprehensive loss	-	-	-	-	(242,927)	(242,927)	-	(242,927)	-	(119,731)	(362,658)
Total comprehensive income (loss)	-	-	-	-	341,589	341,589	-	341,589	-	(29,146)	312,443
Issue of bonus shares (Note 24)	134,222	-	(134,222)	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	(51,340)	(51,340)	-	(51,340)		-	(51,340)
Cash dividends paid (Note 24)	-	-	-	-	-	-	(199,907)	(199,907)	-	-	(199,907)
Interim cash dividend (Note 24)	-	-	-	-	(146,063)	(146,063)	-	(146,063)	-	-	(146,063)
Distribution of profit (Note 24):											
Proposed issue of bonus shares	-	-	141,262	-	(141,262)	-	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(146,042)	(146,042)	146,042	-	-	-	-
Net movement on Perpetual Tier 1 Capital securities	-	-	-	-	-	-	-	-	377	-	377
Perpetual Tier 1 Sukuk Foreign Currency translation adjustment	-	-	-	-	(338)	(338)	-	(338)	338	-	-
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks	-	-	-	-	(21,729)	(21,729)	-	(21,729)	-	(353)	(22,082)
Group's share of associate adjustments	-	-	-	-	(4,941)	(4,941)	-	(4,941)	-	-	(4,941)
Impact of application of IAS 29 (Note 38)	-	-	-	-	124,479	124,479	-	124,479	-	75,520	199,999
Acquisition of non-controlling interest (Note 3)	-	-	-	-	(12,305)	(12,305)	-	(12,305)	-	(114,210)	(126,515)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(18,056)	(18,056)
Net movement on treasury shares	-	-	-	(71,340)	-	(71,340)	-	(71,340)	-	-	(71,340)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	4,663	4,663
Balance as at 31 December 2023	1,476,445	3,611,765	141,262	(113,103)	53,499	5,169,868	146,042	5,315,910	502,381	345,048	6,163,339

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2023

KD 000's

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023	KD 000's 2022
OPERATING ACTIVITIES			
Profit for the year		**675,101**	434,603
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**78,578**	45,322
Provisions and impairment	6	**44,372**	62,088
Dividend income	4	**(5,280)**	(3,611)
Gain on sale of investments	4	**(100,396)**	(7,451)
Gain on sale of real estate investments	4	**(60,400)**	(1,304)
Share of results from investment in associates and joint ventures	4	**(30,432)**	(7,053)
Net monetary loss from hyperinflation	38	**72,813**	127,632
		674,356	650,226
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and due from banks		**84,333**	(367,869)
Investment in debt securities		**(944,395)**	(357,593)
Trading properties		**(10,157)**	1,194
Other assets		**96,001**	169,593
Statutory deposit with Central Banks		**(407,725)**	(205,512)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**350,487**	771,145
Depositors' accounts		**782,407**	(680,583)
Other liabilities		**(48,410)**	(259,941)
Net cash flows from (used in) operating activities		**576,897**	(279,340)
INVESTING ACTIVITIES			
Net movement in investments		**(40,455)**	(2,938)
Purchase of investment properties		**(5,036)**	(44)
Proceeds from sale of investment properties		**102,103**	34,528
Purchase of property and equipment		**(35,222)**	(22,232)
Proceeds from sale of property and equipment		**2,610**	2,224
Intangible assets, net		**(1,888)**	(1,535)
Capital injection/ proceeds from redemption of investments in associates and joint ventures		**(14,278)**	20,877
Proceed from disposal of subsidiaries		**-**	3,142
Dividend received		**15,023**	14,434
Acquisition of non-controlling interest		**(126,515)**	-
Cash and balances with banks and financial institutions related to business combination (note 3)		**-**	778,063
Net cash flows (used in) from investing activities		**(103,658)**	826,519
FINANCING ACTIVITIES			
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks		**(22,082)**	(15,414)
Cash dividends paid		**(343,331)**	(100,442)
Dividends paid to non-controlling interest		**(18,056)**	(2,722)
Movement in Sukuk payable and term financing		**(148,659)**	(98,855)
Zakat paid		**(22,502)**	(2,868)
Net movement in treasury shares		**(71,340)**	(14,024)
Net cash flows used in financing activities		**(625,970)**	(234,325)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(152,731)**	312,854
Cash and cash equivalents as at 1 January		**3,201,022**	2,888,168
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	9	**3,048,291**	3,201,022

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2023

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 11 January 2024. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

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

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

2.1 BASIS OF PREPARATION

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

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

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

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

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

2.2 PRESENTATION OF FINANCIAL STATEMENTS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.3 CHANGES IN ACCOUNTING POLICIES

New standards, interpretations, and amendments adopted by the Group
The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2023 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 17 Insurance Contracts
IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts; IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

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

The new standard had no material impact on the Group's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8
The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no material impact on the Group's consolidated financial statements.

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

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no material impact on the Group's consolidated financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12
The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2023

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

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

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 (continued)
In 2021, OECD's Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) had agreed to a two-pillar solution in order to address tax challenges arising from digitalization of the economy. Under Pillar 2, multinational entities whose revenue exceeds EUR 750 million are liable to pay corporate income tax at a minimum effective tax rate of 15%.

The jurisdictions in which the Group operates including the State of Kuwait have joined the IF. The Group expects to be liable for the Global Minimum Tax under Pillar 2 of the BEPS regulations starting from the year 2025.

The Group is currently assessing its exposure to the additional income taxes under Pillar 2 regulations. A reasonable estimate of the additional tax cannot be provided at this stage, as the relevant tax legislation is yet to be introduced in Kuwait and some other jurisdictions.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2023 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback
In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether any existing agreements may require renegotiation.

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

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As at 31 December 2023

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

General requirements for disclosure of sustainability-related financial information (IFRS S1) and Climate-related disclosures (IFRS S2) – 1 January 2024
In June 2023 the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. IFRS S1 includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across a Group's value chain. IFRS S2 is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities. The standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

The Group is currently evaluating the impact of these amendments. The Group will adopt these requirements when the amendments become effective.

2.5 BASIS OF CONSOLIDATION

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

a. Subsidiaries
Subsidiaries are all entities over which the Group has control. Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2023

2.6 MATERIAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2023

2.6 MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are included within net gain/loss from foreign currencies in the consolidated statement of income.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Group companies
On consolidation the assets and liabilities of foreign subsidiaries are translated into Kuwait Dinar at the rate of exchange prevailing at the reporting date and their income statements are translated at average exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal, liquidation, repayment of share capital or abandonment of all, or part of a foreign subsidiary, the component of other comprehensive income relating to that particular foreign subsidiary, is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the spot rate of exchange at the reporting date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

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

i) Financing income includes the following:
   - Income from murabaha, istisna'a, leased assets, tawarruq, mudaraba, wakala investments, other financing receivablesand advances and investment in debt securities, and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.

   Recognition of financing income is suspended on financing receivables where profit and / or principal is overdue by 90 days or more.

ii) Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction.

iii) Rental income from investment properties is recognised on an accrual basis.

iv) Dividend income is recognised when the right to receive payment is established.

v) Operating lease income is recognised on a straight-line basis in accordance with the lease agreement.

vi) Gain from real estate investments includes gains from sale of investment properties and trading properties. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

Trading properties
Trading properties are measured initially at cost. Subsequent to initial recognition, trading properties are carried at the lower of cost or net realizable value determined on an individual basis.

Investment properties
Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at depreciated cost less impairment.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the investment property is recognised in the consolidated statement of income in the year of derecognition as gain of sale of real estate investment.

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

When the Group begins to redevelop an existing investment property with a view to selling the property, it is transferred to trading properties at carrying value.

Depreciation is provided on a straight-line basis over the estimated useful lives, that range from 20 – 40 years other than freehold land which is deemed to have an indefinite life.

Properties under construction
Properties under construction or development for future use as investment properties are classified as investment properties and are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of the asset.

Precious metals inventory
Precious metals inventory primarily comprises gold, which is carried at the fair value less cost to sell.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and yield (SPPY test)
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Yield (the 'SPPY test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are payments of principal or amortisation of the premium/discount).

The most significant elements of profit within a basic financing arrangement are typically the consideration for the time value of money, credit risk, other basic financing risks and a profit margin. To make the SPPY assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the yield rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

The Group classifies its financial assets upon initial recognition into the following categories:
- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to consolidated statement of income on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to consolidated statement of income on derecognition
- Financial assets carried at fair value through profit or loss (FVTPL)

Debt instruments at amortised cost:
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset meet the SPPY test.

Cash and balances with banks and financial institutions, due from banks, certain investment in debt securities and financing receivables are classified as debt instruments at amortised cost.

Debt instruments at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Profit income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Debt instruments at FVOCI:
A debt instrument is carried at FVOCI if it meets both of the following conditions:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPY test

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2023

2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Debt instruments at FVOCI: (continued)
Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit income and foreign exchange gains, losses and ECL are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of consolidated financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Equity instruments at FVOCI:
Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity (fair value reserve). Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial asset at FVTPL:
The Group classifies financial assets at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, profit income and dividends are recorded in the consolidated statement of income according to the terms of the contract, or when the right to payment has been established. Included in this classification are certain debt securities, equities and derivatives that are not designated as hedging instruments in a hedge relationship.

The Group has determined the classification and measurement of its financial assets as follows:

i. Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with Central Banks, balances with banks and financial institutions, cash in transit and exchange of deposits maturing within three months of contract date. Cash and cash equivalents are carried at amortised cost using effective profit rate.

ii. Due from banks
Due from banks are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality banks and treasury bills and deposits with central banks. These are stated at amortised cost using effective profit rate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2023

2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

iii. Financing receivables
Financing receivables are financial assets with fixed or determinable payments that are not quoted in an active market and principally comprise of Islamic financing facilities including murabahas, istisna'a, ijara, tawarruq, mudaraba, wakala receivables and leased assets, as well as other financing receivablesand advances. The financing receivables are stated at amortised cost using effective profit rate.

Murabaha
Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group.

Istisna'a
Istisna'a is a sale contract concluded between a buyer and a manufacturer, whereby the manufacturer undertakes, at the request of the buyer, to manufacture the subject matter of the contract (the product) according to the stipulated specifications, at an agreed upon price and method of payment, whether by paying in advance, by installments, or by deferring payment to a specific date in the future.

Ijara
The lease contract is concluded between the Group (the lessor) and the customer (the lessee), whereby the Group achieves a return by charging rents on the leased assets to the customers.

Tawarruq
It is a product in which a customer buys goods from the group on a deferred payment basis and then sells them immediately for cash to another party.

Mudaraba
It is an agreement between two parties whereby one of them provides funds (rabb al-mal) and the other makes efforts and provides expertise (mudarib) and he is responsible for investing these funds in a specific company or special activity in exchange for a pre-agreed percentage of the mudaraba revenues if there are profits, while in the event of a normal loss, the rabb al-mal will bear the loss of his money while the mudarib will bear the loss of his efforts. However, in case of negligence or breach of any of the terms and conditions of the mudaraba agreement, only the mudarib will bear the losses. The Group acts as a mudarib when accepting funds from depositors and as a rabb al-mal when investing these funds on a mudaraba basis.

Wakala
Wakala is an agreement whereby the Group provides an amount of money to a client under a wakala agreement, who invests this amount according to specific conditions in exchange for agreed fees. The agent is obligated to return the amount in case of negligence or violation of any of wakala's terms and conditions.

Other financing receivables and advances
Other financing receivables and advances are financial assets with fixed or determinable payments and fixed maturities. After initial recognition, they are subsequently measured at amortized cost using the effective profit rate method, adjusted to reflect actual fair value hedges, less any amounts written off and allowance for credit losses. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective profit rate. The amortization is included within 'finance income' in the consolidated statement of income.

Trade receivables
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of expected credit losses and are stated at amortised cost.

iv. Investments in debt securities
Investments in debt securities are classified at FVOCI, FVTPL and amortized cost based on the business model in which these securities are managed. These include investment in bonds, sukuks, notes and certificate of deposits issued by banks and other financial institutions and corporates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

v. Investments
Group's financial investments consists of investment in equity instruments and investment in funds. Investment in equity instruments are carried at FVTPL or FVOCI based on the business model in which these securities are managed. Investment in funds are carried at FVTPL.

vi. Venture capital at fair value through profit or loss
Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through profit or loss in accordance with IFRS 9, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recorded as unrealized gain (loss) in the consolidated statement of income.

Financial liabilities
The Group has determined the classification and measurement of its financial liabilities as follows:

i. Due to banks, depositors' accounts and Sukuk payables and term financing
These are measured at amortised cost. Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in "financing under repurchase agreements". The difference between the sale price and repurchase price is treated as finance costs and is accrued over the life of the agreement using the effective profit method.

ii. Trade payables
Trade payables mainly relates to non-banking subsidiaries of the Group. Liabilities are recognised for amounts to be paid in the future for goods whether or not billed to the Group.

iii. Accrued expenses
Liabilities are recognised for amounts to be paid in the future for services received whether or not billed to the Group.

iv. Financial guarantees
In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and the provisions required by the CBK. Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a financing with pre-specified terms to the customer. Similar to financial guarantee contracts, a provision is measured, if they are an onerous contract, according to the CBK guidelines.

Derecognition of financial assets and financial liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Derecognition of financial assets and financial liabilities (continued)
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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

Any fees received as part of the modification are accounted for as follows:
- Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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.

In the context of IBOR, the Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequences of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

Derivatives financial instruments and hedge accounting
i. Derivatives not designated as hedges:
Currency swaps, profit rate swaps, futures, options, forward foreign exchange and forward commodity contracts instruments ("the instruments") are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. Any gains or losses arising from changes in the fair value of these instruments are taken directly to the consolidated statement of income as investment income.

ii. Derivatives designated as hedges:
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to the particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivatives financial instruments and hedge accounting (continued)
Cash flow hedges (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.

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing profit rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 also requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the profit rate is not altered as a result of IBOR reform. Further, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Impairment of financial assets
The Group recognises ECL for financing receivable, due from banks, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together "financing facilities") and investment in debt securities carried at FVOCI and amortised cost.

Balances with CBK is low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of financing facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines or the provisions required by the CBK instructions.

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

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

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

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

Stage 1: 12-month ECL
The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date.

Stage 2: Lifetime ECL – not credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired
The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

Except for consumer and instalment financing, transfer of credit facility from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the financial assets to Stage 2. Transfer of financial assets from Stage 3 to Stage 2 or Stage 1 is subject to approval of CBK.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)
Determining the stage of impairment (continued)
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;

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).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)
Measurement of ECLs (continued)

- 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.

Incorporation of forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, unemployment rates, Central Bank base rates, oil prices, commodity price index and equity price index and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated financing receivables
In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Derecognition decisions are determined on a case-by-case basis.

Presentation of allowance for ECL in the consolidated statement of financial position
Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)

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

Category	*Criteria*	*Specific provisions*
Watch list	Irregular for a period of 31 to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

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

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings — up to 50 years
- Furniture, fixtures and equipment — 3 to 10 years
- Motor vehicles — 3 years

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

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

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.

In calculating the present value of lease payments, the Group uses the incremental profit rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii. Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor
i. Leased assets
This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

ii. Operating leases
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is recognised in 'other income' in the consolidated statement of income.

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Intangible assets
An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

▸ Core deposits	12 years
▸ Brand/ trademark	3 years
▸ License	assessed to have an indefinite useful life
▸ Software development cost	3 to 5 years
▸ Software license right	15 years
▸ Other rights	3 to 7 years

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

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
Financial assets carried at FVOCI or FVTPL
For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For financial assets where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, book value multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Investment properties
For investment properties, fair value is determined by registered real estate valuers who have relevant experience in the property market.

Due from/to customers for contract work
Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

Share based payments
The Group operates an employees' share purchase plan for certain eligible employees, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (Reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

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.

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

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Employees' end of service benefits (continued)
Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard (IAS) 19 – Employee Benefits are charged to the consolidated statement of income in the year to which they relate.

Treasury shares
The Group's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Fiduciary assets
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

Significant judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

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

Classification of real estate
Management decides on acquisition of a developed and under development real estate property whether it should be classified as trading, investment property or property and equipment.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business or when it is being redeveloped for sale.

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).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Significant 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.

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 37.

Estimation uncertainty

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

Impairment of goodwill and intangible assets with indefinite useful life

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Business combinations

Business combinations requires the assets and liabilities acquired to be fair valued which requires significant amount of judgement and estimation. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. It also involves identification of intangible assets, allocation of goodwill to cash-generating units which requires signification judgement and use of estimates.

Impairment of investment in associates and joint ventures

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates or joint ventures are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Impairment of investment properties and trading properties

The Group reviews the carrying amounts of its investment and trading properties to determine whether there is an indication that those assets have suffered an impairment loss if the fair values are below than the carrying values. The Group management determines the appropriate techniques and inputs required for measuring the fair value using observable market data and as appropriate, the Group uses reputed valuers qualified to do the valuation.

Impairment of financial instruments

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

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

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2.6 MATERIAL ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Impairment of financial instruments (continued)

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

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

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

Impairment losses on financing receivables – as per CBK guidelines

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Leases - Estimating the incremental financing rate

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental financing rate (IBR) to measure lease liabilities. The IBR is the rate that the Group would have to pay to get funding over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

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

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3 BUSINESS COMBINATION

On 2 October 2022, the Parent Company acquired control of AUB, by issuing 4,023,741,236 new shares of the Parent Company to the accepting AUB shareholders at purchase consideration of 799 fils per share, being the quoted price of the shares of the Parent Company at the date of acquisition. Further, the shares of the Parent Company have also been listed on Bahrain Bourse with effect from 6 October 2022. Subsequently, on 20 November 2022, the Parent Company exercised their squeeze-out right to acquire the remaining 2.727% shares of the dissenting shareholders and issued another 112,784,885 new shares of the parent company, thereby making AUB a fully owned subsidiary, with total purchase consideration of KD 3,305,084 thousand.

The acquisition of AUB has been accounted based on the fair value of the identifiable assets and liabilities on the acquisition date, which were determined provisionally in the consolidated financial statements for the year ended 31 December 2022 . The Group has completed the Purchase Price Allocation ("PPA") exercise during the year ended 31 December 2023 and accordingly the provisional fair value of investment properties and other assets reported in the Group's consolidated financial statements for the year ended 31 December 2022 were increased by KD 15,726 thousand and KD 23,415 thousand respectively, and financing receivables was decreased by KD 39,141 thousand.

The fair values of assets acquired, and liabilities assumed after completion of PPA exercise during the year are summarized as follows:

	Fair values KD '000s
Assets	
Cash and balances with banks and financial institutions	**778,063**
Due from banks	**1,602,745**
Financing receivables	**6,312,931**
Investment in debt securities	**2,934,253**
Investments	**31,247**
Investment in associates and joint ventures	**87,868**
Investment properties	**57,710**
Other assets	**514,364**
Property and equipment	**99,057**
Total assets	**12,418,238**
Liabilities	
Due to banks and financial institutions	**2,814,896**
Sukuk payables and term financing	**666,329**
Depositors' accounts	**7,296,598**
Other liabilities	**353,961**
Total liabilities	**11,131,784**
Total identifiable net assets at fair value	**1,286,454**
Non-controlling interests	**(161,761)**
Perpetual Tier 1 Capital Securities	**(288,594)**
Net tangible assets	**836,099**
Identified intangibles	**326,803**
Goodwill arising on acquisition	**2,142,182**
Purchase consideration	**3,305,084**

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

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3 BUSINESS COMBINATION (continued)

Pursuit to the approval from the Central Bank of Kuwait and Bank's Fatwa and Shraria's Supervisory Board all conventional investments and products on acquisition of AUB Bahrain has been converted to be Sharia'a compliant.

On 18 May 2023, the Parent Company completed the mandatory acquisition of Ahli United Bank K.S.C.P. ("AUB Kuwait"), this resulted in an increase in KFH Group ownership in AUB Kuwait by 18.3% (effective 20.3%). Accordingly, the total Group ownership (direct and indirect) in AUB Kuwait has become 85.6% (effective 95.1%) (31 December 2022: 67.3% (effective 74.9%)).

On 30 July 2023, the Parent Company reached an initial agreement with AUB Kuwait, to enter into a merger transaction by way of amalgamation through share swap, whereby the Parent Company shall be the merging company, and AUB Kuwait shall be the merged company. On 16 October 2023, the Capital Markets Authority (CMA) has approved the merger by amalgamation between Kuwait Finance House (K.S.C.P) and Ahli United Bank (K.S.C.P), which was subsequently approved by the Extra Ordinary General Assembly on 29 November 2023.

Accordingly, the Parent Company has commenced the required procedures to implement the merger process as per the applicable laws and regulations.

4 INVESTMENT INCOME

		KD 000's
	2023	*2022*
Gain on sale of real estate investments	**60,400**	1,304
Rental income from investment properties	**4,176**	7,394
Dividend income	**5,280**	3,611
Gain on sale of investments	**100,396**	7,451
Share of results of investment in associates and joint ventures (Note 14 and Note 15)	**30,432**	7,053
Others	**(16,453)**	17,394
	184,231	44,207

5 OTHER INCOME

		KD 000's
	2023	*2022*
Income from sale of property and equipment	**11,296**	21,370
Real estate trading, development and construction income	**62**	302
Income from maintenance, services, and consultancy	**18,061**	21,018
Rental income from lease contracts	**4,797**	4,766
Other loss	**(153)**	(3,552)
	34,063	43,904

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6 PROVISIONS AND IMPAIRMENT

	2023 KD 000's	2022 KD 000's
(Reversal) charge of expected credit losses for investment in debt securities (Note 12)	**(344)**	25,276
Expected credit losses for other financial assets	**3,547**	3,729
Impairment on financing receivables (Note 11)	**66,848**	42,048
Recovery of written-off debts	**(78,281)**	(36,247)
Impairment of investment properties (Note 16)	**2,949**	11,894
Impairment of investment in associates	**3,784**	-
Impairment of trading properties	**1,931**	-
Charge (reversal) of impairment of non-cash facilities	**11,545**	(2,973)
Other provisions and impairment	**32,393**	18,361
	44,372	62,088

7 TAXATION

	2023 KD 000's	2022 KD 000's
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**5,275**	3,249
National Labour Support Tax (NLST)	**16,489**	9,748
Zakat	**7,570**	5,041
Taxation related to subsidiaries	**122,484**	79,837
	151,818	97,875

8 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Bank after profit payment on Perpetual Tier 1 Capital Securities and Sukuks, by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group.

Basic and diluted earnings per share:	2023	2022
Profit for the year attributable to shareholders of the Bank (thousand KD)	**584,516**	357,716
Less: Profit payment on Perpetual Tier 1 Capital Securities and Sukuks (thousand KD)	**(21,729)**	(14,519)
Profit for the year attributable to shareholders of the Bank after profit payment on Perpetual Tier 1 Capital Securities and Sukuks (thousand KD)	**562,787**	343,197
Weighted average number of shares outstanding during the year, net of treasury shares (thousands share)	**14,621,026**	11,552,164
Basic and diluted earnings per share attributable to the shareholders of the Bank	**38.49 fils**	29.71 fils

The employees' share based payments plan has no material dilutive impact on earnings per share.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 23).

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9 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2023 KD 000's	2022 KD 000's
Cash	**269,499**	250,511
Balances with Central Banks	**2,277,019**	1,920,026
Balances with banks and financial institutions – current accounts	**1,065,586**	985,276
Cash and balance with banks and financial institutions	**3,612,104**	3,155,813
Due from banks within 3 months of contract date	**1,291,914**	1,493,211
Less: Statutory deposits with Central Banks	**(1,855,727)**	(1,448,002)
Cash and cash equivalents	**3,048,291**	3,201,022

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

10 DUE FROM BANKS

	2023 KD 000's	2022 KD 000's
Due from banks	**1,574,786**	2,004,913
Due from central banks including treasury bills	**1,396,636**	1,864,981
	2,971,422	3,869,894

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

11 FINANCING RECEIVABLES

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

	2023 KD 000's	2022 KD 000's
Financing receivables		
Murabaha and wakala	**18,232,567**	16,025,887
Leased assets	**2,921,204**	2,794,602
Istisna'a and other receivables	**149,098**	100,926
Other financing receivables and advances	**1,216,099**	2,477,241
	22,518,968	21,398,656
Less: deferred and suspended profit	**(2,146,045)**	(1,672,211)
Net financing receivables	**20,372,923**	19,726,445
Less: impairment	**(947,702)**	(925,902)
	19,425,221	18,800,543

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

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11 **FINANCING RECEIVABLES (continued)**

Movement in provision for impairment as per CBK instructions is as follows:

	Specific		*General*		*Total*	*KD 000's*
	2023	*2022*	*2023*	*2022*	*2023*	*2022*
Balance as at beginning of year	**206,745**	150,184	**719,157**	501,198	**925,902**	651,382
Provided during the year (Note 6)	**45,570**	19,266	**21,278**	22,782	**66,848**	42,048
Other adjustments arising on business combination	**-**	76,982	**-**	164,865	**-**	241,847
Restatement PPA adjustment (Note 3)	**-**	-	**-**	39,141	**-**	39,141
Amounts written off and foreign currency translation	**(44,191)**	(39,687)	**(857)**	(8,829)	**(45,048)**	(48,516)
Balance as at end of year	**208,124**	206,745	**739,578**	719,157	**947,702**	925,902

The available provision balance on non-cash facilities of KD 44,534 thousand (2022: KD 38,190 thousand) is included under other liabilities (Note 21).

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

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

	2023	*KD 000's* *2022*
Within one year	**1,345,305**	1,265,447
One to five years	**762,883**	704,373
More than five years	**813,016**	824,782
	2,921,204	2,794,602

Non-performing financing facilities

As at 31 December 2023, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 321,845 thousand (2022: KD 271,274 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 2023 is KD 992,236 thousand (2022: KD 964,092 thousand) which exceeds the ECL for financing receivables under IFRS 9 by KD 548,595 thousand (2022: KD 556,350 thousand).

An analysis of the carrying amounts of financing receivables (cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations is as below. Further, for contingent liabilities and commitments, the amounts in the table represent the amounts committed or guaranteed (non-cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations.

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11 **FINANCING RECEIVABLES (continued)**

31 December 2023	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
High	**13,637,089**	**357,242**	**-**	**13,994,331**
Standard	**3,835,640**	**1,550,319**	**87,670**	**5,473,629**
Past due or impaired	**352,559**	**230,559**	**321,845**	**904,963**
	17,825,288	**2,138,120**	**409,515**	**20,372,923**
Financing commitments and contingent liabilities (Note 27)	**2,222,443**	**296,108**	**38,152**	**2,556,703**
ECL provision for credit facilities	**83,433**	**119,909**	**240,299**	**443,641**
31 December 2022				
High	14,224,015	377,256	-	14,601,271
Standard	2,844,282	1,241,895	145,690	4,231,867
Past due or impaired	448,725	173,308	271,274	893,307
	17,517,022	1,792,459	416,964	19,726,445
Financing commitments and contingent liabilities (Note 27)	2,259,563	254,154	32,202	2,545,919
ECL provision for credit facilities	83,848	115,187	208,707	407,742

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

	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***KD 000's*** ***Total***
31 December 2023				
Financing receivables	**352,559**	**117,411**	**113,148**	**583,118**
31 December 2022				
Financing receivables	448,725	69,049	104,259	622,033

An analysis of the changes in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	Stage 1 KD 000's	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
ECL allowance as at 1 January 2023	**83,848**	**115,187**	**208,707**	**407,742**
Transfer between stages:				
Transfer from / to Stage 1	**7,914**	**(4,407)**	**(3,507)**	**-**
Transfer from / to Stage 2	**(1,331)**	**2,803**	**(1,472)**	**-**
Transfer from / to Stage 3	**(2,741)**	**(1,194)**	**3,935**	**-**
Net (decrease) increase in ECL for the year	**6,711**	**31,059**	**71,468**	**109,238**
Amounts written off	**-**	**-**	**(22,553)**	**(22,553)**
Foreign exchange adjustments	**(10,968)**	**(23,539)**	**(16,279)**	**(50,786)**
At 31 December 2023	**83,433**	**119,909**	**240,299**	**443,641**

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11 FINANCING RECEIVABLES (continued)

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

	Stage 1 KD 000's	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL allowance as at 1 January 2022	31,495	120,110	147,230	298,835
Transfer between stages:				
Transfer from / to Stage 1	13,399	(10,786)	(2,613)	-
Transfer from / to Stage 2	(1,002)	1,862	(860)	-
Transfer from / to Stage 3	(1,737)	(2,467)	4,204	-
Additions arising on business combination	48,103	-	82,024	130,127
Net (decrease) increase in ECL for the year	(256)	38,535	17,828	56,107
Amounts written off	-	-	(15,581)	(15,581)
Foreign exchange adjustments	(6,154)	(32,067)	(23,525)	(61,746)
At 31 December 2022	83,848	115,187	208,707	407,742

Sensitivity

For measuring the overall sensitivity of the forward-looking information and key economic variables on the Group's ECL on financing receivables, the Group conducts stress tests by allocating a higher weightage to the downside scenario which results in an increase in the Bank's ECL allowance for financing receivables in Stage 1 and Stage 2. However, the ECL so determined after incorporating the aggregate impact of these sensitivity adjustments, continues to remain lower than the total provision for credit losses recorded as per CBK instructions, and accordingly will not have an impact on the Group's consolidated statement of income as well as on the carrying value of these assets.

12 INVESTMENT IN DEBT SECURITIES

	2023	*2022*
		KD 000's
FVOCI	**3,179,817**	2,879,094
Amortised cost	**3,377,891**	2,905,117
FVTPL	**448,615**	301,242
	7,006,323	6,085,453

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification (excluding debt securities carried at FVTPL).

2023	***Stage 1***	***Stage 2***	***Stage 3***	***KD 000's Total***
High grade	**3,747,717**	**575,391**	-	4,323,108
Standard grade	**2,256,575**	**26,267**	-	2,282,842
Past due or impaired	-	-	-	-
Gross carrying amount	**6,004,292**	**601,658**	-	**6,605,950**
ECL allowance	**(31,537)**	**(16,705)**	-	**(48,242)**
Carrying value	**5,972,755**	**584,953**	-	**6,557,708**

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12 INVESTMENT IN DEBT SECURITIES (continued)

2022	*Stage 1*	*Stage 2*	*Stage 3*	*KD 000's Total*
High grade	3,460,331	594,005	-	4,054,336
Standard grade	1,794,205	-	-	1,794,205
Past due or impaired	-	-	45,407	45,407
Gross carrying amount	5,254,536	594,005	45,407	5,893,948
ECL allowance	(37,855)	(30,658)	(41,224)	(109,737)
Carrying value	5,216,681	563,347	4,183	5,784,211

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

2023	***Stage 1***	***Stage 2***	***Stage 3***	***KD 000's Total***
Gross carrying amount as at 1 January 2023	**5,254,536**	**594,005**	**45,407**	**5,893,948**
Net movement during the year	**749,756**	**7,653**	**(45,407)**	**712,002**
At 31 December 2023	**6,004,292**	**601,658**	-	**6,605,950**

2023	***Stage 1***	***Stage 2***	***Stage 3***	***KD 000's Total***
ECL allowance as at 1 January 2023	**37,855**	**30,658**	**41,224**	**109,737**
Re-measurements during the year (Note 6)	**64**	**(3,201)**	**2,793**	**(344)**
Amounts written off and foreign currency translation	**(6,382)**	**(10,752)**	**(44,017)**	**(61,151)**
At 31 December 2023	**31,537**	**16,705**	-	**48,242**

2022	*Stage 1*	*Stage 2*	*Stage 3*	*KD 000's Total*
Gross carrying amount as at 1 January 2022	1,824,030	649,726	-	2,473,756
Acquired as part of business combination	2,935,164	-	45,407	2,980,571
Net movement during the year	495,342	(55,721)	-	439,621
At 31 December 2022	5,254,536	594,005	45,407	5,893,948

2022	*Stage 1*	*Stage 2*	*Stage 3*	*KD 000's Total*
ECL allowance as at 1 January 2022	21,019	17,124	-	38,143
Acquired as part of business combination	5,094	-	41,224	46,318
Re-measurements during the year (Note 6)	11,742	13,534	-	25,276
At 31 December 2022	37,855	30,658	41,224	109,737

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

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13 INVESTMENTS

	2023 KD 000's	2022 KD 000's
FVTPL	**130,594**	96,013
FVOCI	**163,370**	133,781
Venture capital at fair value through profit or loss	**16,277**	16,847
	310,241	246,641

14 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity % 2023	Interest in equity % 2022	Country of registration	Principal activities	Financial statements reporting date
Sharjah Islamic Bank P.J.S.C.	**18**	18	United Arab Emirates	Islamic banking services	30 September 2023
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	**46**	46	Kuwait	Aircraft leasing and financing services	30 September 2023
Ahli Bank S.A.O.G. (ABO)	**35**	35	Sultanate of Oman	Islamic banking services	30 September 2023

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

Summarised consolidated statement of financial position:

	2023 KD 000's	2022 KD 000's
Assets	**9,258,870**	8,686,276
Liabilities	**(7,445,323)**	(7,628,922)
Equity	**1,813,547**	1,057,354
Carrying amount of the investment	**314,480**	289,612

Summarised consolidated statement of income:

	2023 KD 000's	2022 KD 000's
Revenues	**614,259**	318,805
Expenses	**(438,369)**	(283,351)
Profit for the year	**175,890**	35,454
Group's share of results for the year	**25,902**	1,902

Investments in associates with a carrying amount of KD 278,212 thousand (2022: KD 254,859 thousand) have a market value of KD 297,226 thousand at 31 December 2023 (2022: KD 263,687 thousand) based on published quotes. Dividends received from the associates during the current year amounted to KD 9,743 thousand (2022: KD 9,153 thousand).

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

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15 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity % 2023	Interest in equity % 2022	Country of registration	Principal activities	Financial statements reporting date
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	31 October 2023
South City W.L.L.	**25**	25	Bahrain	Real estate development	31 October 2023

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

Summarised consolidated statement of financial position:

	2023 KD 000's	2022 KD 000's
Assets	**923,883**	870,474
Liabilities	**(316,454)**	(254,484)
Equity	**607,429**	615,990
Carrying amount of the investment	**228,468**	230,044

Summarised consolidated statement of income:

	2023 KD 000's	2022 KD 000's
Revenues	**63,933**	58,364
Expenses	**(51,161)**	(45,871)
Profit for the year	**12,772**	12,493
Group's share of results for the year	**4,530**	5,151

Dividends received from the joint ventures during the current year amounted to KD Nil thousand (2022: KD 1,670).

16 INVESTMENT PROPERTIES

	2023 KD 000's	2022 KD 000's
As at 1 January	**399,868**	325,128
Additions	**31,788**	65,517
Acquired as part of business combination (Note 3)	**-**	41,984
Restatement of PPA adjustment (Note 3)	**-**	15,726
Disposals	**(47,993)**	(32,313)
Depreciation charge for the year	**(4,098)**	(4,280)
Impairment (Note 6)	**(2,949)**	(11,894)
As at 31 December	**376,616**	399,868

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16 INVESTMENT PROPERTIES (continued)

	2023	KD 000's 2022
Developed properties	**327,177**	311,264
Properties under construction	**49,439**	88,604
	376,616	399,868

17 OTHER ASSETS

	2023	KD 000's 2022
Precious metals inventory	**65,969**	110,503
Trade receivable, net	**112,100**	169,794
Clearing accounts	**171,661**	135,149
Receivables on sale of investment	**2,698**	5,711
Deferred tax	**74,630**	28,945
Advances and prepayments	**36,307**	39,908
Derivative assets (Note 28)	**178,645**	236,127
Other miscellaneous assets	**261,228**	273,102
	903,238	999,239

18 GOODWILL AND INTANGIBLE ASSETS

Movement of goodwill and intangible assets is as follows:

	2023	KD 000's 2022
Cost		
As at 1 January	**2,510,272**	69,948
Identified intangibles recognised on acquisition of AUB (Note 3)	**-**	326,803
Goodwill recognised on acquisition of AUB (Note 3)	**-**	2,142,182
Additions	**2,918**	20,758
Disposal	**(27)**	(1,694)
Hyperinflation adjustment	**13,794**	11,740
Impairment during the year	**(946)**	-
Foreign exchange translation	**(51,321)**	(59,465)
As at 31 December	**2,474,690**	2,510,272
Accumulated amortization		
As at 1 January	**47,647**	37,597
Charge for the year	**29,850**	8,970
Disposals	**(14)**	(821)
Hyperinflation adjustment	**8,748**	7,964
Foreign exchange translation	**(9,409)**	(6,063)
As at 31 December	**76,822**	47,647
Net book value as at 31 December	**2,397,868**	2,462,625

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

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18 GOODWILL AND INTANGIBLE ASSETS (continued)

	2023	KD 000's 2022
Goodwill	**2,098,980**	2,127,198
Core deposits and brands	**263,745**	265,952
Other intangibles	**35,143**	69,475
	2,397,868	2,462,625

The carrying amount of goodwill has been allocated to CGU's, represented by the Group's geographical banking operations in Kuwait, Bahrain, Egypt, and United Kingdom, which consists of identifiable net assets including intangible assets comprising of core deposits, brands, and licences. The goodwill and intangible assets with indefinite useful lives are tested for impairment on an annual basis.

Recoverable amount of each CGU is determined using higher of value in use (VIU) and fair value less cost to sell (FVLCTS). In determination of VIU, the Group has applied discount rates ranging from 8.8% to 28.8% and a terminal growth rate ranging of 1.9% to 8.6%. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, the there are no indications that the goodwill or intangible assets with indefinite useful life are impaired.

Other intangibles include license of an Islamic brokerage company amounting to KD 14,671 thousand (2022: 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 CGU. The recoverable amount of the license has been determined using a discount rate of 10.7% (2022: 11.4%) and a terminal growth rate of 2.7% (2022: 2.1%). As a result, the management believes there are no indications of any impairment in value. Intangible assets with finite lives are amortised over their useful economic life.

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

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19 SUBSIDIARIES

19.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %* 2023	2022	*Principal activity*	*Financial statements reporting date*
Kuwait Turkish Participation Bank (KTPB)	Turkey	**62**	62	Islamic banking services	31 December 2023
Ahli United Bank B.S.C.(C) (AUB) *	Bahrain	**100**	100	Banking services	31 December 2023
Kuwait Finance House B.S.C.	Bahrain	**100**	100	Islamic banking services	31 December 2023
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	31 December 2023
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	**100**	100	Banking services	31 December 2023
Ahli United Bank K.S.C.P. ("AUBK")***	Kuwait	**85.6**	67.3	Islamic banking services	31 December 2023
Ahli United Bank (Egypt) S.A.E. ("AUBE")	Egypt	**95.7**	95.7	Banking services	31 December 2023
Commercial Bank of Iraq P.S.C. ("CBIQ")	Iraq	**80.3**	80.3	Islamic banking services	31 December 2023
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	**100**	100	Islamic investment	31 December 2023
KFH Capital Investments Company K.S.C. (Closed) **	Kuwait	**99.9**	99.9	Islamic finance and investments	31 October 2023
KFH Real Estate Company K.S.C. (Closed) **	Kuwait	**99.9**	99.9	Real estate development and leasing	31 October 2023
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	**56**	56	Real estate, investment, trading and real estate management	31 October 2023
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	**100**	100	Real estate development and investment	30 September 2023
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	**98**	98	Computer maintenance, consultancy and software services	30 September 2023
Al Salam Hospital K.S.C. (Closed)	Kuwait	**76**	76	Healthcare services	30 September 2023

* *AUBUK, AUBK, AUBE, and CBIQ are indirectly held subsidiaries through AUB.*
** *Effective ownership percentage is 100% (2022: 100%).*
*** *Effective ownership percentage is 95.1% (2022: 74.9%) (Note 3).*

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

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19 SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiaries

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

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Non-controlling interest percentage* 2023	2022
Kuwait Turkish Participation Bank	Turkey	**38%**	38%

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

Summarised consolidated statement of income and comprehensive income for the year ended:

	KTPB 2023	*KD 000's* 2022
Revenues	**928,092**	818,166
Expenses	**(777,995)**	(642,346)
Profit for the year	**150,097**	175,820
Profit attributable to non-controlling interest	**56,677**	66,390
Total comprehensive (loss) income for the year	**(162,743)**	129,241
Total comprehensive (loss) income attributable to non-controlling interest	**(61,452)**	48,801

Summarised consolidated statement of financial position as at:

	KTPB 2023	*KD 000's* 2022
Total assets	**7,338,401**	6,731,080
Total liabilities	**(6,598,683)**	(6,036,713)
Total equity	**739,718**	694,367
Attributable to non-controlling interests	**279,318**	262,193

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

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19 SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiaries (continued)

Summarised consolidated statement of cash flows for year ended:

	KTPB	
		KD 000's
	2023	*2022*
Operating	**283,133**	551,999
Investing	**(85,808)**	(388,463)
Financing	**(18,958)**	130,427
Net increase in cash and cash equivalents	**178,367**	293,963

20 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'a.

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

b) The fair values of depositors' accounts do not differ from their carrying book values.

21 OTHER LIABILITIES

		KD 000's
	2023	*2022*
Trade payables	**339,620**	274,307
Accrued expenses	**192,130**	246,095
Certified cheques	**62,972**	84,341
Due to customers for contract work	**10,387**	10,819
Employees' end of service benefits	**117,270**	110,376
Refundable deposits	**1,321**	1,594
Provision on non-cash facilities (Note 11)	**44,534**	38,190
Derivative liabilities (Note 28)	**95,481**	75,082
Other miscellaneous liabilities *	**550,749**	394,638
	1,414,464	1,235,442

*Amount payable to KFAS as of 31 December 2023 is KD 5,275 thousand (2022: KD 3,249 thousand) and is included in other miscellaneous liabilities.

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

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22 RESERVES

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
								KD 000's
Balance as at 1 January 2023	403,348	251,206	29,608	15,028	47,135	(603,493)	(31,381)	111,451
Profit for the year	-	-	584,516	-	-	-	-	584,516
Other comprehensive loss	-	-	-	-	(53,493)	(186,705)	(2,729)	(242,927)
Total comprehensive income (loss)	-	-	584,516	-	(53,493)	(186,705)	(2,729)	341,589
Zakat	-	(50,727)	(613)	-	-	-	-	(51,340)
Interim cash dividend	-	-	(146,063)	-	-	-	-	(146,063)
Transfer to reserves	61,516	61,516	(123,032)	-	-	-	-	-
Proposed issuance of bonus shares (Note 24)	-	-	(141,262)	-	-	-	-	(141,262)
Proposed cash dividends (Note 24)	-	-	(146,042)	-	-	-	-	(146,042)
Transfer of fair value reserve of equity investment at FVOCI	-	-	5,340	-	(5,340)	-	-	-
Perpetual Tier 1 Sukuk foreign currency translation adjustment	-	-	(338)	-	-	-	-	(338)
Profit payment on Perpetual Tier 1 Capital Securities & Sukuks	-	-	(21,729)	-	-	-	-	(21,729)
Impact of application of IAS 29 (Note 38)	-	-	124,479	-	-	-	-	124,479
Acquisition of Non-controlling interest	-	-	-	-	-	-	(12,305)	(12,305)
Group's share of associate adjustments	-	-	(4,941)	-	-	-	-	(4,941)
Balance as at 31 December 2023	464,864	261,995	159,923	15,028	(11,698)	(790,198)	(46,415)	53,499

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22 RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
Balance as at 1 January 2022	365,663	233,723	1,346	15,028	57,001	(439,587)	(23,178)	209,996
Profit for the year	-	-	357,716	-	-	-	-	357,716
Other comprehensive loss	-	-	-	-	(8,949)	(173,516)	(8,203)	(190,668)
Total comprehensive income (loss)	-	-	357,716	-	(8,949)	(173,516)	(8,203)	167,048
Zakat	-	(20,202)	-	-	-	-	-	(20,202)
Transfer to reserves	37,685	37,685	(75,370)	-	-	-	-	-
Proposed issuance of bonus shares (Note 24)	-	-	(134,222)	-	-	-	-	(134,222)
Proposed cash dividends (Note 24)	-	-	(199,907)	-	-	-	-	(199,907)
Transfer of fair value reserve of equity investment at FVOCI	-	-	917	-	(917)	-	-	-
Perpetual Tier 1 Sukuk foreign currency translation adjustment	-	-	(2,850)	-	-	-	-	(2,850)
Profit payment on Perpetual Tier 1 Capital Securities & Sukuks	-	-	(14,519)	-	-	-	-	(14,519)
Impact of application of IAS 29 (Note 38)	-	-	99,603	-	-	-	-	99,603
Disposal of a subsidiary	-	-	-	-	-	9,610	-	9,610
Group's share of associate adjustments	-	-	(3,106)	-	-	-	-	(3,106)
Balance as at 31 December 2022	403,348	251,206	29,608	15,028	47,135	(603,493)	(31,381)	111,451

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22 RESERVES (continued)

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

Voluntary reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a maximum of 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

Voluntary reserve is available to be distributed to shareholders at the discretion of the Bank's Board of Directors in ways that may be deemed beneficial to the Bank, except for the amount of KD 113,103 thousand (2022: KD 41,763 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 23). The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the issued share capital.

Other reserves
Other reserves include cashflow hedge reserve, pension fund reserve and changes in ownership interest without loss of control.

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

23 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

The ordinary general assembly of the Bank's shareholders held on 20 March 2023 approved to distribute bonus shares of 10% (2021: 10%) of the issued, and fully paid share capital, and cash dividends of 15 fils per share (2021: 12 fils per share) to the Bank's shareholders, for the year ended 31 December 2022 (Note 24).

The Extra-ordinary general assembly of the Bank's shareholders held on 20 March 2023 also approved to increase the authorised share capital to be comprised of 14,764,456,572 shares (31 December 2022: 13,485,707,127) shares of 100 fils each. This increase was registered in the commercial register on 26 March 2023.

The issued, and fully paid share capital as at 31 December 2023 comprise of 14,764,456,572 shares (31 December 2022: 13,422,233,248) shares of 100 fils each.

The Extra ordinary general assembly of the Bank's shareholders held on 29 November 2023 approved to increase the issued and paid up capital of the Bank by way of issuing 931,366,802 shares at the nominal value of 100 fils and a share premium and to allocate these shares to the shareholders registered in the shareholders register of Ahli United Bank K.S.C.P. (AUB Kuwait) on the day to be determined for executing the merger and authorised the Board of Directors to take all necessary actions to implement the capital increase to implement the merger.

During the previous year, the Extra-ordinary general assembly of the Bank's shareholders held on 25 July 2022, approved to increase the issued and paid-up capital of the Bank by way of issuing a maximum of 4,200,000,000 shares at the nominal value of the share and to allocate these shares to the shareholders registered in the shareholders register of Ahli United Bank B.S.C. (AUB – Bahrain).

On 2 October 2022, the issued and fully paid share capital were increased from 9,285,707,127 shares to 13,309,448,363 shares by issuing 4,023,741,236 shares at nominal value of the share and allocated to the accepting shareholders of AUB - Bahrain. On 20 November 2022, 112,784,885 shares were issued to the remaining dissenting shareholders of AUB - Bahrain (Note 3).

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23 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

Share capital

	2023 KD 000's	2022 KD 000's
Issued and fully paid in cash and bonus shares: 14,764,456,572 (2022: 13,422,233,248) shares of 100 fils each	**1,476,445**	1,342,223

The movement in ordinary shares in issue during the year was as follows:

	2023	2022
Number of shares in issue as at 1 January	**13,422,233,248**	8,441,551,934
Bonus shares issued	**1,342,223,324**	844,155,193
New shares issued in consideration for acquisition of AUB (Note 3)	**-**	4,136,526,121
Number of shares in issue at 31 December	**14,764,456,572**	13,422,233,248

Share premium
The share premium balance is not available for distribution.

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2023	2022
Number of treasury shares	**201,687,987**	95,105,916
Treasury shares as a percentage of total shares in issue	**1.4%**	0.7%
Cost of treasury shares (KD thousand)	**113,103**	41,763
Market value of treasury shares (KD thousand)	**146,022**	78,177

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 2023 was 762 fils (2022: 874 fils) per share.

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

The Board of Directors of the Bank has proposed a cash dividend of 10% for the year ended 31 December 2023 (2022: 15%) and issuance of bonus shares of 9% (2022: 10%) of the paid up share capital after considering the increase in share capital for executing the merger with AUBK (Note 23) as follows:

	2023		2022	
		Total KD 000's		Total KD 000's
Proposed cash dividends (per share)	**10 fils**	**146,042**	15 fils	199,907
Proposed issuance of bonus shares (per 100 shares)	**9 shares**	**141,262**	10 shares	134,222

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 approved distribution of interim cash dividend of 10 fils per share on the outstanding shares as of 30 June 2023, which was paid during the current period.

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24 PROPOSED CASH DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES (continued)

The Board of Directors of the Bank has proposed Directors' fees of KD 1,308 thousand (2022: KD 1,096 thousand), (Note 29) which is within the amount permissible under local regulations and subject to the approval of the annual general assembly of the shareholders of the Bank.

25 SHARE BASED PAYMENTS

The Bank operates long-term incentive scheme plan (LTIS) approved by the Board of Directors and authorized by the Bank's extraordinary general assembly and ordinary assembly. The LTIS operate on a rolling yearly employees' share purchase plan where new plans is rolled out to eligible employees every year. Shares issued under each plan will vest at the end of three years from the allocation date subject to agreed performance conditions approved by the Board of Directors being met.

26 PERPETUAL TIER 1 CAPITAL SECURITIES AND SUKUKS

	2023 KD 000's	2022 KD 000's
Perpetual Tier-1 Sukuk issued by the Bank (a)	**225,734**	225,408
Perpetual Tier I Capital securities issued by AUB (b)	**118,099**	117,926
Perpetual Tier I Sukuk-2021 issued by AUBK (c)	**158,548**	158,332
	502,381	501,666

(a) On 30 June 2021, the Bank through a Sharia's compliant Sukuk arrangement issued Perpetual Tier 1 Sukuk amounting to USD 750 million. The Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Perpetual Tier 1 Sukuk is listed on the London Stock Exchange and callable by the Bank after five-year period ending June 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of the Perpetual Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Perpetual Tier 1 Sukuk bears an expected profit rate of 3.6% per annum to be paid semi-annually in accordance with the terms of the issue. Transaction costs incurred on the issue of the Perpetual Tier 1 Sukuk is accounted as a deduction from equity.

(b) Basel III compliant Additional Tier I Perpetual Capital Securities issued by AUB during 2015 carried an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. On completion of the initial 5 year period, during 2020, distribution rate was reset to 5.839%. These securities are perpetual, subordinated and unsecured. The securities are listed on the Irish Stock Exchange. AUB can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

(c) During the year ended 31 December 2021, AUBK completed a US$ 600 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk issue that bears a profit rate of 3.875% per annum, which are eligible to be classified under equity. These are subordinated, unsecured and carry a periodic distribution amount, payable semi-annually in arrears, is callable after five year period of issuance until the first call date ending June 2026 or any profit distribution date thereafter subject to certain redemption conditions, including prior CBK approval. The securities are listed on the Irish Stock Exchange and NASDAQ Dubai.

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27 CONTINGENCIES AND CAPITAL COMMITMENTS

At the financial position date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	KD 000's	
	2023	2022
Acceptances and letters of credit	390,868	515,682
Letter of guarantees	2,165,835	2,030,237
Contingencies	2,556,703	2,545,919

	KD 000's	
	2023	2022
Capital and irrevocable undrawn financing commitments and others	535,691	421,459

28 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments") and other derivative instruments to mitigate foreign currency and profit rate risk. The Islamic currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency thru series of transactions to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future based on Wa'ad (promise) structure.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose. Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

Derivatives held for trading purposes
Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products

Derivatives held for hedging purposes
The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses profit rate swaps and forward rate agreements to hedge against the profit rate risk arising from specifically identified, or a portfolio of, fixed profit rate investments and financing receivables. The Group also uses profit rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as derivatives held for hedging purposes.

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28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into profit rate swaps to hedge net profit rate exposures.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2023			
Derivatives held for trading			
Profit rate swaps	20,410	19,458	633,342
Forward contracts	7,324	8,358	1,785,094
Currency swaps	10,769	1,448	1,016,687
Others	4,685	4,267	381,699
Derivatives held as fair value hedges			
Profit rate swaps	112,593	59,560	3,480,855
Currency swaps	22,104	2,264	337,472
Derivatives held as cash flow hedges			
Forward contracts	760	126	68,972
	178,645	95,481	7,704,121

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2022			
Derivatives held for trading			
Profit rate swaps	21,685	19,561	529,844
Forward contracts	17,827	15,352	3,059,999
Currency swaps	8,063	2,224	1,218,345
Options	261	369	19,046
Others	3,126	1,422	92,117
Derivatives held as fair value hedges			
Profit rate swaps	149,661	31,820	3,167,376
Forward contracts	103	102	5,633
Currency swaps	34,734	4,052	396,482
Derivatives held as cash flow hedges			
Forward contracts	649	180	67,739
Currency swaps	18	-	4,064
	236,127	75,082	8,560,645

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28 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

In respect of derivative instruments including currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the gross and net cash flows:

KD 000's

	Notional amount	*Within 3 months*	*3 to 12 months*	*More than 12 months*
31 December 2023				
Cash inflows	**7,704,121**	**3,131,543**	**1,129,913**	**3,442,665**
Cash outflows	**(7,771,809)**	**(3,221,095)**	**(1,119,798)**	**(3,430,916)**
Net cash flows	**(67,688)**	**(89,552)**	**10,115**	**11,749**
31 December 2022				
Cash inflows	8,560,645	3,945,260	1,464,911	3,150,474
Cash outflows	(8,518,786)	(3,937,988)	(1,448,052)	(3,132,746)
Net cash flows	41,859	7,272	16,859	17,728

29 RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, directors and executive employees, officers of the Group, their immediate relatives, associated companies, joint ventures and companies of which they are the principal owners) are depositors and financing facilities, customers of the Group, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

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

KD 000's

	Major shareholders	*Associates and joint ventures*	*Board members and executive officers*	*Other related party*	*Total 2023*	*Total 2022*
Financing income	**-**	**7,397**	**98**	**658**	**8,153**	7,177
Fee and commission income	**85**	**441**	**222**	**9**	**757**	318
Finance costs and distribution to depositors	**59,533**	**1,445**	**435**	**881**	**62,294**	20,589

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

KD 000's

	Major shareholders	*Associates and joint ventures*	*Board members and executive officers*	*Other related party*	*Total 2023*	*Total 2022*
Financing receivables and Due from banks	**-**	**133,950**	**2,546**	**12,379**	**148,875**	233,487
Due to banks and financial institutions	**1,469,325**	**12,798**	**-**	**-**	**1,482,123**	1,271,940
Depositors' accounts	**-**	**24,572**	**30,040**	**35,488**	**90,100**	79,374
Contingencies and commitments	**2,485**	**13,190**	**-**	**3**	**15,678**	16,215

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29 RELATED PARTY TRANSACTIONS (continued)

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

KD 000's

	The number of board members or executive officers 2023	*2022*	*The number of related parties (Relatives of board members or executive officers) 2023*	*2022*	*2023*	*2022*
Board Members						
Finance facilities	**31**	29	**31**	18	**12,351**	12,950
Depositors' accounts	**83**	67	**120**	116	**24,063**	21,437
Collateral against financing facilities	**4**	3	**4**	3	**18,870**	18,628
Executive officers						
Finance facilities	**96**	81	**21**	21	**2,277**	2,415
Depositors' accounts	**111**	84	**123**	130	**12,396**	11,657
Collateral against financing facilities	**6**	5	**5**	3	**2,621**	2,943

Salaries, allowances and bonuses of key management personnel, termination benefits of key management personnel and remuneration of board members of the Bank and all consolidated subsidiaries are as follows:

KD 000's

	Total 2023	*2022*
Salaries, allowances and bonuses of key management personnel	**18,365**	14,087
Termination and long-term benefits of key management personnel	**1,848**	1,504
Board of directors' remuneration *	**2,580**	2,531
	22,793	18,122

* Board of director's remuneration include amount of KD 1,308 thousand (2022: KD 1,096 thousand) related to the Bank. The board of director's remuneration is subject to the approval of the Annual General Assembly (Note 24).

30 SEGMENTAL ANALYSIS

Primary segment information

For management purposes, the Group is organized into four major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, murabaha investments, investment in debt securities, exchange of deposits with banks and financial institutions and international banking relationships.

Retail and Private Banking: Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals

Corporate Banking: Providing a range of banking services and investment products to corporates, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

Investment: Managing direct equity and real estate investments, non-banking Group entities, associates and joint ventures.

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30 SEGMENTAL ANALYSIS (continued)

31 December 2023	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
					KD 000's
Total assets	**12,508,801**	**8,996,118**	**11,959,469**	**4,545,552**	**38,009,940**
Total liabilities	**8,184,478**	**15,804,834**	**6,669,966**	**1,187,323**	**31,846,601**
Operating income	**219,684**	**471,277**	**546,484**	**223,414**	**1,460,859**
Provisions and impairment	**(8,048)**	**(23,658)**	**25,999**	**(38,665)**	**(44,372)**
Profit for the year	**149,004**	**172,280**	**430,779**	**(76,962)**	**675,101**

31 December 2022	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
					KD 000's
Total assets	12,137,529	9,379,095	10,867,811	4,585,010	36,969,445
Total liabilities	7,655,097	16,522,406	5,604,062	901,779	30,683,344
Operating income	262,762	265,046	352,186	192,289	1,072,283
Provisions and impairment	(24,044)	(11,513)	7,562	(34,093)	(62,088)
Profit for the year	217,176	48,555	280,401	(111,529)	434,603

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

	Assets		*Contingencies and commitments*	*KD 000's*
	2023	*2022*	***2023***	*2022*
Geographical areas:				
Middle East	**26,175,275**	26,132,795	**1,556,185**	1,469,749
Europe	**8,705,291**	7,285,597	**1,411,450**	1,333,088
Others	**3,129,374**	3,551,053	**124,759**	164,541
	38,009,940	36,969,445	**3,092,394**	2,967,378

	Local		*International*		*Total*	*KD 000's*
	2023	*2022*	***2023***	*2022*	***2023***	*2022*
Operating income	**381,700**	286,061	**1,079,159**	786,222	**1,460,859**	1,072,283
Profit for the year	**139,519**	82,073	**535,582**	352,530	**675,101**	434,603

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31 RISK MANAGEMENT

Risk management is an integral part of Group decision-making processes. It is implemented through a governance process that emphasizes on independent risk assessment, control and monitoring, overseen directly by the Board and senior management.

KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and market regulations and risk management best practices. KFH operates a "three lines of defence" system for managing risk.

The first line of defence recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

The second line of defence comprises the Risk Management Department and the Financial Control Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The risk management department is responsible for managing and monitoring risk exposures. It also, measures risk using risk models and presents reports to the Board Risk Committee and the Board of Directors. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the Bank's risk appetite.

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts and other derivative instruments to manage exposures and emerging risks resulting from changes in yields, foreign currencies ,and equity risks. Moreover, the Group actively uses collateral to reduce its credit risks.

Excessive risk concentration
In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging tools are used within the Bank to manage market risk at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Group has similar risk management structures, policies and procedures as overseen by the Bank's Board of Directors.

32 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for single counterparty. industry concentrations, and by monitoring exposures related to such limits.

The Group is applying Early Warning Signals "EWS" approach to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by using credit risk rating model, which assigns each counterparty a risk rating. Risk ratings are subject to regular review. The EWS allows the Group to assess the potential loss as a result of the risks to which is exposed to and take proactive corrective actions.

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32 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 a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- customer having past due liabilities to public creditors or employees
- customer is deceased

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take into account of all aspects of perceived risk. The Group uses various internal credit-rating engine. The tools provide the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and derived in accordance with the Group' rating policy. The attributable risk ratings are assessed and updated regularly.

The group uses PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. The through the cycle (TTC) PDs are generated from MRA based on the internal credit ratings. or from external credit rating by recognised rating agencies for externally rated portfolios. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques. The Group assesses the PD for its retail portfolio through application scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility.

Incorporation of forward-looking information

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

Actual results will differ as this does not consider the migration of exposures or incorporate changes that would occur in the portfolio due to risk mitigation actions and other factors.

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32 CREDIT RISK (continued)

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.

	Notes	2023	2022
			KD 000's
Balances with banks and financial institutions	9	**3,342,605**	2,905,302
Due from banks	10	**2,971,422**	3,869,894
Financing receivables	11	**20,372,923**	19,726,445
Investment in debt securities	12	**7,054,565**	6,195,190
Trade and other receivables		**590,979**	701,227
Total		**34,332,494**	33,398,058
Contingencies	27	**2,556,703**	2,545,919
Capital and irrevocable undrawn financing commitments and others	27	**535,691**	421,459
Total		**3,092,394**	2,967,378
Total credit risk exposure		**37,424,888**	36,365,436

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 2023 was KD 353,475 thousand (2022: KD 297,061 thousand) before taking account of any collaterals. The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	Middle East	Europe	Others	Total
				KD 000's
31 December 2023				
Balances with banks and financial institutions	**1,033,832**	**1,797,995**	**510,778**	**3,342,605**
Due from banks	**2,676,605**	**158,331**	**136,486**	**2,971,422**
Financing receivables	**15,545,901**	**4,251,187**	**575,835**	**20,372,923**
Investment in debt securities	**3,284,122**	**1,901,856**	**1,868,587**	**7,054,565**
Trade and other receivables	**376,407**	**112,721**	**101,851**	**590,979**
	22,916,867	**8,222,090**	**3,193,537**	**34,332,494**
31 December 2022				
Balances with banks and financial institutions	868,122	1,277,882	759,298	2,905,302
Due from banks	3,090,104	495,663	284,127	3,869,894
Financing receivables	15,473,862	3,789,111	463,472	19,726,445
Investment in debt securities	3,120,271	1,950,765	1,124,154	6,195,190
Trade and other receivables	442,741	127,907	130,579	701,227
	22,995,100	7,641,328	2,761,630	33,398,058

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32 CREDIT RISK (continued)

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

	2023	2022
	KD 000's	
Trading and manufacturing	**8,722,259**	8,328,776
Banks and financial institutions	**11,648,676**	11,810,951
Construction and real estate	**5,336,152**	5,199,086
Other	**8,625,407**	8,059,245
	34,332,494	33,398,058

Credit quality per class of financial assets

Credit exposures classified as 'High grade' are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard grade' comprise all other facilities whose payment performance is fully compliant with contractual conditions, and which are not 'impaired'.

Details of credit quality for financing receivables is disclosed in Note 11 and for investment in debt securities is disclosed in Note 12. Balances with banks and financial institutions, due from banks and trade and other receivables are classified as High grade.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Group's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

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 2023 was KD 402,364 thousand (2022: KD 209,302 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee and real estate assets.

Country risk

Country risk is the risk that incidents within a country could have an adverse effect on the Group directly in impairing the value of the Group or indirectly through an obligor's inability to meet its obligations to the Group. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

33 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base while manages assets and monitors future cash flows within the regulatory and internal liquidity limits, on daily basis. Moreover, the Group monitors and assess the impact of the existing and new operations' expected cash flows and ensures the availability of high quality liquid assets, which could be used to secure additional funding, when required.

In addition, the Group maintains a robust liquidity buffers which consists of a mix of readily available cash, sharia compliant short-term money market instruments and a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has in place committed lines of credit that can be accessed in order to meet liquidity needs.

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33 LIQUIDITY RISK (continued)

The overall liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors during a systemically contagion market and a specific idiosyncratic stress events impacted by the Group.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year-end are based on contractual payment arrangement and planned exit dates.

The maturity profile of assets and liabilities at 31 December 2023 is as follows:

	Up to 3 months	*3 to 12 months*	*After one year*	*Total*
				KD 000's
Assets				
Cash and balances with banks and financial institutions	3,527,660	8,928	75,516	3,612,104
Due from banks	2,289,202	659,918	22,302	2,971,422
Financing receivables	5,855,026	4,446,374	9,123,821	19,425,221
Investment in debt securities	798,436	448,510	5,759,377	7,006,323
Trading properties	-	30,149	75,118	105,267
Investments	409	69,063	240,769	310,241
Investment in associates and joint ventures	2,046	188,483	352,419	542,948
Investment properties	-	88,963	287,653	376,616
Other assets	209,705	83,393	610,140	903,238
Goodwill and intangible assets	-	-	2,397,868	2,397,868
Property and equipment	332	-	358,360	358,692
	12,682,816	6,023,781	19,303,343	38,009,940

	Up to 3 months	*3 to 12 months*	*After one year*	*Total*
				KD 000's
Liabilities				
Due to banks	1,739,566	769,167	2,268,545	4,777,278
Due to financial institutions	2,790,487	348,131	67,894	3,206,512
Sukuk payables and term financing	-	76,614	558,918	635,532
Depositors' accounts	12,951,390	2,917,842	5,943,583	21,812,815
Other liabilities	339,302	168,557	906,605	1,414,464
	17,820,745	4,280,311	9,745,545	31,846,601

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33 LIQUIDITY RISK (continued)

The maturity profile of assets and liabilities at 31 December 2022 is as follows:

	Up to 3 months	*3 to 12 months*	*After one year*	*Total*
				KD 000's
Assets				
Cash and balances with banks and financial institutions	2,946,235	7,847	201,731	3,155,813
Due from banks	2,745,992	1,083,477	40,425	3,869,894
Financing receivables	5,209,468	4,102,570	9,488,505	18,800,543
Investment in debt securities	232,153	722,725	5,130,575	6,085,453
Trading properties	9,259	8,909	76,942	95,110
Investments	667	65,043	180,931	246,641
Investment in associates and joint ventures	2,483	20,549	496,624	519,656
Investment properties	78,390	31,842	289,636	399,868
Other assets	275,762	37,455	686,022	999,239
Goodwill and intangible assets	-	-	2,462,625	2,462,625
Property and equipment	332	-	334,271	334,603
	11,500,741	6,080,417	19,388,287	36,969,445
Liabilities				
Due to banks	2,750,698	1,100,309	1,085,824	4,936,831
Due to financial institutions	910,733	333,231	1,452,508	2,696,472
Sukuk payables and term financing	188,243	23,388	572,560	784,191
Depositors' accounts	14,330,818	3,024,787	3,674,803	21,030,408
Other liabilities	246,006	83,637	905,799	1,235,442
	18,426,498	4,565,352	7,691,494	30,683,344

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

	Up to 3 months	***3 to 12 months***	***Over 1 year***	***Total***
				KD 000's
2023				
Contingencies (Note 27)	**914,188**	**875,991**	**766,524**	**2,556,703**
Capital and irrevocable undrawn financing commitments and others (Note 27)	**18,602**	**67,891**	**449,198**	**535,691**
Total	**932,790**	**943,882**	**1,215,722**	**3,092,394**

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
				KD 000's
2022				
Contingencies (Note 27)	1,014,809	802,229	728,881	2,545,919
Capital and irrevocable undrawn financing commitments and others (Note 27)	52,313	56,004	313,142	421,459
Total	1,067,122	858,233	1,042,023	2,967,378

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

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

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34 MARKET RISK

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to change in market prices. These risks are classified into three main areas as follows:

Profit rate risk
The Group generates assets and liabilities that have cash inflows and outflows, or fair values and their profitability and performance is evaluated through the sensitivity of profit rates fluctuations. The Group manages the risk arising from these exposures to maximize profit for shareholders and depositors. Further, the Group measures and manages the profit rate risk by establishing levels of profit rate risk by setting limits on the profit rate gaps for stipulated periods. Profit rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the profit rate gaps to within the limits established by the Bank's management.

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2023 and 31 December 2022 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of equity investments at FVOCI).

	31 December 2023			*31 December 2022*		***KD 000's***
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
USD	**+1**	**1,990**	**120**	+1	1,619	35
BHD	**+1**	**(617)**	**181**	+1	(302)	151

Price risk
This is the risk arising from the fluctuation in the market value of investments in equity, Sukuks and debt securities, and real estate.

The effect on fair value reserve (as a result of a change in the fair value of equity investments at FVOCI at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

	2023		*2022*	***KD 000's***
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Boursa Kuwait	+1	**313**	+1	137
Other GCC indices	+1	**147**	+1	129

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, processes or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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34 MARKET RISK (continued)

Operational risk

The Group has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk managed by the Operational Risk Management, which reviews policies, procedures, products, services and support business lines in managing and monitoring operational risks as part of overall Group-wide risk management.

Operational Risk Management of the Group is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and monitoring operational risks in Group.

35 CAPITAL MANAGEMENT

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) and its amendments are shown below:

		KD 000's
Capital adequacy	*2023*	*2022*
Risk Weighted Assets	**21,865,093**	22,552,464
Capital required	**3,279,764**	3,044,583
Capital available		
Tier 1 capital	**3,591,896**	3,605,225
Tier 2 capital	**382,154**	377,993
Total capital	**3,974,050**	3,983,218
Tier 1 capital adequacy ratio	**16.43%**	15.99%
Total capital adequacy ratio	**18.18%**	17.66%

The Group's financial leverage ratio for the year ended 31 December 2023 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

		KD 000's
	2023	*2022*
Tier 1 capital	**3,591,896**	3,605,225
Total exposure	**44,100,423**	43,375,277
Financial leverage ratio	**8.14%**	8.31%

36 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2022 amounted to KD 2,845,516 thousand (2022: KD 2,531,926 thousand).

Fees and commission income include fees of KD 8,554 thousand (2022: KD 8,121 thousand) arising from trust and fiduciary activities.

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37 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2023.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at FVTPL (Note 13)	-	16,277	-	16,277
Equities at FVTPL (Note 13)	43,713	77,767	9,114	130,594
Equities at FVOCI (Note 13)	77,709	18,998	66,663	163,370
Debt securities at FVTPL (Note 12)	448,615	-	-	448,615
Debt securities at FVOCI (Note 12)	3,120,122	18,985	40,710	3,179,817
Derivative financial assets:				
Forward contracts	-	8,084	-	8,084
Profit rate swaps	-	133,003	-	133,003
Currency swaps	-	32,873	-	32,873
Others	-	4,685	-	4,685
Non-financial assets:				
Investment properties	-	545,820	-	545,820
	3,690,159	856,492	116,487	4,663,138

				KD 000's
Financial liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	-	8,484	-	8,484
Profit rate swaps	-	79,018	-	79,018
Currency swaps	-	3,712	-	3,712
Others	-	4,267	-	4,267
	-	95,481	-	95,481

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37 FAIR VALUES (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2022.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at FVTPL (Note 13)	-	16,847	-	16,847
Equities at FVTPL (Note 13)	37,982	35,711	22,320	96,013
Equities at FVOCI (Note 13)	38,102	17,607	78,072	133,781
Debt securities at FVTPL (Note 12)	301,242	-	-	301,242
Debt securities at FVOCI (Note 12)	2,804,895	31,019	43,180	2,879,094
Derivative financial assets:				
Forward contracts	-	18,579	-	18,579
Profit rate swaps	-	171,346	-	171,346
Currency swaps	-	42,815	-	42,815
Others	-	3,387	-	3,387
Non-financial assets:				
Investment properties	-	549,456	-	549,456
	3,182,221	886,767	143,572	4,212,560

				KD 000's
Financial liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	-	15,634	-	15,634
Profit rate swaps	-	51,381	-	51,381
Currency swaps	-	6,276	-	6,276
Others	-	1,791	-	1,791
	-	75,082	-	75,082

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted debt securities of KD 40,710 thousand (2022: KD 43,180 thousand) and unquoted equity investments of KD 75,777 thousand (2022: KD 100,392 thousand). Investment in debt securities included in this category represent investment in debt securities issued by sovereign entities, financial institutions and corporates. The fair values of unquoted investment in debt securities are estimated using discounted cash flow method using discount rate ranging from 5.8% to 14.7% (2022: 5.9% to 15.1%). 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%.

Instruments disclosed in Note 28 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources.

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date.

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37 FAIR VALUES (continued)

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 2023, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of Level 3 financial assets measured at fair value:

		KD 000's
	2023	*2022*
As at 1 January	**143,572**	132,524
Re-measurement	**(10,514)**	4,168
Acquired as part of the business combination	**-**	9,185
Disposal, net	**(16,571)**	(2,305)
As at 31 December	**116,487**	143,572

38 HYPERINFLATION ACCOUNTING

The subsidiary Kuwait Turkish Participation Bank (KTPB) has banking operations in Turkey. The Turkish economy has been assessed as a hyperinflationary economy based on cumulative inflation rates over the previous three years, in April 2023. The Group determined the Consumer Price Index ("CPI") provided by the Turkish State Institute of Statistics to be the appropriate general price index to be considered in the application of IAS 29, *Financial Reporting in Hyperinflationary Economies* on the subsidiary's financial statements. The level and movement of the price index during the current and previous reporting period is as below:

Reporting period	***Index***	***Conversion factor***
31 December 2023	**1806.50**	**1.620**
31 December 2022	1115.26	1.623

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