بيت التمويل الكويتي
Kuwait Finance House

Annual Report

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

2019

بسم الله الرحمن الرحيم

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

O you 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).

Holly Quran - Al Baqara - Versus (278 - 279)

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

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

His Highness
Sheikh Sabah Al-Khaled Al-Hamad Al-Sabah
The Prime Minister

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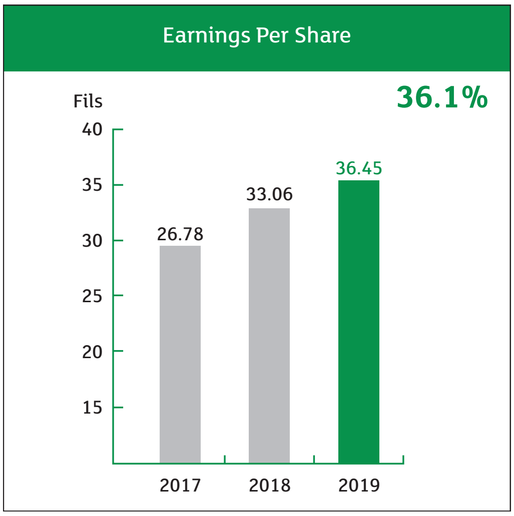
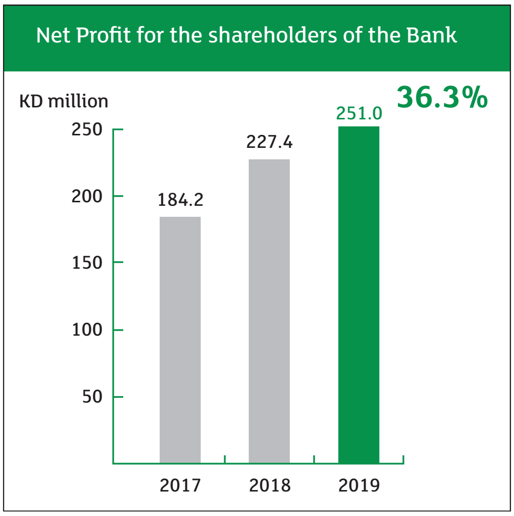
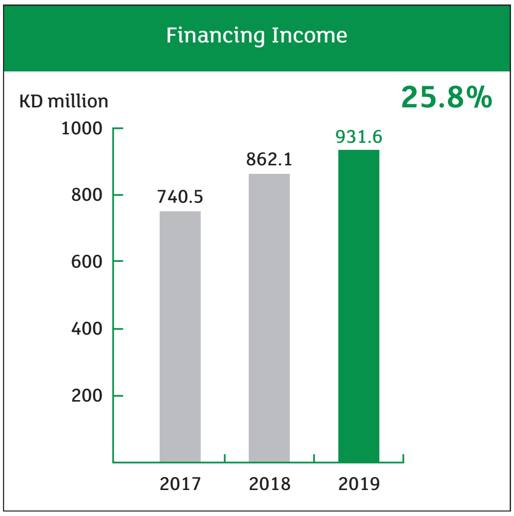
Kuwait Finance House (KFH)

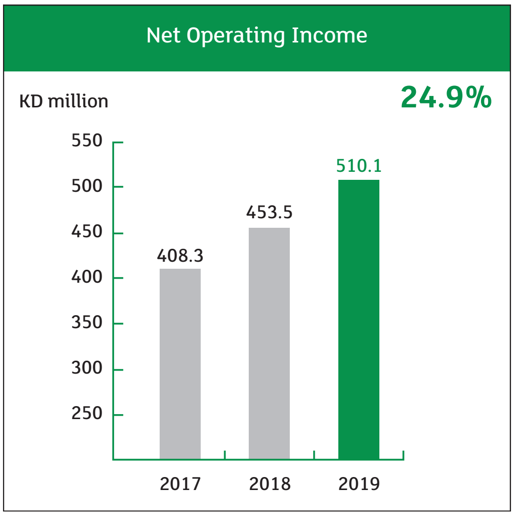
Content

Distinguished Financial Indicators

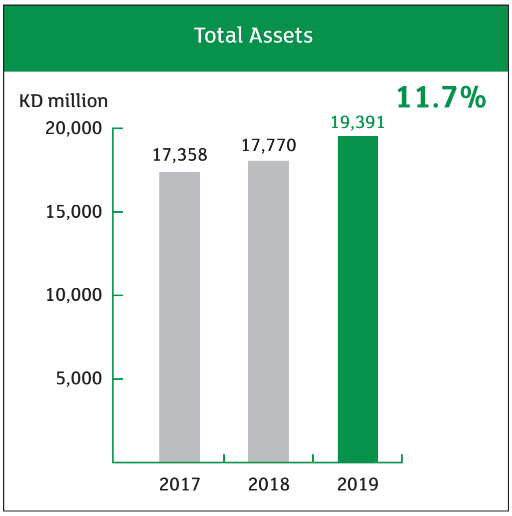


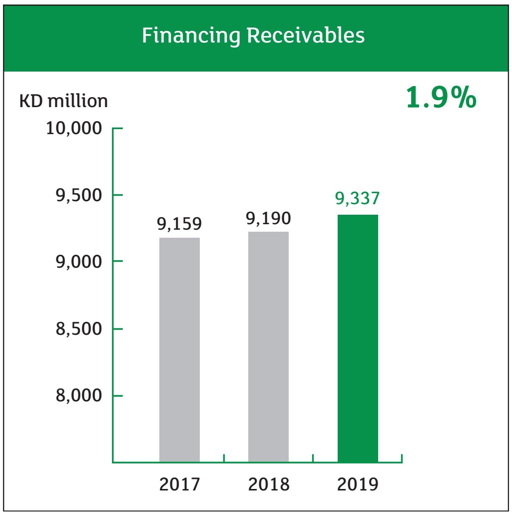


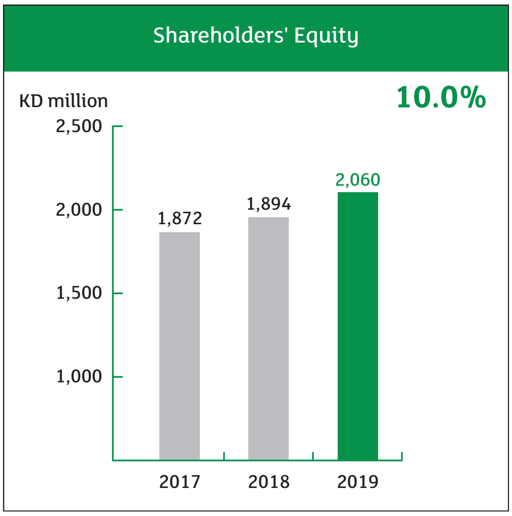


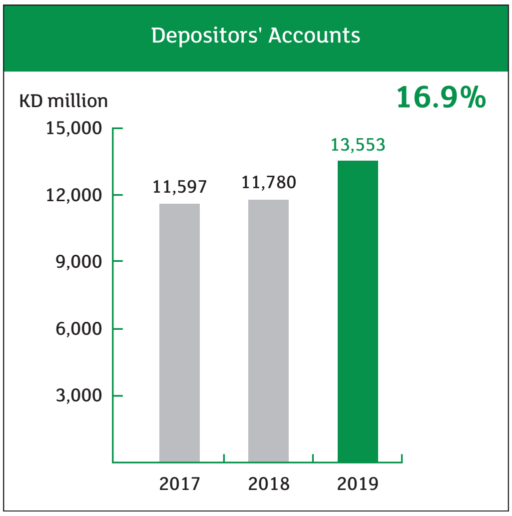


"Growth Ratio reflects the change in 2019 statements compared to 2017"









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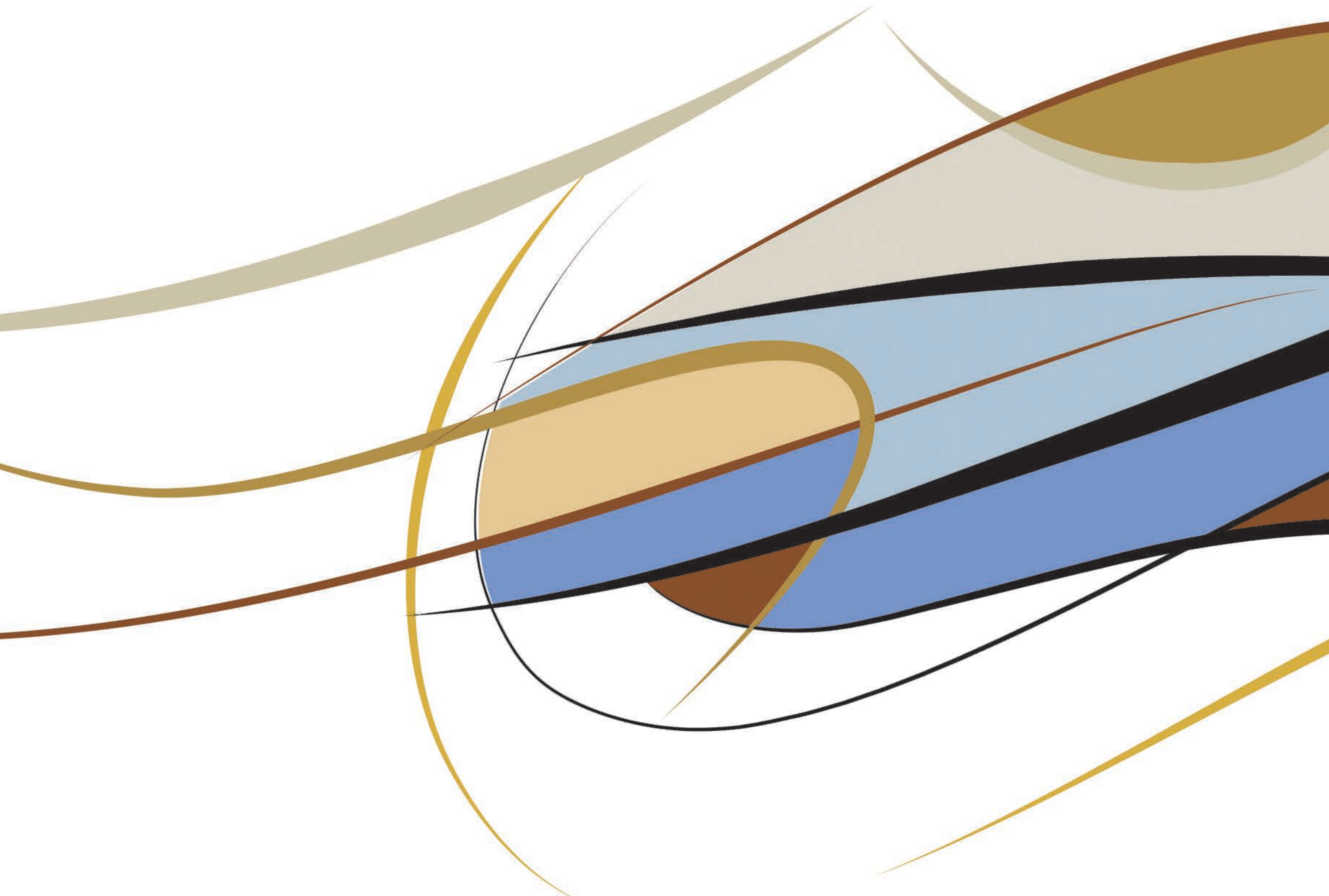
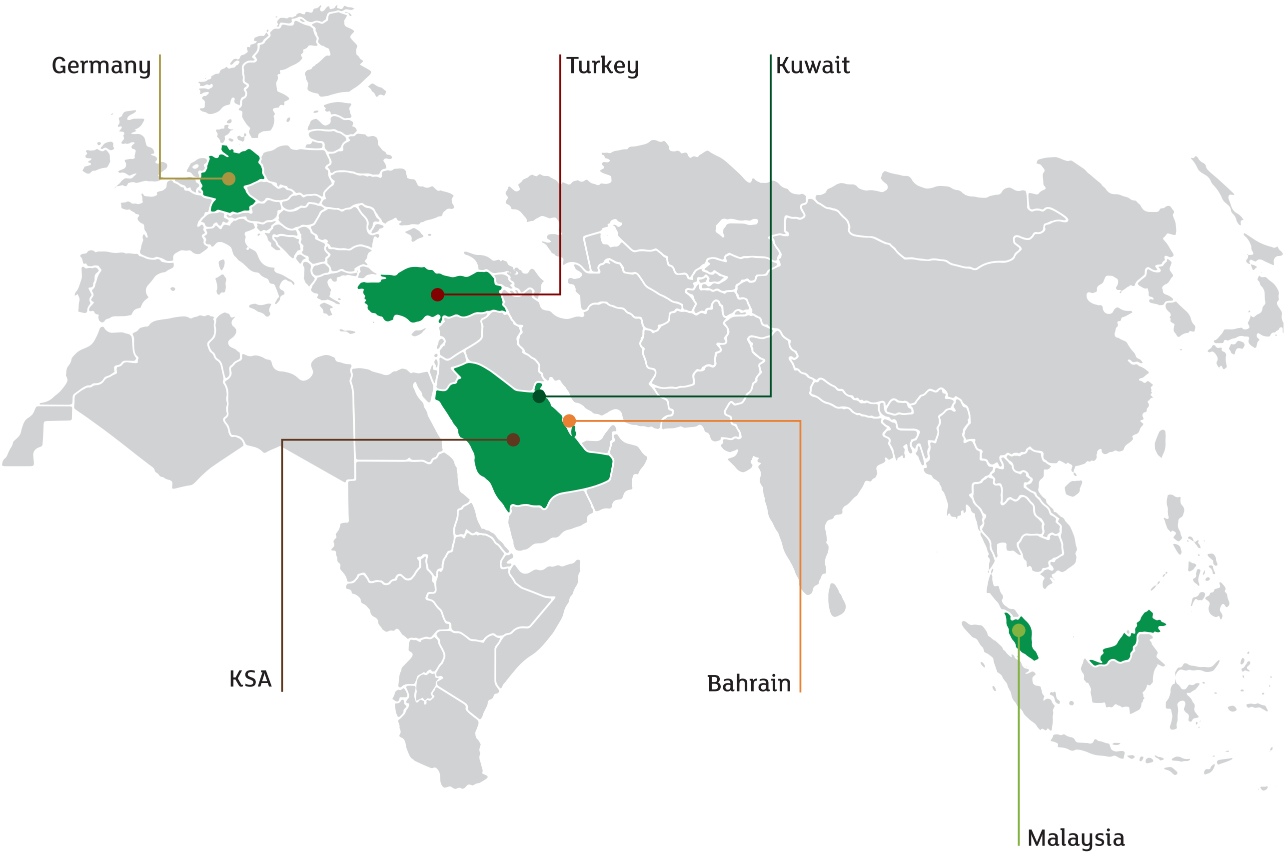


KFH Group **Overview**

KFH Group Overview

Global Integrated Banking Operations

Leading the Islamic finance industry, KFH Group offers a wide range of Islamic products and services across several regions, with 515 branches, 1,424 ATMs and approximately 15,000 employees.



- Kuwait Finance House (KFH) was the first Islamic bank established in Kuwait in 1977. Today, KFH is one of the leading Islamic banking institutions in the world, and one of the biggest financiers in both the local and regional markets.
- KFH's largest shareholders include: Kuwait Investment Authority (Direct), Kuwait Awqaf Public Foundation (Direct), Public Authority for Minors' Affairs (Direct), The Public Institution for Social Security (Indirect).
- Kuwait Finance House is a publically listed company on Boursa Kuwait (Ticker "KFH").

1. Kuwait Finance House K.S.C.P. - Kuwait
2. Kuwait Finance House B.S.C. - Bahrain
3. Kuwait Turkish Participation Bank - Turkey
4. Kuwait Finance House - Malaysia (Berhad)
5. Saudi Kuwait Finance House S.S.C.
6. KT Bank AG - Germany

Vision

To lead the international development of Islamic financial services and become the most trusted and sustainably most profitable 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 and innovation..
Partnership and accountability..
Compliance with Islamic Shari'a Principles.

Chairman's Message

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his Family and Companions.
Esteemed Shareholders,
Assalamu Alaikum Warahmatu Allah Wabarakatuh...

On behalf of myself, my colleagues, and members of the Board of Directors of Kuwait Finance House "KFH", I would like to present to you KFH Group Annual Report for the year 2019.

The world economy witnessed several developments in 2019, following the sharp decline witnessed during the last three quarters of 2018. Global growth has lost its momentum, recording the lowest growth ratio since the global financial crises. This is mainly attributed to USA – China trade tensions, feared BREXIT impacts, weakening global industrial production indicators and the lackluster growth in China. These factors have created a state of uncertainty which has impacted investment decisions, contributed to the deterioration of the world growth, instability of global conditions, increase in economic slowdown and geopolitical tensions in the Middle East.

Amid this financial and economic uncertainty, KFH has endeavored to encounter new challenges and deals efficiently and diligently with the economic fluctuations in the regions and countries in which it operates. KFH has adopted conservative policies to enhance its reserves and contribute to the effective management of increasing risks, strengthen its leading position in various markets, explore new promising horizons, develop KFH capabilities to overcome all challenges and avail all opportunities to ensure viability and achieve sustainable growth.

Several years ago, KFH has designed a framework to access several markets and studied several acquisition opportunities. We have intensified our endeavor to adopt financial technologies, digital economy and information security to open new horizons. We continue to enhance our management capabilities and accommodate and develop our human resources.

KFH has witnessed, during the last 5 years, a major transformation in activities, efficiency and reputation as well as a highly remarkable and sustainable financial performance. We were able to translate KFH vision into reality and reap the harvest of the board approved long term strategy, which aimed to diversify sources of profit, mitigate risks, optimize costs and increase operating income from banking activities. Also, we have managed to execute several successful exits from non-strategic investments and achieve harmony and alignment among group subsidiaries to ensure sustainable growth and profitability. These results were evidenced through positive indicators, adequacy of financial position and well-balanced sustainable growth.

The year 2019 witnessed remarkable achievements, where KFH Group accomplished positive results and significant returns for shareholders. KFH group has maintained a distinguished position for its operations regionally and internationally, thus increasing shareholders' profit to KD 251 Million i.e. an increase of 10.4% compared to last year. We have also achieved tangible progress regarding the rate of return on shareholders' equity.

Group financial indicators continued their escalating trajectory through enhancement of profit and increase in capital adequacy ratio to 17.67% i.e. higher than regulatory ratio of 15%. We have observed Basel standards and fixed liquidity ratios, which enable us to face market challenges, fluctuations and future regulatory requirements.

In a historical step, we recieved the consent of the Central Bank of Kuwait and the Central Bank of Bahrain to proceed with KFH acquisition of Al-Ahli United Bank - Bahrain, subject to the fulfilment of certain conditions and the completion of the due diligence process of the acquisition project. Should the acquisition be achieved, by the Grace of Allah, KFH would be taking the leading position locally and regionally, with assets approximating US$ 101 Billion, thus becoming the largest Islamic bank worldwide. In addition, KFH shall achieve positive advantages from this acquisition as it shall be a significant driver for growth and prosperity in the future of KFH Group. The acquisition shall introduce KFH to several new markets e.g. United Kingdom and Egypt, and create a regional market for the bank comprising more than 430 Million people with average annual income approximating US$ 42 Thousand per capita according to the purchasing power parity concept. The acquisition shall enable the bank to optimize costs in the markets where it operates and shall enhance allocation of its resources.

The Group strategic planning is not limited to the near future only, as we endeavor to redesign our products and services using various tools to adapt with advanced technological developments. This approach shall contribute to the amendment of traditional methods in banking business. We have upgraded IT infrastructure and maintained the security and stability of the operating environment and expanded the banking solutions circle using modern technology.

Our focus, in 2019, was on direct digital transformation to achieve the best customer experience, thus providing brand new digital services side by side with our 12 electronic branches in addition to ATMs and POS spread worldwide. Digital transformation shall fulfill customers' needs. Customer classification programs would be developed in a new innovative manner and technology would be the key to success and outstanding customer service and not only a cost optimization tool.

Major steps were considered to adopt Fintech and Blockchain technologies as fast as possible to take advantage of modern technologies. E-Payment methods were activated by making transfers through Ripple technology alongside Swift services, using SWIFT – GPI System.

We have applied major initiatives on the internal operations front, applying artificial intelligence solutions and applications. Robotics were activated to perform highly complicated functions, thus minimizing FX buy/sell transaction time and enabling better management of liquidity and daily operations at better prices, higher productivity and efficiency without any human interference, using FX platform "KFH-Global". This platform shall fulfill retail and corporate customers' FX needs, decrease transaction processing time and pricing and enable our employees to focus on enhancing the sales front.

KFH Group has taken certain initiatives comprising financial technology and e-banking channels. KFH digital channels indicators have increased to record 142 Million transactions during the year. Mobile bank transactions increased by 4.9% for the same period while KFH Online transactions, ATM and SMS service, made an exceptional increase of 13.7% compared to 2018.

KFH continues to finance mega projects and transactions through its Corporate Banking sector and expand its trade relations with core corporate clients in all sectors in a highly competitive environment. Locally, KFH has played the role of Mandated Lead Arranger to a finance transaction for the benefit of Kuwait Petroleum Corporation, which amounted to KD 350 Million. On both regional and international fronts, Kuwait-Turk has participated in the financing of Marmara Highway Project in Turkey, amounting to KD 60 Million, as part of a syndicated finance provided by several banks and financial institutions.

KFH enjoys a leading position as a market maker in the secondary sukuk market. Also, it participated in several initial sukuk offerings issued by GCC governments and other creditworthy financial institutions. KFH participated in qualitative offerings of green sukuks, thus reflecting global tendency towards sustainable growth and maintained its leading position for the fifth year respectively as a main dealer in the primary market for the issuance of the International Liquidity Management Corporation Sukuks among 11 main international and regional dealers.

On the asset management front, we have managed, after 5 years of intensive efforts, to enhance returns on investments, through KFH Capital, restructure our investments, improve asset quality, offer several investment funds e.g. KASB Financial Technology Fund and RIET Fund which has been listed in the Boursa Kuwait for the first time. These achievements have improved capital adequacy ratios and coped with our strategy to focus on core banking business and develop basic Islamic banking business.

KFH Trade launched a new application comprising further advanced advantages which would help users to make trading decisions. Globally, KFH Group continued to play its leading role as a trustworthy arranger of sukuk for governments and corporates. KFH is currently ranked 6th globally, on the Bloomberg Global Sukuk Issuers Index. KFH Capital has led arrangement of sovereign sukuk transactions, in 2019, for countries, banks and corporates. Also, it has participated in the issuance of a US$ 2 Billion sukuk for the Turkish government and US$ 1 Billion sukuks for the government of Sharjah.

On the regional level, KFH Capital has played the role of the main arranger for a first time Sukuk issuance transaction, for the Saudi Telecomunication Company, amounting US$ 1.3 Billion. Also, it has led and arranged Sukuk transactions for First Abu-Dhabi Bank, Kuwait International Bank and Sharjah Islamic Bank. The company has also agreed on a major financial advisory mandate transaction worth SR 6 Billion for a major real estate project in the Kingdom of Saudi Arabia.

While we are committed to achieve remarkable returns for our shareholders on the long run, the Board of Directors would like to recommend to the General Assembly the distribution of cash dividends of 20% and bonus shares of 10% in light of the distributed returns on investment deposits and saving accounts as specified:

Depositors Profit

Account Type	2019	2018
"Khumasiya" Investment Deposit	3.120%	3.125%
"Mustamera" Investment Deposit	2.620%	2.625%
"Sidra" Investment Deposit	2.075%	2.100%
Dima Investment Deposit (12 months)	2.475%	2.500%
Dima Investment Deposit (6 months)	2.150%	2.300%
Long Term Investment Plans	2.100%	2.125%
Investment Saving Account	0.800%	1.250%

We received, during the year, more than 10 distinguished banking awards including Best Islamic Financial Institution Worldwide prize 2019, Best Islamic Financial Institution prize in the Middle East, Safest Islamic Financial Institution prize in GCC 2019 by Global Finance and Best Bank prize in Kuwait 2019 by Euromoney.

KFH share stands as one of the main components on FTSE Index for emerging markets in Boursa Kuwait since its inception last year. Also, it maintained its leading position in the premier market since its inception in Boursa Kuwait. The credit rating affirmed by global rating agencies reflects KFH's leading position among Islamic Banks worldwide as evidenced in the following ratings:

	FitchRatings	Moody's
Long Term	A+	A1
Short Term	F1	P-1
Outlook	Stable	Positive

In 2019, we have focused intensively on developing our Human Resources. As a Group, KFH has continued to exceed Human Resources strategic initiative targets for 2019 and Nationalization remains a core focus in all our areas. In Kuwait specifically, we have reached a high Kuwaitization ratio, well above the mandated level and we employ the largest number of Kuwaiti employees in Financial Services in the country.

Our Talent Acquisition team remains focused on attracting and retaining young National Talents and for 2019, over 98% of our new joiners are Kuwaitis. Moreover, we have successfully launched two Forsah programs this year, the most recent one focusing specifically on IT graduates to be able to build additional capacity in the IT and Digital space for KFH.

KFH's exceptional relationships with our employees continues to grow and enhance as indicated by our 2019 Employee Engagement results. Over the past three years our results have grown from 73% to 81%, which is a good indicator of the success our staff are experiencing specifically in their individual and team performance and professional development.

This year, KFH Kuwait Human Resources lead the path for employee wellness, helping employees align their personal and work wellness goals which also had a significant impact on engagement and organizational health.

The Human Resources team continued to focus on the succession plan, identifing and developing highly talented employees. We, as a Group, have again invested significantly in our talent development this year. Harvard Business School, IMD, INSEAD and IE Business school are just some of the leading institutions that provided development for our Leaders in 2019.

As we continue to develop and build future leaders for KFH and the Financial Services industry we are thankful for another good performance year in 2019 and we are confident that we are preparing our staff to ensure sustainable performance for years to come.

Reiterating its commitment to its social responsibilities, KFH has continued, in 2019, to effectively participate, sponsor, support and finance national, human, cultural, professional, economic and scientific initiatives. KFH played as a distinguished partner in several events and activities e.g. supported all society segments namely youth, stratigic partnership with the College of Business Administration – Kuwait University and the Center of Excellence in Management and participated in the Job Fair by offering Forsa Program which is designed to support, attract and train fresh graduates.

Several initiatives were adopted in 2019 concerning Shari'a Research & Advisory Department and Group Shari'a Internal Audit Department to enhance shari'a control in the Bank, fulfil CBK shari'a governance guidelines and support the Bank's general strategy. Initiatives comprised the automation of certain shari'a review and audit procedures, development of shari'a approvals and remarks collection mechanism for easy reference and spreading shari'a awareness and culture among customers and employees. KFH continued its endeavor to spread economic awareness through the issuance of quarterly qualitative and specialized reports and analytical disclosures.

In 2019, we expanded our programs and participation to support and develop local community. KFH Group support to national labor scheme approximated KD 4 million during the year. Zakat spending approximated KD 8 Million including KD 5.2 Million as Zakat to Kuwaiti debtors (who are unable to settle their debts) and KD 476 Thousand as Zakat on profit as per the law. KFH believes in the importance of performing Zakat obligation and placing it in right legislative channels that would serve society and highlight the human aspect of our business. Accordingly, total spending in this field reached KD 12 Million of the Zakat and society service funds.

We would like to avail this opportunity to convey our sincere gratitude and appreciation to all our shareholders and customers for their continuous support. We are confident that we will, by the grace of Allah, continue to achieve rewarding returns for the shareholders and depositors. I would like to avail this opportunity also to thank our group employees and members of the Fatwa & Shari'a Supervisory Board for their continuous endeavour and constructive contributions.

Finally, I would like to convey our sincere thanks, gratitude and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard him, His Highness the Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard him, and His Highness, the Prime Chief Minister Sheikh Sabah Al-Khaled Al-Hamad Al-Sabah. Our thanks and appreciation are also extended to His Excellency Dr. Mohammed Al-Hashel, Central Bank of Kuwait Governor and all regulatory authorities for their ongoing support to the banking sector in the State of Kuwait.

May allah grant us success

Hamad Abdulmohsen Al-Marzouq
Chairman


Enjoy your Lifestyle

Board of Directors

Mr. Hamad Abdul Mohsen Al Marzouq

Chairman since 2014

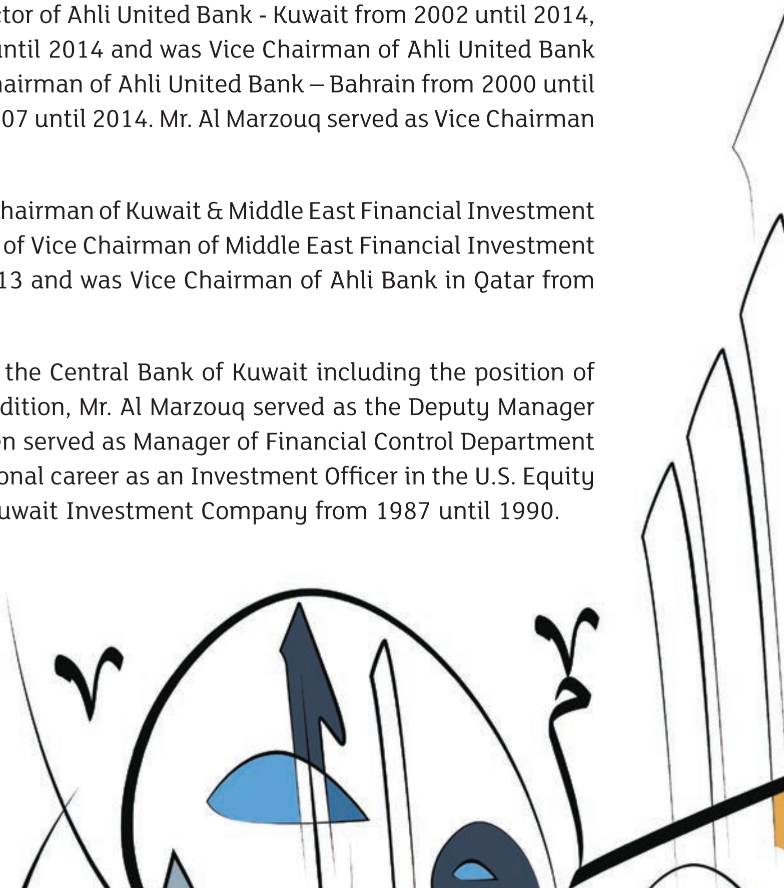
Mr. Al Marzouq received his Master's Degree in International Finance and Business Management from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. in 1985.

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

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

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

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



Mr. Abdul Aziz Yacoub Alnafisi

Vice Chairman since 2014

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

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

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

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

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

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

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

Mr. Noorur Rahman Abid

Board Member since 2014

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

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

Mr. Abid was appointed as a Board Member at KFH Malaysia since 2017. He was appointed as Assurance Leader for Ernst & Young Middle East and North Africa in 1999, and has nearly 40 years of extensive experience within the profession.

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

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

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

Mr. Motlaq Mubarak Al-Sanei

Board Member representing Kuwait Investment Authority since 2017
Member of Board Executive Committee, Member of Board Risk Committee, and Member of Board Nomination and Remuneration Committee

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

He is currently the Director General of Kuwait Authority for Partnership Projects.

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

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

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

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

Mr. Salah Abdulaziz Al-Muraikhi

Board Member representing Kuwait Investment Authority since 2018
Member of Board Audit and Compliance Committee, and Member of Board Investment Committee

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

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

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

Mr. Barrak Ali Alsheatan

Board Member representing the Public Authority for Minor's Affairs (PAMA) since 2015
Chairman of Board Governance Committee, Member of Board Nomination and Remuneration Committee, and Member of Board Audit and Compliance Committee

Mr. Alsheatan received his Bachelor's Degree in Accounting from Kuwait University in 1990.

Mr. Alsheatan is the General Manager of the Public Authority for Minor's Affairs and Board Member of Zakat House since 2015 and a Member of the Martyr's Office Board of Trustees.

Mr. Alsheatan was Vice Chairman of Real Estate Asset Management Company (REAM) from 2015 until 2016 and Chairman of National Offset Company from 2012 until 2015. Mr. Alsheatan held many prominent leadership positions, such as Board Member at the Central Bank of Kuwait representing the Ministry of Finance, Board Member of Kuwait Investment Company, and Board Member of Kuwait Direct Investment Promotion Authority.

Mr. Alsheatan held numerous executive positions including Assistant Undersecretary of General Accounting Affairs at the Ministry of Finance from 2007 until 2015, System & Follow up Controller in 2000, Steering & Organization Department Manager in 2006 at the Ministry of Finance, and Accounting Steering Controller from 1996 until 2000. In addition, he headed the Accounting Steering Division from 1993 until 1996. Mr. Alsheatan commenced his professional career as a researcher at the Accounting Steering Division in 1990 at the Ministry of Finance.

Mr. Khaled Salem Al Nisf

Board Member since 2014

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

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

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

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

Mr. Al Nisf previously held several executive positions including the position of Investment and Finance Manager at Al Nisf Companies from 1997 until 2008, and was the Administration Manager of the Company from 1995 until 2007. In addition, Mr. Al Nisf previously held the position of Board Member at the Kuwaiti Digital Computer Company from 2001 until 2016.

Ms. Hanan Yousif Ali Yousif

Board Member representing Kuwait Awqaf Public Faoundation (KAPF) since 2019
Member of Board Governance Committee and Member of Board Risk Committee

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

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

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

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

Mr. Fahad Ali AlGhanim

Board Member since 2014

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

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

Mr. Al Ghanim is the Chairman of Aayan Leasing and Investment Company since 2011. In addition, he is the Vice Chairman of AlAhlia Heavy Vehicles Selling and Import Company since 2011 and Board Member of Kuwait Building Materials Manufacturing Company since 2004. Mr. AlGhanim currently holds the position of CEO at Ali Mohammed Thunayan AlGhanim and Sons Automotive Group of Companies since 2005 and is a Board Member and Treasurer at Kuwait Sports Club since 2007. He is also a member of Kuwait Society of Engineers since 2003.

Mr. AlGhanim has held many prominent leadership positions including the position of the Chairman and CEO of AlAhlia Heavy Vehicles Selling and Import Company from 2005 until 2011 and was the Chairman of the Restructuring Committee at Aayan Leasing and Investment Company from 2010 until 2011. He also held the position of Board Member of the Representatives Board of the World Agents of Mclaren Motors Company (Representatives of the Middle East) from 2010 until 2015.

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

Mr. Muaz Saud Al Osaimi

Board Member since 2014

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

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

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

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

Fatwa and Shari'a Supervisory Board's Report

The Annual Report of Fatwa and Shari'a Supervisory Board 2019

Kuwait Finance House

To the respected KFH shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh…

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

We have reviewed and endorsed the policies, products, services and the activities that KFH had carried out in 2019. 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 49 meetings during the year 2019, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Research and Advisory Department conducted its review on contracts, agreements and policies and procedures as per Fatwa and Shari'a Supervisory Board's resolutions in addition to the Group Internal Shari'a Audit conducted audit exercises on randomly selected samples of all operations and transactions of KFH with the shareholders, investors, clients and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and subsidiaries. The Shari'a Board has also received the periodic reports that the Group Internal Shari'a Audit Department has prepared on the Shari'a audit process and operations, site visits and compliance status of the process and implementation of the fatwa and resolutions issued by the Fatwa and Shari'a Supervisory Board.

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

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

First: the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2019 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: all income that are not in line with the resolutions of KFH Fatwa and Shari'a Supervisory Board have been cleansed and channeled to charitable purposes.

Fourth: 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.

Sheikh/Dr Sayyid Mohammad Sayyid Abdul Razaq Al-Tabtabae
Chairman

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

Sheikh/Dr. Mubarak Jazza Al-Harbi
Fatwa & Shari'a Board Member

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

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

Date: 5 Jumada Al-Awwal 1441H
Corresponding: 31 December 2019

Fatwa & Shari'a Supervisory Board

Sheikh 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 Masters in 1993 from the Supreme Jurisdiction Institute at Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia. He received his Bachelor's Degree in 1988 in Islamic Jurisprudence from Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia.

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

During his professional career, Dr. Al-Tabtaba'e held numerous prominent roles including previously. He held the position of Chairman of the Supreme Committee for working on applying Islamic Shari'a Law, and Chairman of Personal Status Committee in Kuwait, 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, Deputy of Kuwait University Manager and a Teaching Faculty Member.

Sheikh Dr. Mubarak Jazza Al-Harbi

Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Harbi received his PhD in Comparative Islamic Jurisprudence from Dar Al Ulum Faculty in Cairo University, Egypt in 2002. He received his Master's Degree in Comparative Islamic Jurisprudence from Dar Al Ulum Faculty 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 in Bahrain. He is also a member of the Fatwa Board at the Ministry of Awkaf 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 a Former Head of the Comparative Islamic Jurisprudence and Shari'a Policy Department at Shari'a and Islamic Studies College at 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 a former Head of Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University.

Sheikh Dr. Khaled Shujaa' Al-Otaibi

Member of Fatwa & Shari'a Supervisory Board

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

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

Dr. Al-Otaibi is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at 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-Otaib 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. Ghareeb received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 2000. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 1997. Dr. Ghareeb received his Bachelor's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Kuwait University in 1988.

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

Dr. Ghareeb is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University.

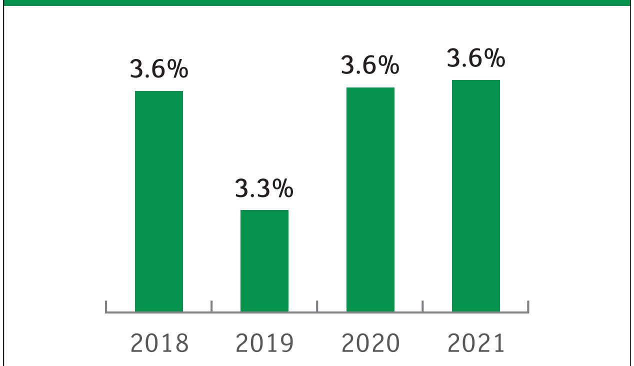
Dr. Ghareeb previously held the position of Assistant Dean at Shari'a and Islamic Studies College at Kuwait University. Dr. Ghareeb previously held the position of member of the Supreme Committee for working on applying Islamic Shari'a Law.

Economic Development

First: Global Economy Development

Several developments caused world economic growth in 2019 to look weaker compared to the preceding year. Indicators recorded lower ratios in several geographic regions worldwide on the back of the major economic changes which have impacted growth ratios. According to IMF indices, world growth is expected to retreat to 3% in 2019 compared to 3.6% in 2018 i.e. lowest level in 10 years since the global financial crises in 2008. However, it is expected to improve slightly to reach 3.4% in 2020.

Global Economic Growth

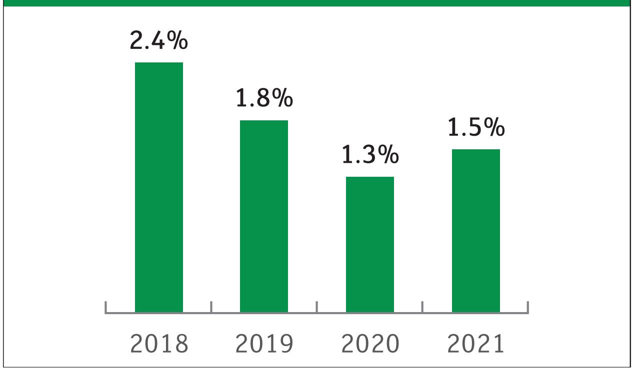


Source: International Monetary Fund

Indices have reflected lackluster performance in several markets due to lack of economic cooperation, financial weakness on the short and mid-term run, decline in growth, trade tensions, fluctuating prices of basic commodities and increasing migration ratios due to increasing tensions in several parts of the world. Growth retreated significantly in Latin America. Uncertainty and other variables are still forming a barrier in the way of growth in the said region. Economic growth is expected to reach very low levels in the Euro Zone area by 0.25% in 2019, compared to a limited growth by 1% in 2018. Growth is expected to reach 1.8% in 2020 as forecasted by International Monetary Fund (IMF). The Euro zone economic activity has experienced lackluster growth drives due to limited performance of commercial trade and industrialization. Signs of decline in local demand and investment volumes were noticed. Economic growth declined to 1.4% in 2019 while it is expected to improve slightly to reach 1.8% in 2020.

Growth is expected to decline in Asia and the Pacific zone to reach 5% in 2019 and improve slightly later to 5.1% in 2020. Although Asia and Pacific form the fastest growing zone worldwide i.e. second largest growth volume worldwide, yet economic growth has suffered considerable slow down on the short run as well as a decline in the volume of trade and investment as a result of the current trade tensions between China and USA and the uncertainty resulting from the BREXIT which will impact the exports of the said region and increase geopolitical risks.

Euro Economic Growth



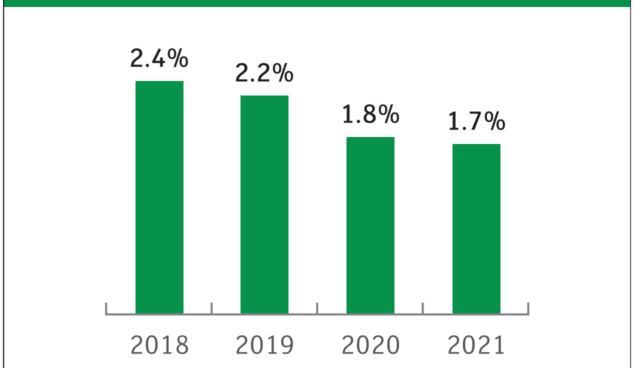
Source: International Monetary Fund

All these indicators have contributed to the deterioration of economic growth in the Middle East and Central Asia. Growth is expected to reach 3% in 2019 and improve slightly to reach 3.4% in 2020 compared to 3.7% as expected prior to 2019. These indications may be acceptable compared to other areas, yet the impacts of geopolitical turbulences on economic growth are still visible.

Second: Advance Economy and Emerging Markets

Economic growth in USA is expected to decline to 2.4% in 2019 compared to 2.8% in 2018. Also, it is expected to decline further to 2.1%. The Euro zone is expected to record a decline in growth to reach 1.2% in 2019 while it is expected to improve to 1.4% in 2020. GDP in Germany has been redefined to include a higher product ratio, thus hindering economic growth ratios. GDP is expected to record an increase of 0.5% according to the new calculation method of GDP and anticipated to reach 1.5% in 2020.

Economic Growth in Advanced Countries

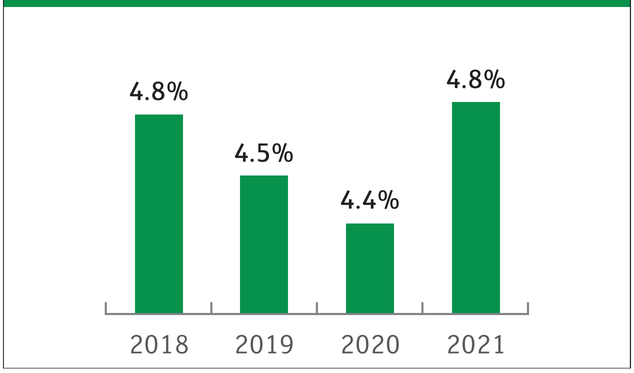


Source: International Monetary Fund

England is expected to record a growth of 1.2% in 2019 and a further 1.4% in 2020 amid uncertainty and the continued postponement of sanctioning the Brexit resolution which would certainly impact all indicators. Growth is expected to decline in the Euro Zone to 1.5% in 2019 compared to 2.2% in 2018 and continue to record a lower decline by 1.6% in 2020.

China's GDP has recorded the highest growth ratio in 2019 by 6.1% and expected to retreat slightly to reach 5.8% in 2020. India's GDP growth is expected to reach 6.1% in 2019 and increase to reach 7% in 2020 i.e. the highest growth ratio worldwide. Malaysia GDP growth is expected to record 4.7% in 2019 and anticipated to decline to 4.5% in 2020 i.e. lower than the growth ratio recorded in 2018 which has reached 5.7%.

Economic Growth in Emerging Markets

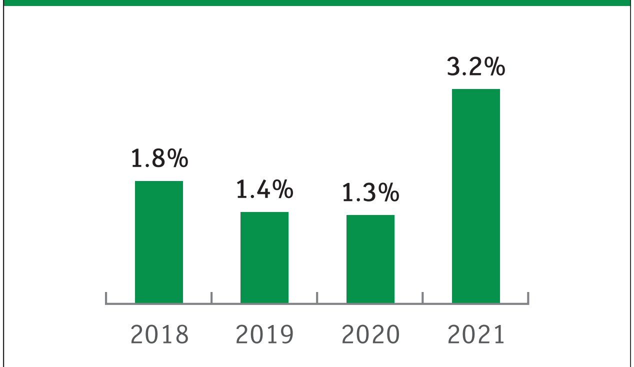


Source: International Monetary Fund

Middle East & GCC

Turkey is expected to record a growth of 0.25% in 2019 compared to 2.8% in 2018 while it is expected to record significant increase of 3% in 2020. Saudi Arabia recorded significant growth ratios of 2.4% in 2018 which is expected to decline considerably to reach 0.25% in 2019 and increase again to record 2.2% in 2020. Growth in Qatar is expected to increase of 2% and continue to increase and reach 2.8 % in 2020. UAE is expected to record a growth of 1.6% in 2019 and 2.5% for the year 2020. Oman GDP increased slightly in 2019 and is expected to reach 3.7% in 2020. Bahrain recorded a growth of 2% in 2019 and expected to increase slightly to reach 2.1% in 2020. Economic growth is exhibiting positive signs in Egypt as it grew from 5.3% in 2018 to 5.5% in 2019 and expected to reach 5.9% in 2020.

Economic Growth in Middle East and North Africa

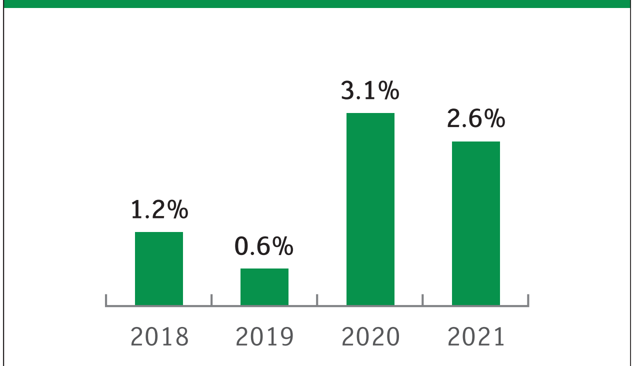


Source: International Monetary Fund, KFH

Economic Developments in Kuwait

Kuwait is expected to record a growth of 0.6% in 2019 as it is remarkably improving according to IMF expectations and expected to record 3% in 2020. Investment volume is expected to reach 20% of GDP in 2019 and 21.2% in 2020. Current account is estimated to reach US$ 11.3 Billion in 2019 and retreat to US$ 9.5 Billion in 2020 i.e. 8.2% in 2019 and 6.8% of GDP in 2020.

Economic Growth in Kuwait



Source: International Monetary Fund

Kuwait enjoys a strong financial position and a robust economy that enables it to receive high credit ratings. Moody's Credit Rating Agency affirmed its rating of Kuwait at Aa2 with a stable outlook. Fitch Ratings affirmed Kuwait's rating at AA with a stable outlook while Standard & Poor's affirmed Kuwait's rating at AA with a stable outlook.

The Central Bank of Kuwait's decision to decrease the discount rate came in line with its policy to enhance financial stability in Kuwait, support local currency and its endeavor to enhance local economy growth and maintain all indices according to the Federal Reserve decisions. The discount rate declined from 3% to 2.75% in October 2019 following the Federal Reserve resolution to decrease interest rate from 2% to 1.75% in October i.e. third cut in discount rate in 2019.

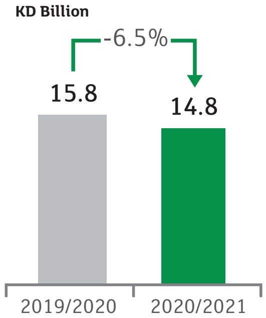
According to Economic Information Unit data base, as reported in November 2019, Kuwait Oil production approximated 2.7 Million b/d in 2018 and expected to decline slightly in 2019. However, we expect oil production to increase to 2.8 Million b/d in 2020. Brent Crude prices closed at US$ 67.8 per barrel according to US Energy Information Administration (EIA) as announced at the end of 2019, recording a significant increase by 34% compared to 2018 closing. According to Reuters, average price per barrel is expected to range US$ 65 in 2020.

Brent Closing Prices

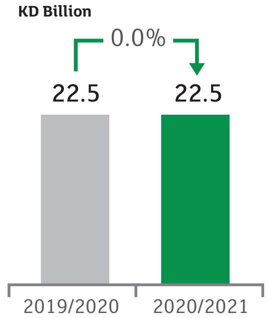
Source: US Energy Information Administration (eia), Reuters, KFH

According to the information released by the Ministry of Finance, total revenues reached KD 12.7 Billion for 9 months (April to December) for the financial year 2019/2020. Revenues for the year approximated KD 15.8 Billion compared to KD 20.6 Billion for the year 2018/2019. Oil revenues realized during the 9 months period reached KD 11.6 Billion i.e. 91.4% of total realized revenues compared to actual oil revenues KD 18.4 Billion for 2018/2019. Average price per barrel recorded US$ 64.3 during the first 9 months of the current year 2019/2020 while non-oil revenues reached KD 1.1 Billion during the first 9 months of 2019/2020 compared to actual non-oil revenues reaching to KD 2.1 billion for 2018/2019. Total government expenses approximated KD 11.9 Billion for 9 months of 19/20 i.e. the budget at the end of the ninth month this year has recorded a deficit by KD 2.3 Billion after allocating 10% of total revenues for future generations reserve, while financial deficit for the year 18/19 reached KD 3.3 Billion less future generation reserve.

Estimated
Government Revenues



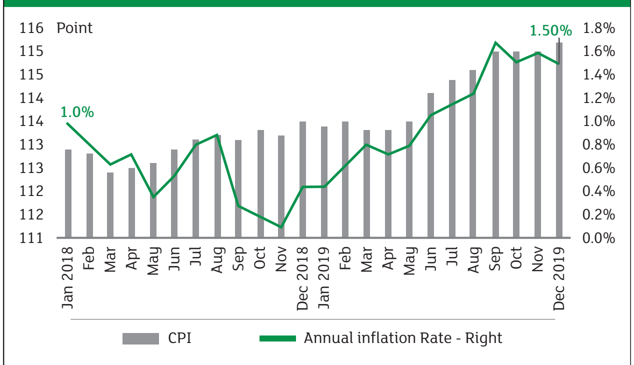
Estimated
Government Expenseture



Source: Ministry of Finance, Kuwait, KFH

According to the latest information released by the Central Statistics Bureau, Kuwait's consumer price index increased to reach 115.2 points at the end of 2019. Accordingly, the inflation rate Increased to 1.5% on annual basis on the back of variable price ratios recorded, except the housing component which has declined by 0.9% on annual basis in 2019. Meanwhile, the transportation component prices recorded the highest increase by 4.5% on annual basis.

CPI and Inflation rate

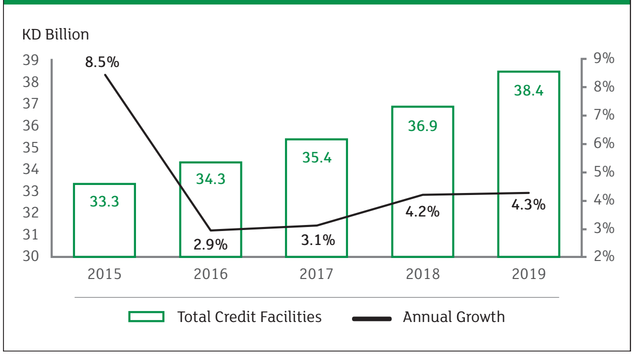


Source: Central Statistical Bureau, Kuwait, KFH

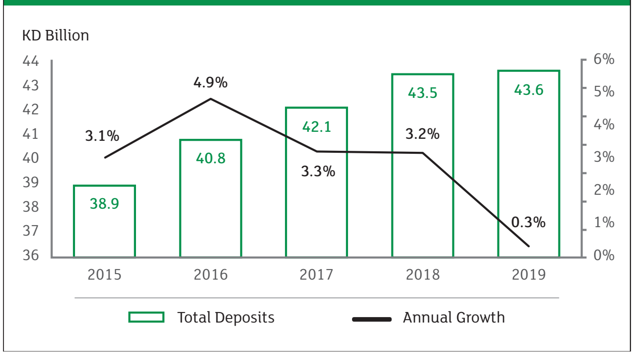
According to the latest information released by the Central Bank of Kuwait, total deposits increased at the end of 2019 on annual basis by 0.3%, while credit from Kuwaiti banks recorded a higher increase by 4.3%. Deposits reached KD 43.6 Billion as at end of 2019 while credit facilities reached KD 38.4 Billion, representing 88.1% of local banks' deposits.

The slight annual increase in deposits came at the back of the increase in government deposits of 11.4% (KD 755 million) while private sector deposits declined by 1.7% (KD 612 Million) on annual basis.

Development on credit facilities provided by Local Kuwaiti Banks as at December 2015 – 2019



Total Deposits at local banking setor as at December (2015 - 2019)



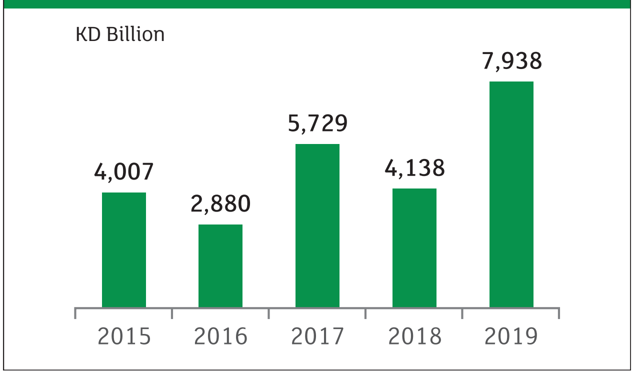
Source: Central Bank of Kuwait, KFH

According to the latest information released in 2019, 164 companies out of 175 Bourse Kuwait listed companies, announced their financial results for the first 9 months this year, reporting net profit approximating KD 1.6 Billion i.e. an increase by 4.4% compared to KD 1.5 Billion for the first 9 months of 2018. this figure does not include companies which have not announced their financial results and those having a different financial year. Five sectors (out of 12 sectors) have increased their profitability when comparing current performance with the performance of the preceding year while seven sectors have recorded a decline in profit compared to the same period last year.

Boursa Kuwait performance was remarkably significant amid optimistic expectation to be listed on the emerging markets index, thus attracting huge foreign cash flows. Also, Boursa Kuwait was listed on the MCSI index recently and recorded remarkable activity in 2019 compared to the same period last year as majority main indices recorded an increase. The general index increased by 24% recording 6,282 points on the last trading day of 2019. The main market index increased also, recording 4,911 points i.e. an increase of 3.6% on annual basis. The Premier market index recorded the highest increase among main indices by 32.4% on an annual basis as it closing on 6,976 pointsas at the end of 2019.

Sales value in 2019 exceeded KD 7.9 Billion, marking an increase of 91.8% compared to 2018. Traded shares increased to reach 39 Billion shares i.e. an increase of 79.9% compared to the same period 2018. The number of transactions reached 1.5 million transactions i.e. an increase of 65.2%. This positive performance is driven by the banking sector index which has closed on 35.7% annual increase in 2019. The communication sector index increased by 25.8% while the real estate sector increased by 21.7%. The financial services sector recorded an increase by 15.8% while the technology sector retreated by34.3% (according to the latest information released) and the basic materials sector by 21.7%.

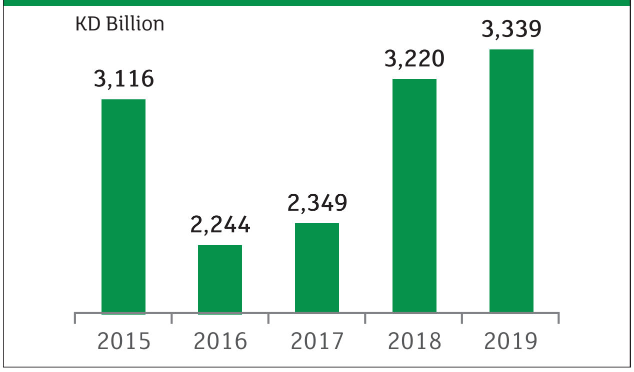
Shares traded value at Boursa Kuwait



Source: Boursa Kuwait, KFH

The real estate sector continued its remarkable high levels which it recorded since the beginning of last year. According to the latest information released by the Kuwait Ministry of Justice, the sales value during the the year 2019 reached more than KD 3.7 Billion i.e. an a decrease 1% compared to 2018. This decrease is driven by the remarkable decrease in investment sales and commercial real estate's sales. private residence real estate increased for the same period. A counter increase is noticed in the volume of demand on real estate as real estate sales volume reached 6.8 Thousand deals during 2019 i.e. an increase by 6% on annual basis because of the increase in the number of private residences and commercial real estate sales. Meanwhile, investment real estate sales volume retreated for the same period.

RealEstate Trading values



Source: Ministry Of Justice – Kuwait, KFH

Group CEO Message and key achievements for the year

Several economic developments have occurred on the local and international levels. However, the financial results have exhibited a positive financial and administrative performance, thus reflecting the excellence of KFH strategy and policy. KFH achieved outstanding performance, maintained a strong financial position, established higher value for shareholders, enhanced its position and continued to achieve growing returns on the long run.

Competition forms a daily challenge for KFH. However, KFH employees' efficiency and ability to adapt with all market trends, adopt sound decisions and provide all required services and solutions to customers have given KFH the ability to develop business systems and avail all opportunities resulting from challenges encountered. KFH continued to improve its services, products and investment in the field of innovation and sustainability as evidenced in the developed customer service and enhancement of future growth.

KFH achieved major accomplishments in 2019, thus continuing its strategy and progress to be the first choice always. KFH strategy considers four pivots to achieve this goal. The first pivot comprises customer-centric service, thus adopting customer's service as a priority to make his experience with KFH valuable and enjoyable. The second pivot comprises innovation, development of digital services and products, implementation of high-tech solutions to fulfil customers aspirations and needs, and improve the efficiency and capacity of customer service through digital channels. The third pivot covers focus on productivity to enhance performance levels, magnify available resources and use new resources. The fourth pivot covers the establishment of a highly efficient management culture based on the best professional practices.

Growth continued, during the last 5 years, according to the monetary and regulatory policies implemented by the Central Bank of Kuwait to achieve stability and growth in the government sector. This growth has coped with the economic transformation trajectory and the growth vision for the year 2035. The vision comprised an ambitious economic road map focusing on highly significant sectors, namely the financial sector.

KFH strength emanates basically from the solid customer base and customers trust and confidence. KFH proceeded with steady steps to reserve this fortune, enhance standards and practices and achieve the highest standards of banking services.

The financial results for the year 2019 reflected the bank's continued success and progress towards growth and development. We have achieved a growth in net profit, attributable to the shareholders, by 10.4% with net profit approximating KD 251 Million for the year 2019. Effective management of resources, cost optimization and growth increase in various business sectors have contributed to these results. Financing portfolio increased by 1.6% totaling KD 9.3 Billion. Assets reached KD 19.4 Billion while customers' deposits increased by 15%, reaching KD 13.6 Billion. Growth resulted into an increase in financing income by 8.1% reaching a total of KD 931.6 Million in addition to an increase in Net operating profit by 12.5%, a total of KD 510.1 Million.

Integrated Banking Services

KFH provides integrated retail and corporate banking services to finance all activities; commercial, industrial, real estate and infrastructure projects, locally and globally. KFH branch network covers 62 branches in Kuwait, 430 branches in Turkey, 9 branches in Bahrain, 14 branches in Malaysia and 5 branches in Germany. Through KFH Capital, KFH provides diversified package of services including investment banking assets, brokerage in money markets and a vast set of investment fund services. The bank conducts its activities through an integrated management system and operational units performing their core services efficiently and effectively.

Digital Retail Banking Services

Retail banking sector made several distinguished initiatives and accomplishments to achieve KFH goals, alleviate productivity and ensure customers satisfaction. KFH owns an extensive network of ATM systems comprising more than 1250 machines spread all over Kuwait. KFH focused on increasing the efficiency and effectiveness of this network and increasing the mechanism and dynamic functions of the systems. Services include card-less cash deposit, thus introducing more modern and attractive systems. The systems comprise newly designed screens and modern functions, enabling the customer to open an account via ATM, cheque printing and opening gold buy/ sell accounts. KFH achieved a leading position concerning POS growth portfolio in the market, marking an increase by 1182 machines i.e. 24% of market growth.

Seeking to improve customer experience, loyalty, confidence and competitive advantages to include a larger segment of products and services, we have developed and launched a new customer experience program to determine customer satisfaction levels on daily basis. Customers feed back are collected on daily basis through a set of questionnaires. All results are dispatched to all main banking channels for further development through branches, call center, phone applications, e-banking services and ATMs. More than 40 indicators impacting customers' experience are being monitored (e.g. waiting time – speed …etc.), bearing in mind that new standards are being adopted monthly. Development and improvement procedures are carried out in cooperation with all concerned departments. Customer's feedback is construed as an extremely rich source of information which we receive with utmost clarity.

On the other hand, "I Care" program has been revamped, to focus on cultural transformation program (Barrett Values Center), thus implementing an integrated retail banking program covering employees' awareness, workshops and case study.

In line with its expansion strategy, branch wise, KFH inaugurated the opening of the automobile showroom in Shuwaikh in May 2019. The showroom is considered as the largest modern automobile showroom in the Middle East, covering a total area of 38 thousand square meters, while the exhibition hall covers an area of 17 thousand square meters accommodating more than 200 cars for more than 20 agents and 30 trademarks including cars, motorcycles and boats.

Digital Options and Payments Future

KFH proved its capability, adaptation, flexibility and leadership in banking services through its excellence and innovation in information technology. The ambitious strategy and diversified plans were the cornerstones in these achievements during the last two decades. Developments in communication and marketing tools were achieved as a result of technological development and innovation. IT has become the backbone of KFH business.

KFH digital strategy has become a cornerstone in the transformation plan which KFH started 5 years ago. The strategy comprised 3 stages: the first stage consumed 2-3 years, focusing on building the base for a digital future through several elements. The first element aimed to change prevailing internal culture by prioritizing customer satisfaction in all service channels, customer service centers and direct sale. The second is to simplify internal procedures and make them more flexible and effective. The third element is to consider modern technology in all fields and cope with the prevailing marketing trend. The second stage focused on launching digital services to suit the requirements of the millennium generation. The third stage comprised the development of an integrated electronic platform with multiple means.

KFH Group succeeded in fulfilling customers' needs through digital and electronic banking services. Digital transactions increased to reach more than 372 million transactions in 2019 i.e. an increase by 24% compared to 2018. This increase comes on the back of the remarkable performance and customers' significant interest in KFH website. The number of transactions in 2019 reached 27 Million i.e. 3x the number 9 Million in 2018.

Development and improvement efforts of digital banking services, through KFH Online, have contributed to the processing of 150 Million transactions during 2019 i.e. a significant increase by 28% compared to 2018. Nearly 680 Thousand bank transfers were performed i.e. an increase of 13% for the same period. ATM , POS and SMS transactions reached 192 Million transactions i.e. an increase by 12% driven by the growth in POS transactions by 10% and the remarkable increase in SMS transactions by 28% compared to 2018. Meanwhile, ATM transactions reached 27 Million transactions in 2019. The QR system was able to attend to 192 thousand customers during the year. Customers were able to execute 135 thousand transactions using KFH credit card i.e. an increase of 3% compared to 2018.

KFH Go

KFH has translated its digital services vision into a reality by launching KFH GO. This platform stands as a new symbol of an integrated digital branch network i.e. the first step of its kind at the banking sector level. So far, KFH has 12 smart branches, fully equipped with a highly developed infrastructure, including XTM machines that would enable the customer to contact call center directly. Accordingly, 80 - 90 % of banking services may be performed through digital branches including cheque printing, buy/sell gold, card-less cash deposit, opening certain types of deposits and receipt of gold bars.

KFH made a qualitative change in payments future and payment options through its new service (KFH Pay). The services provide a fast and easy way to receive payments in the bank account directly through K-Net and KFH Pass. A new electronic service has been launched, allowing customer to defer one-month installment. The customer may change the maturity date of instalments through KFH Online or KFH Mobile App. KFH has also provided a service for electronic transfer of shares profit to KCC in addition to swift international money remittance, cheque deposit, establishing a long-term investment plan and request clearance certificates.

KFH Bahrain Digital Options

The year 2019 witnessed KFH Bahrain launch of a new digital platform through its App. (Jazeel) for banking services to maximize customer base and deposits portfolio. The customers may open a saving investment account, "Bishara" account, "PSIA" accounts, issue credit cards and collect from the branch of his choice, obtain instant conditional approval on personal finance service related to credit rating, transfer funds (local and international), charge account balance using civil ID, manage accounts, manage and settle credit cards without having to visit the branch personally. The said services are provided not only to the residents of Bahrain but also to all GCC citizens.

Kuveyt Turk Digital Options

To achieve integration among group subsidiaries, a new bank account opening service has been launched by Kuveyt Turk. The service permits certain segments of customers to request the opening of a bank account from Kuwait by submitting an online application without the need to be in Turkey. The customer may also withdraw cash from his account in Kuwait while being in Turkey. Another service launched is (Pay in Kuwait and Collect Car Abroad). This service is provided in (Egypt, Jordan, USA and Turkey) to fulfill the needs of various customers and cope with the increase in the volume of transactions in the Turkish market.

Intensive efforts were exerted during the year to develop and update Senin Bank website in Turkey – Kuveyt Turk subsidiary, on internet. A new application was launched under the title (Stars Program) to enhance customers loyalty. The site was awarded the best design award in Turkey.

The year 2019 in Turkey witnessed the launch of several digital services to develop customer experience, facilitate transactions e.g. cash deposit, using QR Code, execute swift transactions through mobile application, obtain ATM cards, track debit and credit transactions, credit rating and instant marketing.

KFH, Fastest Issuer of Visa Cards in Kuwait

KFH is positioned in third rank in MENA, as the lead issuer of ATM cards, volume - wise, in 2018. KFH is considered as the fastest issuer of credit cards (Visa) in Kuwait according to information released by Visa Global, based on card usage statistics in 2019. KFH was awarded MasterCard award as the best performance of Airlines Card in GCC for the year 2018 with a growth in external spending by 55% and an annual increase in issuance by 75%. Considering the continued success of Visa Signature, KFH has exceeded the target “20 Thousand” cards and a market share by 25%.

Private and Premier Services

KFH seeks to fulfill customers' demands and aspirations, and provide an adequate banking environment including comfort and privacy. KFH has reopened the private banking hall in Faihaa branch with a new and modern outlook as part of the bank's plan to enhance customer service and fulfil their demands. KFH is in the process of adding further private banking services in certain branches.

KFH has, in Q3 2019, launched a summer program for the children of private banking customers to enlighten them about KFH highly sophisticated banking and investment services, increase banking and social interlinks with various customer segments, namely youth generation, future customers of our leading organization. KFH management, in cooperation with KFH Capital, has organized a conference with Citi Bank on the future of economy and investment worldwide and its impacts on local economy.

Individual Finance Unit

KFH is considered as a landmark in the field of real estate finance. Individual finance unit focuses on retail finance for real estate investment in all sectors (residential – investment – commercial – industrial – handcraft), thus representing the major part of the unit's activity in addition to other finance services. The unit aims to serve this segment of customers and fulfil their investment requirements. KFH continues to serve this significant sector through highly efficient and experienced account managers to manage customers portfolios through meetings at head office or field visits.

Corporate Banking

KFH strategic goals in the Corporate Banking sector is to focus on government projects and large local companies with an emphasis on Small and Medium Enterprises (SME), being in Kuwait, Turkey and Malaysia, supported by credit guarantees.

KFH continues to play a major role, through its Corporate Banking sector, to finance corporates, project finance transactions and expand its trade relations with core corporate clients in all sectors in a highly competitive environment. Locally, KFH acted as the Mandated Lead Arranger to a syndicated transaction for Kuwait Petroleum Corporation, which amounted to KD 350 Million. Regionally and Internationally, Kuwait-Turk has participated in the finance of Marmara Highway Project in Turkey, amounting to KD 60 Million, as part of a syndicated finance provided by several banks and financial institutions.

The Corporate Banking sector, in collaboration with the Operations sector, has launched a mega project to activate and organize the establishment and management of credit services to adopt process optimization concepts, thus aiming to fulfill corporate clients needs in terms of credit facilities and financing services in a highly advanced and developed manner with efficiency.

KFH Group focuses significantly on the SME sector, which it plays a vital role, vis-a-vis its leading position in the banking industry, where KFH enhanced its contribution to Kuwait National Fund. KFH has recently introduced a fully integrated credit program comprising of all the banking products to cater the needs of small and medium enterprises. KFH is currently working to provide financing to small and medium enterprises through electronic channels.

Treasury Sector

The Group Treasury and Financial Institutions continued its fintech leap with cutting-edge technologies and infrastructure to develop customer service through providing innovative financial solutions and delivery in conformity with the Islamic Shari'a rules. The finance cost optimization and increase rate of return with funding diversification remained the core activity of Group Treasury across the year, while relentlessly expanding its Sukuk investment and trading in Primary and Secondary Capital market.

The Group Treasury successfully centralized and integrated at Kuwait all its banking subsidiaries foreign exchange requirement and customer needs by algorithmic driven computerized trades with better rates, improved productivity and efficiency without any human intervention. The adoption of innovative technology continued in Group Treasury with the implementation of "KFH Global" a FX platform for Corporate FX needs and to optimize the speed of transactions with real-time pricing.

Group Treasury and Financial Institutions expanded its presence in China and Turkey. While retaining its leadership in Turkish gold market, it became world's first Islamic bank as a member of Shanghai Gold Exchange International (SGEI) and executing mega physical gold transactions at the SGEI in 2019. Furthermore, the sector has implemented digital technology and artificial-intelligence based risk management to monitor international FX market, applied Bank's systems and published rates.

The Group Treasury, through the KTPB Treasury, launched TradePlus app. a shari'a-compliant platform that offers investment funds, FX, gold, silver and platinum all in one app. along with many user-friendly features. After this successful implementation at KTPB Treasury, the TradePlus app. will be made available to all KFH Group customers.

Group Financial Institutions (GFI) continued to develop new credit lines for highly rated banks for better risk allocation along with maintaining prudent balance and diversification to achieve the highest return on available liquidity and have participated in several local and regional structured syndicated deals. The GFI participated in a consolidated bilateral agreement valued at USD 200 million in favoring one of the GCC banks, also concluded two funds raising transactions (Bilateral) from major regional and international banks valued at USD 100 million each. Further, with the initiation of trade finance activity, GFI managed to raise new two funds with major international banks valued USD 47 million and is expected to grow exponentially.

KFH Capital

KFH group continues to maintain its leading position as a trusted arranger of Sukuk for governments as well as corporates worldwide. Currently KFH is placed at 6th position globally on the Bloomberg League table for international Sukuk issuances. It's subsidiary KFH Capital, during the year 2019, has lead an arrangement of Sukuk for sovereigns, banks and corporates. KFH Capital acted as a Joint Lead Manager and Bookrunner for Government of Turkey USD 2bn and Government of Sharjah USD 1bn Sukuk issuances. KFH Capital also lead arranged the debut Sukuk issuance by Saudi Telecommunication Company (STC), a USD 1.3bn Sukuk.

In addition, it has lead arranged Sukuk deals for First Abu Dhabi Bank, Dubai Islamic Bank, Kuwait International Bank and Sharjah Islamic Bank. The company has also closed a major financial advisory mandate worth SAR 6bn for a Realestate project in KSA. KFH Capital also launched the Money Market Fund to provide investors with a highly liquid and low-risk KD denominated investment product. This year, KFH Capital has successfully launched first Islamic REIT (Real Estate Investment Trust) fund in Kuwait with a fund size of KD 23.6 million.

Information Technology

Our new IT strategy, innovative vision, focus on digital transformation process and technology-based growth have enhanced the value we offer. We are determined to achieve more success despite all challenges, providing shari'a-compliant smart and innovative solutions.

We have managed this year to accomplish several IT-supported projects e.g. Robotics project for procedures automation, card-less transaction processing, KFH Pay system, customer experience project, FX prepaid card, mobile cheque deposit, using Ripple Technology and providing Skiplino service, thus providing better growth opportunities, better response to market needs and increasing our market share as a trustworthy bank.

We continue to apply the best and most effective security practices and improve our control and governance tools to encounter any Global IT threats and guarantee the safety and security of our customers.

Group Digital Interlinks

The following stage in our digital journey aims to establish OMNI channels where customers can benefit from KFH services online. IT department contributes significantly to the integration and interlinkage of KFH Group. IT department has introduced several initiatives to develop and improve all means of cooperation and economic tools, not only to increase financial and commercial benefits but also to increase productivity at the group level. Initiatives include Group IT governance, KFH Capital, Salaam Hospital, Risk Department, SWIFT system, HR System – Oracle and centralized units in Bahrain and Malaysia.

Sufficient efforts were exerted to integrate digital strategies and integrate standards e.g. customer satisfaction, eased procedures, mitigate service fees, achieve highest sales volume and focus on youth segment though an integrated electronic platform.

To achieve centralization as an operational model, KFH is in the process of establishing standard procedures to add new dimensions in quality control and enhance training, support and maintenance. On this front, several centralized initiatives were completed during 2019 by moving operational tasks from the business sector and aligning them with the Operations Platform. As such, a centralized system was set for Commercial Sector Financing Operations, and Direct Sales Operations in one shared service center.

Operations

KFH succeeded in applying modern technology in banking operations to enhance system efficiency and accelerate processing time. The technological development contributes to the improvement of products, escalating service level, and optimizing costs. Blockchain services were applied in the payment and settlement system, thus minimizing administrative procedures and enhancing flexibility. The digital transformation plan comprised the use of bank robots by implementing intellectual intelligence in operations, the first step of its kind in the Kuwaiti market. The operations robot program aims to simplify customer finance operations. A new vast service package was added to KFH Mobile Apps to attract a larger segment of branch customers, thus introducing a brand new unprecedented set of services e.g. mobile cheque deposit, 24 hours mobile or internet chat-boot service, card-less mobile cash withdrawal using the passcode and civil ID, KFH Pay service, electronic platform for car sale and KFH Online service enabling customers to request finance online without the need to visit branch. KFH is the first bank in Kuwait to join Rebel Net Payment System, a technology-based service, to transfer funds worldwide using blockchain technology.

According to KFH strategy, Operational Excellence was the key objective of KFH in all dimensions: increasing efficiency rates, rationalizing costs and expenses while providing unique digital banking experience through introducing appealing banking customer journeys via mixing unique customer experience and fully digitalized back-office processes.

In 2019, KFH Operations had launched several transformation projects adopting Fintech concept projects such as Kuwait National Payment Systems (KNPS) which is considered a CBK nationwide initiative in coordination with commercial banks aiming to improve the Kuwait National Payments system to support new payment instruments and introduce the Central Bank Digital Currency. This initiative will cover major payments areas such as Automated Clearing House, Salary and Wages Protection, Centralized Bills Payment, Mobile payments and Digital Currency.

KFH operations added extra dimension of providing digital capabilities in SWIFT services by implementing SWIFT-GPI latest technology that enables KFH customers to track their money transfer from initiation until reaching the beneficiary, end to end. Very soon all KFH customers will be able to use this service from KFH digital channels such as KFH mobile and Internet banking. Operations sector completed several initiatives and concepts to adopt the most advanced technology e.g. back-office support system comprising analytical tools to cover HR and IT needs.

Several conceptual efforts were put to identify areas where Robotics and Artificial Intelligence may be applied to provide accurate and cost effective execution capabilities to free some of our staff to focus on more sales-oriented fronts. This is basically to cover several areas in the highly specialized trade finance processes.

Human Resources

Group Human Resources continued transforming the work environment during this year where KFH Human Capital capabilities have been further transformed leading to a more engaged, enabled, and vibrant workforce.

Group Human Resources persevered with the execution of many initiatives where the standardization of best practices across the Group remained a core focus. We have continued the roll-out of additional Oracle HR modules across our Banking Entities to enable further oversight and efficiency. We have also finalized policies across our banking subsidiaries to ensure common HR approaches across the Group.

In KFH Kuwait, we have invested in training our leaders in cooperation with top universities and learning institutions. Identified High Potential Employees (HiPos) were enrolled in rigorous focused programs lead by first-class providers including Harvard Business School to further refine the skills and capabilities of our HiPos. For our Executive Leadership, their development continued in liaison with three of the top Business Schools in the world: Harvard Business School, INSEAD, and IMD.

Our Human Resources Development

In KFH, we highly believe in diversity and inclusiveness in investing in human capital, and we are working on increasing the women's participation in the manpower gradually, as we currently reached 22%. KFH Kuwait continues to focus on attracting Kuwaiti Nationals, thus achieving a high Kuwaitization ratio amongst the Banking Industry. We also ensured effective career progression of our Kuwaiti Nationals as part of our Middle Management; Moreover, Kuwaiti Nationals now make up more than 64% of the Executive Leadership Team thanks to constant emphasis on internal progression. As part of KFH's responsibility in investing in Human Capital, new Kuwaiti hires in KFH - Kuwait represents 98% of the total hires in 2019. In addition, fresh Kuwaiti graduates hired in 2019 were 47% out of total hires due to KFH's vision in building a new generation of Banking Industry.

The 2019 Employee Engagement Survey was again a successful campaign, our largest initiative covering all employees across our Banking subsidiaries. The participation rate remained high, where more than 87% participated in the survey, which shows our employees commitment to providing their inputs as they believe that their views are being addressed through tangible action plans. This has translated into reaching an Employee Engagement score of 81% achieving a growth of 3% in the past three years, thus continuing its industry leadership in this indicator.

Finally, we have successfully concluded the year 2019 theme under the name of “Year of Wellness”. As part of this theme, we have developed tailored programs for each employee level to ensure that we push employees to achieve better wellness and therefore positively affecting the work environment. A series of workshops, awareness sessions, and gatherings were run during this year in addition to numerous wellness-related events to help shift the employee mindset to a more balanced mindset. Group HR continues to make clear progress in attracting and growing talent which will result in more development and growth leading to further performance improvement by the grace of Allah across KFH Group.

Social Responsibility and Sustainable Growth

KFH Group reinforced its endeavor to strengthen and deepen its social role and meet its national responsibilities by launching further growth initiatives to reflect the group’s active role as a lead partner, employing all capabilities to contribute to local society growth. KFH Group has adopted, during the year, variable social programs and initiatives that concur with the concept of sustainable growth.

KFH made remarkable progress in the field of social responsibility and societal support, adopting morally and socially responsible products and tools. KFH has endeavored to support all society segments, namely youth segment, through summer programs for the customers of both (Hesabi) for youth and (Baiti) for children. Summer programs comprised scientific and entertainment activities, lectures, workshops, field visits and signing a strategic partnership with the College of Business Administration – Kuwait University and the Center of Excellence in Management and the English Language School (ELS). It fostered the events of the 11th International Invention Fair in the Middle East titled (Investors – Inventors Forum) and participated in the Job fair through Forsa Program. The program is designed to support, attract and train fresh graduates.

On the health care front, KFH is considered one of the major supporters of health institutions in Kuwait e.g. Dasman Diabetes Institute. KFH has fostered several awareness activities to spread health awareness concerning diabetes disease, considering the prominent risks it carries. This participation comes as part of the social role which KFH plays health-wise.

Several initiatives were adopted in 2019 concerning Sharia Research & Advisory Department and Group Sharia Internal Audit Department, aiming to enhance sharia control in the bank, fulfill CBK sharia governance instructions and cope with the general bank strategy. Initiatives comprised the automation of certain sharia review and audit procedures, developing sharia approvals and feedback collection mechanism for easy reference and spreading of sharia awareness and culture among customers and employees.

In affirmation of Sharia department obligation to implement the decisions of the Sharia Control and Fatwa Committee on all sectors, departments and subsidiaries, we have prepared a sharia audit plan at the group level. The plan aims to affirm the implementation of sharia audit on all KFH sectors and departments, verify the safety and adequacy of sharia audit procedures applied to subsidiaries and their consistency with KFH Sharia Committee requirements. They also aim to ensure proper tracking of comments and processing the same with the concerned department and to develop certain methods to issue and present Sharia audit report at the group level.

KFH leading position has been achieved by the grace of Allah and the continued support of its customers and shareholders. KFH has successfully faced all difficult challenges at all various stages. Our sincere gratitude is conveyed to our shareholders and customers. KFH remains a leading and pioneering organization with the efforts of its employees who have endeavored to protect KFH's leading position, namely the wise and highly efficient senior management, having outstanding banking and professional experience and a highly efficient and experienced board of directors. Our thanks are also extended to the Sharia Control & Fatwa Committee for their distinct efforts to maintain KFH's leading position.

May Allah Grant us Success,

Mazin Saad Alnahedh
Group Chief Executive Officer


KFH go
Easy banking experience

Financial Performance and Major Financial Indicators 2019

10.4% Increase in Net Profit for Shareholders

Net Profit Attributable to Shareholders of The Bank for the year 2019 increased to reach KD 251.0 million i.e. an increase of KD 23.6 million or 10.4% compared to KD 227.4 million in 2018. Earnings per share for 2019 reached 36.45 fils, an increase of 10.3% compared to 2018.

9.2% Increase in Total Operating Income

KFH Group Total operating income increased to reach KD 814.4 million i.e. an increase of 9.2% compared to 2018. This increase resulted from the increase in the group core activities' income, mainly financing income which increased to KD 931.6 million i.e. an increase of 8.1% compared to 2018.

Improved Total Operating Expenses/ Total Operating Income ratio

Total operating expenses/ total Operating income ratio continue to improve for the fifth year respectively. It declined to 37.4% for the year 2019 compared to 39.2% for 2018, while it exceeded 51% as at end of 2014.

12.5% Increase in Net Operating Income

Net Operating income increased to reach KD 510.1 million as at the end of 2019 i.e. an increase of 12.5% compared to 2018.

9.1% Growth in Group Assets

KFH Group Assets increased in 2019 to reach KD 19.4 billion i.e. an increase of 9.1% or KD 1.6 billion compared to 2018.

1.6% Growth in Financing Receivables

Financing receivables increased to reach KD 9.3 billion i.e. an increase of 1.6% compared to 2018. Financing receivables represent 48% of Group total assets as at end of 2019.

45.6% Growth in Islamic Sukuk

The Group Investment in sukuk increased remarkably by 45.6%, reaching KWD 2.3 billion. Investment in sovereign sukuk represents the major part of investment in sukuk. Investment in Sukuk represents 11.7% of KFH Group total assets as at end of 2019.

15% Growth in Depositors' Accounts

KFH Group continue to develop its core business and banking services. This contributes to attracting a solid and strong customer base, as evidenced from the high indicators of deposits growth. Group deposits increased to reach KWD 13.6 billion i.e. increase of 15% or KD 1.8 billion compared to 2018.

8.8% Growth in Total Shareholders' Equity

The Bank Shareholders' Equity increased to reach KWD 2.1 billion, i.e. an increase of 8.8% compared to 2018.

Return On Average Assets, Average Shareholders' Equity and Capital Adequacy Ratio

Return on average shareholders' equity increased to 13.0% as at end of 2019 compared to 12.4% in 2018, while return on average assets reached 1.4% as at end of 2019.

Capital Adequacy Ratio reached 17.67% for the year of 2019, i.e. higher than the Central Bank of Kuwait required ratio.

Decline in Non-Performing Financing Ratio

Non-Performing Financing Ratio declined to reach 1.88% (as per the basis of Central Bank of Kuwait) for the year of 2019 compared to 1.99% for 2018.

Proposed Dividends To Shareholders' of The Bank

The Banks' board of directors proposed the distribution of cash dividends to shareholders by 20% as at 31st of December 2019 (20%: 2018), bonus shares by 10% (10%:2018) of issued and paid up capital. This distribution is recommended in light of the distributed returns on investment deposits and saving accounts, and shall be subject to the ordinary general assembly approval and fulfillment of official and legal procedures.

Proposed directors' remuneration of KD 942 thousand for the year ended 31 December 2019 (KD 942 thousand in 2018) is considered within the limit permissible as per local regulations, subject to ordinary general assembly approval.

Summary of Significant Financial Results — Amounts in KD Million

	2019	2018	2017
Net profit attributable to shareholders of the bank	251.0	227.4	184.2
Earnings per share – Fils	36.45	33.06	26.78
Financing income	931.6	862.1	740.5
Net Financing income	530.3	527.3	444.8
Net operating income	510.1	453.5	408.3
Total Assets	19,391	17,770	17,358
Financing Receivables	9,337	9,190	9,159
Investment in Sukuk	2,276	1,563	1,429
Depositors' accounts	13,553	11,780	11,597
Equity attributable to the shareholders of the bank	2,060	1,894	1,872


NEW
GENERATION
OF BANKING
SERVICES

Executive Management

Mr. Mazin Saad Alnahedh
Group Chief Executive Officer

Mr. Alnahedh received his Bachelor's of Science Degree in Business Administration in Finance from California State University - Sacramento in the U.S. in 1993. He completed numerous specialized Executive Programs including the General Management Program (GMP) at Harvard Business School in the U.S.

Mr. Alnahedh is currently the Group Chief Executive Officer at Kuwait Finance House since 2014. In addition, Mr. Alnahedh is the Chairman of KFH Capital Investment Company and Board Member of Kuveyt Turk Participation Bank.

Mr. Alnahedh possesses a vast banking experience, spanning more than 26 years. During his professional career, he held numerous prominent leadership roles at the National Bank of Kuwait including his role as a member of the Executive Management Committee from 2010 until 2014, General Manager Consumer Banking Group from 2011 until 2014, General Manager Corporate Banking Group from 2008 until 2011, and General Manager Treasury Group in 2008. In addition, he was promoted to various leadership positions within the Treasury Group from 1993 until 2008.

Mr. Shadi Ahmad Zahran

Group Chief Financial Officer

Mr. Zahran received his Master of Business Administration (MBA) Degree in Finance from the University of Manchester in the U.K. in 2014. He received his Bachelor's of Science Degree in Accounting from the University of Jordan in 1992.

Mr. Zahran is a member of the Board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and a Board Member of the General Council for Islamic Banks and Financial Institutions (CIBAFI). Mr. Zahran holds several specialized professional certificates including Certified Public Accountant (CPA) from the state of Illinois in the U.S. since 1996, an Auditing License from the Council of the Auditing Profession in Jordon since 1996, Certified Bank Auditor (CBA) from Bank Administration Institute (BAI) since 1999, and Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions since 2006.

Mr. Zahran is currently the Group Chief Financial Officer at Kuwait Finance House since 2014. In addition, Mr. Zahran is the Vice Chairman of KFH Capital Investment Company and Board Member at Kuwait Finance House - Bahrain.

Mr. Zahran previously held several executive positions at Ahli United Bank Group including General Manager - Finance in Kuwait from 2009 until 2014 and Head of Group Financial Controlling at Ahli United Bank in Bahrain from 2005 until 2009.

Mr. Zahran previously held the position of Head of Financial Systems Management & Operations Department at Al Rajhi Bank in the Kingdom of Saudi Arabia from 2000 until 2005. In addition, Mr. Zahran previously worked as an External Auditor at the international external audit firm Ernst & Young.

Mr. Fahad Khaled Al-Mukhaizeem

Group Chief Strategy Officer

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

Mr. Al-Mukhaizeem is currently the Group Chief Strategy Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Mukhaizeem is the Chairman of International Turnkey Systems Group (ITS).

Mr. Al-Mukhaizeem possesses a vast banking experience, spanning more than 18 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group General Manager - Strategy & Corporate Affairs from 2013 until 2015. Mr. Al-Mukhaizeem previously held several executive positions within Retail Banking and other Areas at Kuwait Finance House.

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

Mr. Waleed Khaled Mandani

Group Chief Retail and Private Banking Officer

Mr. Mandani received his Bachelor's of Science Degree in Business Administration from the University of Arizona in the U.S. in 1992. Mr. Mandani successfully completed a specialized training course in Decision Making Strategies at Harvard Business School in 2015 and an Executive Program in Project Management & Leadership from Cornell University in the U.S. in 2011.

Mr. Mandani is currently the Group Chief Retail and Private Banking Officer at Kuwait Finance House since 2017. In addition, Mr. Mandani is the Vice Chairman of TurkCapital Holding and Board Member of KFH Capital Investment Company.

Mr. Mandani possesses a vast investment and banking experience, spanning more than 27 years. During his professional career, he held numerous prominent leadership roles positions including Group General Manager Private Banking at Kuwait Finance House from 2015 until 2016 and Director of Wealth Management at BNP Paribas in Kuwait from 2005 until 2014 where he has represented the bank at Kuwait Banking Association. In addition, Mr. Mandani served as Senior Manager - Private Banking at Ahli United Bank Kuwait from 2001 until 2005.

Mr. Ahmed Soud AlKharji

Group Chief Corporate Banking Officer

Mr. AlKharji received his Master of Business Administration (MBA) Degree in Finance from University of San Diego in the U.S. in 1998. He received his Bachelor's of Science Degree in Finance and Banking from Kuwait University in 1994. Mr. AlKharji successfully completed the Management Program at Harvard Business School.

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

Mr. AlKharji previously held the position of CEO and Managing Director at Kuwait Finance House - Malaysia from 2015 until 2016 and held the position of Deputy General Manager Structured Finance at Kuwait Finance House from 2014 until 2016.

Mr. Abdulwahab Issa Al-Rushood

Group Chief Treasury Officer

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

Mr. Al-Rushood is currently the Group Chief Treasury Officer at Kuwait Finance House since 2015. In addition, Mr. Al-Rushood is a Board Member at Kuwait Finance House - Bahrain and a Board Member of Aviation Lease & Finance Company (ALAFCO). Mr. Al-Rushood represents Kuwait Finance House at the General Council for Islamic Banks and Financial Institutions (CIBAFI) in Bahrain and serves as a member of the Advisory Board.

Mr. Al-Rushood possesses a vast banking experience, spanning more than 30 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including General Manager - Kuwait Treasury from 2013 until 2015. In addition, he was promoted to various leadership positions within the Treasury Department from 2002 until 2013.

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

Mr. Srood Ahmed Sherif

Group Chief Information Officer

Mr. Sherif received his Bachelor's of Science Degree in Physics from Al-Mustansiriyah University in Iraq in 1975.

Mr. Sherif is currently the Group Chief Information Officer at Kuwait Finance House since 2014. In addition, Mr. Sherif is the Vice Chairman of International Turnkey Systems Group (ITS).

Mr. Sherif previously held several executive positions including Chief Information Officer at the National Bank of Kuwait from 2013 until 2014 and Group Chief Information Officer at National Bank of Abu Dhabi until 2013.

Mr. Sherif possesses specialized experience in the Information Technology field at Financial Institutions, specifically in mapping the business objectives to the Information Technology strategies. In addition, Mr. Sherif has experience in Systems Architecture, Applications Design & Development and Programme Management in addition to possessing a unique background in managing large Data Centers and managing major Information Technology projects.

Mr. Frederick Jacobus Carstens

Group Chief Human Resources Officer

Mr. Carstens received his Master's Degree in Commerce from the University of Johannesburg in South Africa in 2006. He received his Honors Degree in Industrial Psychology from the University of the Orange Free State in South Africa in 1991 and his Bachelor's Degree in Personnel Management from the University of the Orange Free State in South Africa in 1990.

Mr. Carstens is currently the Group Chief Human Resources Officer at Kuwait Finance House since 2016.

Mr. Carstens brings with him over 28 years of Human Resources experience, more than 18 years of Banking experience and he has been working in the region since 2006 where he previously held several executive positions including Deputy Head of Human Resources at Commercial Bank of Dubai from 2014 until 2016 and Assistant General Manager of Human Resources Group at National Bank of Kuwait from 2008 until 2014.

Mr. Carstens has extensive management experience in all aspects of Human Resources and is adept at driving change and transformation in the organizations that he is employed in.

Mr. Abdullah Mohammed Abu Alhous

Group Chief Operations Officer

Mr. Abu Alhous received his Bachelor's Degree in Business Administration in Finance and Banking from Kuwait University in 1987. He attended numerous specialized Executive Programs including the Senior Executive Leadership Program at Harvard Business School in the U.S. in 2018 in addition to attending numerous professional courses and executive programs from world's most reputable business schools like London Business School, INSEAD and Wharton and some prestigious institutions such as JP Morgan in 2019

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

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

Mr. Gehad Mohamed El-Bendary

Group Chief Risk Officer

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

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

Mr. El-Bendary is currently the Group Chief Risk Officer at Kuwait Finance House since 2018. Mr. El-Bendary has over 20 years' experience in Risk Management, Auditing and Internal Control Systems in Financial Institutions.

Mr. El-Bendary previously held several executive positions at Kuwait Finance House including the position of General Manager Risk Management from 2016 until 2018, Deputy General Manager - Portfolio & Enterprise Risk Management from 2013 until 2016, Head of Enterprise Risk Management Unit from 2012 until 2013, and Head of Risk Unit from 2007 until 2012.

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

Mr. Wissam Sami El-Kari

Group Chief Internal Auditor

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

Mr. El-Kari holds many specialized professional certificates including Financial Risk Manager (FRM) from the U.S. in 2012, Certified Fraud Examiner (CFE) from the U.S. in 2008, Certified Internal Auditor (CIA) from the U.S. in 2001, and Certified Management Accountant (CMA) from the U.S. in 2001.

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

Mr. El-Kari possesses a vast experience, spanning more than 20 years and a solid experience in assessing Internal Controls, Risk Management, and Governance Processes. During his professional career, he held numerous prominent leadership roles where he has been Heading the Group Internal Audit Department at Kuwait Finance House since 2012. In addition, Mr. El-Kari served as Assistant General Manager Internal Audit, Banking Operations at Burgan Bank in Kuwait from 2005 until 2012.

Dr. Khaled Mohammed Al-Jumah

Group General Manager Legal

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

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

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

Mr. Fadi Elias Al-Chalouhi

Group General Manager Retail Banking

Mr. Chalouhi received his Master of Business Administration (MBA) Degree from the American University of Beirut, Lebanon in 1999. He received his Bachelor's Degree in Computer & Communications Engineering from the American University of Beirut, Lebanon in 1994. He completed numerous specialized training programs including Global Banking Program on Fintech, Digital and Analytics by Columbia Business School and Business Innovation and Application on Blockchain Technologies by MIT Sloan.

Mr. Chalouhi is currently the Group General Manager Retail Banking at Kuwait Finance House since 2016. In addition, Mr. Chalouhi is a Board Member of The Shared Electronic Banking Services Company (K-NET).

A well-renowned and seasoned banking professional with over 17 years' experience, underpinned by a strong academic background and a solid experience in Treasury, Derivatives, Asset Management and Retail Banking.

Mr. Chalouhi previously held several executive positions at the National Bank of Kuwait including Deputy General Manager Consumer Banking Group - Kuwait from 2015 until 2016, Assistant General Manager Consumer Banking Group - Kuwait from 2011 until 2015, and Executive Manager in the Treasury Group from 2008 until 2011.

Mr. Abdulla Abdulmohsen Al-Mejhem

General Manager Private Banking

Mr. Al-Mejhem received his Master of Business Administration (MBA) with a concentration in Finance and Financial Institutions from Kuwait University in 2006. He received his Bachelor's Degree in Accounting from Kuwait University in 2001.

Mr. Al-Mejhem successfully completed a specialized training course in Decision Making Strategies and Strategic Leadership at Harvard Business School, Senior Executive Program at London Business School and has attended numerous professional courses and executive programs in Ethics and Leadership. Mr. Al-Mejhem holds a Chartered Accountant Designation and is a member of the Kuwaiti Association of Accountants and Auditors since 2001.

Mr. Al-Mejhem is currently General Manager Private Banking at Kuwait Finance House since 2017.

Mr. Al-Mejhem held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager Private Banking from 2015 until 2016, Executive Manager - Investment Advisory from 2013 until 2015 and Executive Manager - Market and Liquidity Risk Management in 2013.

Mr. Al-Mejhem previously held positions in the Financial Consultancy and Assurance field including Deloitte & Touche from 2009 until 2012.

Mr. Al-Mejhem completed a 2 year specialized training program for graduates at Kuwait Investment Authority (KIA) where he joined Kuwait Investment Office in London and Goldman Sachs London.

Mr. Khaled Yousif Al-Shamlan

General Manager Corporate Banking Kuwait

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

Mr. Al-Shamlan successfully completed a specialized training course on Managing Strategically and Leading for Results conducted by Harvard Business School and attended numerous professional courses in Leadership, Financial Analysis and Risk Management.

Mr. Al-Shamlan is currently General Manager Corporate Banking - Kuwait at Kuwait Finance House since 2018.

Mr. Al-Shamlan possesses a vast banking experience, spanning more than 21 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager Individual Financing from 2016 until 2017, Deputy General Manager Corporate Real Estate Financing from 2015 until 2016, Executive Manager Corporate Real Estate Financing in 2014 and Executive Manager Credit Analysis in 2013.

Mr. Al-Shamlan completed a 2 years specialized training program for graduates at Kuwait Investment Authority (KIA).

Mr. Ahmad Eissa Al-Sumait

General Manager Treasury Kuwait

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

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

Mr. Al-Sumait possesses a vast banking experience, spanning more than 19 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Executive Manager Money Market and Senior Manager Money Market. In addition, he was promoted to various leadership positions within the Treasury Department from 2006 until 2015.

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

Mr. Dharar AlDakhil

General Manager Group Risk Management

Mr. AlDakhil received his Master of Business Administration (MBA) in 2014 from the American University of the Middle East - Kuwait. Moreover, He received his Bachelor's degree in Political Science from Kuwait University - College of Commerce, Economics and Political Sciences in 1999.

In addition, he attended numerous professional courses including CCM in 2002, the International Certificate in Banking Risk from INSEAD in 2019, in addition to passing all levels of Licensed International Financial Analyst "LIFA" and level I of the CFA Program. Moreover, Mr. AlDakhil has successfully completed specialized programs such as the General Management Program by Chicago Booth in 2015, Network Leadership Program with IMD in 2017, and Leading Strategy Execution in Financial Services with Harvard Business School in 2018.

Mr. AlDakhil is currently the General Manager Group Risk Management at Kuwait Finance House since 2019.

Mr. AlDakhil possesses a vast Investment and Banking experience, spanning more than 19 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager - Credit Risk from 2015 until 2019, and Executive Manager Debt Restructuring from 2013 until 2015.

Mr. AlDakhil served as a Board Member in many leading companies including Al-Salam International Hospital and Yiaco Medical Company. Mr. AlDakhil currently serves as a Vice Chairman in Gulf International Automobile Trading Company (GIAT).


KFH
KFH Online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Corporate Governance Report

Introduction:

KFH has established governance-based banking systems and regulations. This comes as part of the continuous development process of governance which KFH conducts.

KFH Board of Directors has exploited all potentials to review and develop policies and procedures applied to ensure full compliance with the Central Bank of Kuwait (CBK) instructions on governance. KFH fully meets its corporate governance obligations and implements all mandatory requirements issued by CBK. KFH implements all governance rules and regulations at Kuwaiti Banks and Sharia Control governance instructions at Kuwaiti Islamic banks.

KFH Board of Directors is always keen on spreading governance awareness at all administrative levels. KFH Board seeks to go beyond regulatory authorities instructions to fulfill governance requirements through the implementation of the best global practices on governance.

The board governance committee oversees governance process, provides necessary consultancy services and assists the Board of Directors in fulfilling its regulatory obligations relating to appropriate governance practices by providing a set of guidelines on corporate governance and playing a leading role in drawing up governance policies.

Governance Committee has played a leading role, in 2019, in executing CBK updates on governance rules and regulations at Kuwaiti banks, issued September 2019, to cope with the best global practices and the local laws issued recently.

The instructions highlighted the significance of the independent board members presence in the board and the roles they play in the BOD subcommittees. Also, they affirmed the importance of risk governance and defined the three defensive lines applied to risk management. Concerning compliance governance. The instructions emphasised the need to have an independent compliance department to ensure the bank's compliance with the rules and regulations issued by regulatory authorise. Furthermore, the instructions focused on the significance of Cyber IT governance.

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

KFH ensures that all subsidiaries implement the group's approved corporate governance policy in addition to the instructions imposed by other regulatory authorities inside and outside Kuwait. All subsidiaries are subject to auditing and periodical review to improve governance performance at the group level.

KFH ensures its strict adherence to all Sharia rules and regulations in all transactions. KFH Fatwa & Shari'a Supervisory Board enjoys full independence and support of the board to conduct its activities as per the Fatwa & Shari'a Supervisory Board regulations. The Committee comprises highly reputable and recognized scholars, having vast experience in Sharia science. The general assembly of the bank assigns these scholars and determines their remunerations. KFH has an independent Sharia Audit Department comprising Sharia specialists to ensure KFH compliance with Fatwa & Shari'a Supervisory Board Committee decisions.

KFH is always keen on enhancing social responsibility and serving the community, through a strategy developed by the Board of Directors and implemented by the Zakat and Community Service Committee. KFH has supported several fields during the year 2019, such as the health and educational field. Also, KFH is keen on supporting projects that provide sustainable growth to society.

The Corporate Governance Manual of KFH and its subsidiaries has been prepared and published on KFH's website. Generally speaking, KFH has always taken the lead in implementing all various aspects of governance rules and regulations. KFH ensures to abide by all new standards and regulations. KFH continues its operations to develop governance systems and mechanisms at the group level in accordance with the best global practices on governance.

Ownership Shares: as of 31/12/2019

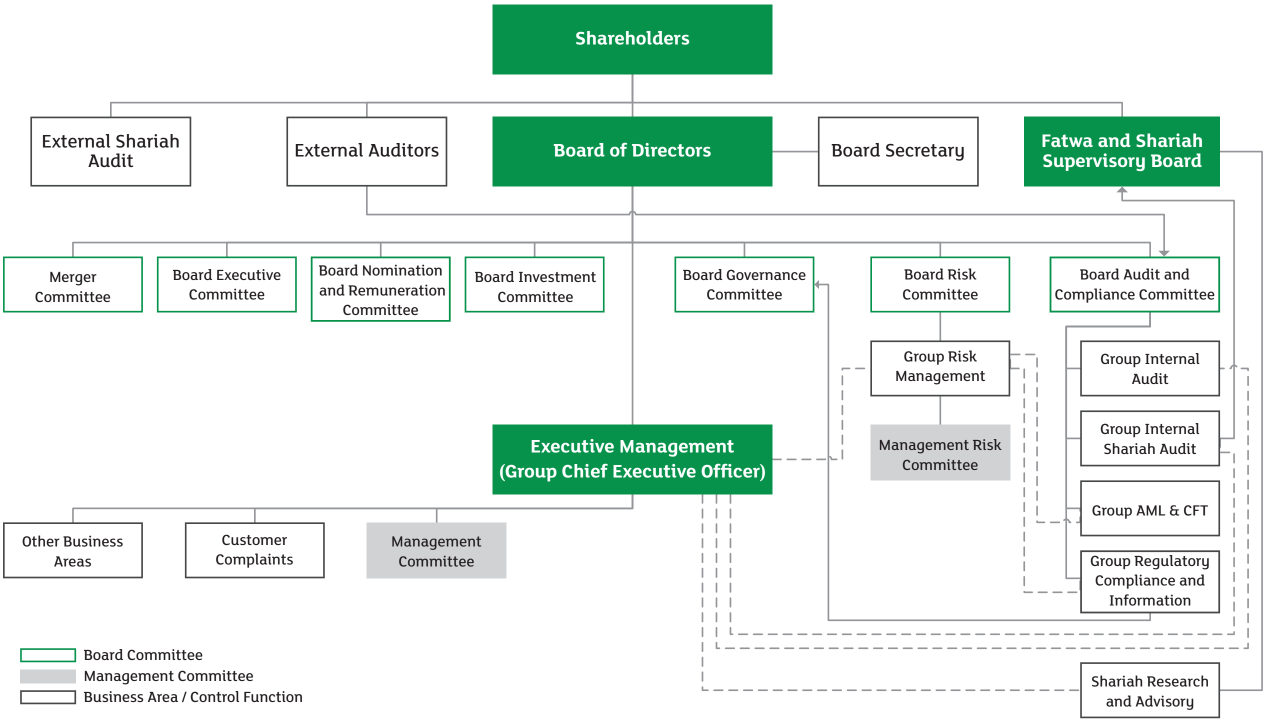
	Ownership Form	Country	Ownership Ratio
Kuwait Investment Authority	Direct	Kuwait	24.08%
Public Authority for Minor Affairs	Direct	Kuwait	10.484%
Kuwait Awqaf Public Foundation	Direct	Kuwait	7.3%
Public Institution for Social Securities	Indirect	Kuwait	6.19%

Board Members' Duties and Responsibilities

1- General Responsibilities of the Board of Directors

The Board of Directors, shall bear the overall responsibility of KFH including the development of strategic goals, risk strategy, sound governance principles, and the application and oversight of the proper application of these goals and principles in addition to the responsibility of supervising executive management including the CEO.

The Board of Directors shall bear full responsibility for KFH's operations and sound financial position. Accordingly, the Board shall ensure compliance with the Central Bank of Kuwait's requirements and preserve the interests of the shareholders, depositors, creditors, employees and other stakeholders and related parties. In this context, the Board shall ensure that KFH is being managed prudently and in line with KFH applicable rules, regulations and bylaws.



2- Board Structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise ten members elected by the General Assembly through a secret ballot. Nominations were opened for membership in the Board on 20th March 2017. The General Assembly elected the board members. Accordingly, a new Board was formed in the 14th session. The Board office term is three years and a member may be re-elected for another term. The current Board of Directors consists of Chairman, Vice Chairman and eight board members who duly represent the quorum required for forming the Board Committees in accordance with sound governance principles set by the Central Bank of Kuwait.

2-1 Chairman's Role

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

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

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

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

4- Organizing Board Activities

The Board of directors held (14) meetings during 2019 within the current 14th session elected on 20th March 2017 i.e. 3 meetings during each quarter 2019 while the board members held (12) meetings during 2018. A meeting is called for whenever the need arises. The number of meetings held exceeded regulatory requirements concerning corporate governance, which shall not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted during board meetings are binding and considered as an integral part of KFH records.

The Board adopted in 2019 a number of resolutions recorded in (31) minutes of board meetings issued by passing in 2019 while the committees made (11) minutes of resolutions by passing during 2019.

The Chairman discusses with executive management essential issues that are proposed to be entered in the agenda and provides the board members with sufficient information in advance to make decisions. The board secretary shall take down all board discussions, recommendations and voting results in the meeting. The responsibilities of the chairman and members of the board are set in writing and determined as per all related legislations and regulations.

5- Board Meetings

List of board members names and number of meetings during 2019

Names \ Dates and number of meetings	Meeting dates during 2019														Attendace %
	10 Jan	24 Jan	4 Feb	25 Mar	8 Apr	5 May	10 Jun	8 Jul	22 Jul	8 Sep	12 Sep	7 Oct	13 Nov	11 Dec	
	25	26	27	28	29	30	31	32	33	34	35	36	37	38	
Mr. Hamad Abdul Mohsen Al Marzouq Chairman	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Abdul Aziz Yaaqub Al Nafisi Vice Chairman	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Fahd Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Ra'ed Khaled Al-Kharafi*	√	√	√	√	Replaced										100
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Barrak Ali Al-Sheatan	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Mutlaq Mubarak Al-Sanei	X	√	√	√	√	√	√	√	√	√	√	√	√	√	92
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Ms. Hanan Yousif Ali Yousif*	Was not a board member				Under recruitment					√	√	√	√	√	100

√ Attended X Absent

*P.S. The member Mr. Ra'ed Khaled Al Kharafi has been replaced by Ms. Hanan Yousif Ali Yousif representative of Kuwait Awqaf Public Foundation.

6- Board Committees

Group KFH Board of Directors formed subcommittees to assist in carrying out the bank activities and enhancing control on the bank's core operations. The committees were formed based on 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 Committees include the following:

- Executive
- Audit and Compliance
- Nominations and Remuneration
- Risk
- Governance
- Investment
- Merger

		Board Committees						
Board of Directors		Executive	Audit and Compliance	Nominations and Remuneration	Risk	Governance	Investment	Merger
The Chairman	Mr. Hamad Abdul Mohsen Al Marzouq	●				●		
Vice Chairman	Mr. Abdul Aziz Yaaqub Al Nafisi	●		●				●
Board Members	Mr. Fahd Ali Al Ghanim	●	●				●	●
	Mr. Muad Saud Al Osaimi	●			●		●	●
	Mr. Khaled Salem Al Nisf	●			●		●	
	Mr. Noorur Rahman Abid		●	●				
	Ms. Hanan Yousif Ali Yousif				●	●		
	Mr. Barrak Ali Al-Sheatan		●	●		●		
	Mr. Salah Abdulaziz Al-Muraikhi		●				●	●
	Mr. Mutlaq Mubarak Al-Sanei	●		●	●			

6-1 Audit and Compliance Committee

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

The Audit Committee comprises four board members including the committee chairman and vice chairman. At least two of the members must have knowledge in financial matters to perform their duties as members of the committee. Their membership in this Committee coincides with their Board membership.

In 2019, the Committee held (5) meetings. The committee issued (3) resolutions by circulation. The Committee holds its meetings whenever required or upon the Committee chairman or the other two members' request.

The Audit Committee's duties and responsibilities include the following:

- Provide recommendations concerning external auditors' appointment, dismissal, fees, qualifications and objectivity of their professional opinion.
- Discuss the results of the interim and final audits with external auditors and the resulting considerations along with any other issues external auditors wish to discuss.
- Set appropriate standards to ensure completion of external audit activities.
- Review and discuss appointment and dismissal of the head of internal audit, head of compliance and head of anti-money laundering and combating the financing of terrorism and make recommendations to the board in this respect.
- Assess the performance of the internal audit, regulatory compliance and anti-money laundering and combating the financing of terrorism and making recommendations on the remunerations of the persons heading those departments.
- Ensure that external auditors issue a statement on the Bank's compliance with the governance rules and regulations issued by CBK as part of the report submitted to CBK.
- Review accounting documents, reports and information regularly and review financial statements with the executive department and external auditors before submitting the same to the Board.
- Review accounting issues having significant impact on the financial statements.
- Supervise KFH internal audit policies and procedures and ensure sufficiency of human resources required for control functions.
- Review adequacy of provisions made against potential risks and losses.
- Carry out any other activities in line with KFH articles of association and applicable laws and as may be deemed suitable by the board.

Audit committee is authorized to acquire any information from, 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 Board Members in Audit and Compliance Committee and the number of meetings held in 2019

Names \ Dates and number of meetings	Meeting dates during 2019					Attendance %
	9 Jan	7 Apr	7 Jul	6 Oct	8 Dec	
	10	11	12	13	14	
Mr. Noorur Rahman Abid Head of Committee	√	√	√	√	√	100
Mr. Fahd Ali Al Ghanim	√	√	√	√	√	100
Mr. Barrak Ali Al-Sheatan	√	√	√	√	√	100
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	100

√ Attended X Absent

6.2 Nomination and Remuneration Committee

The key role of the Nomination and Remuneration Committee is to assist the Board of Directors in meeting its obligations regarding the selection of qualified individuals for the Board and Executive Management membership and assess the performance of the Board and its committees. Also, the committee shall assist the Board in supervising short and long term remuneration systems. The committee shall recommend the board of directors' remunerations in accordance with Sharia laws and best international practices. The board of directors shall appoint the members of the said committee provided that they shall not be less than 4 members including head of committee. Committee membership duration shall be 3 years or the remaining period of the board membership duration.

The Committee shall hold its meetings whenever needed but not less than twice a year. The Committee held (6) meetings during 2019 to conduct its duties and functions. The committee issued (3) minutes by passing to perform its function and duties.

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

- Recommend nomination of persons qualified to act as Board members based on CBK approved policies, standards and instructions in regard to membership nominations. Nomination recommendations cover all candidates including those who are not recommended by the committee based on sound objective justifications.
- Recommendations to appoint the CEO and his deputies, Head of Financial Control and any other director reporting directly to CEO except the Head of Risk Management who shall be elected by the Risk Committee and the Head of Audit and Head of Compliance who shall be elected by the Audit and Compliance Committee as well as the Customer Complaints Manager.
- Annual review of the required board membership skills, determine skills to be enjoyed by the board members and committees and present suggestions on the board structure that serves the best interest of the bank.
- Annual evaluation of the overall performance of the Board and the performance of individual members.
- Determine authorities and functions of each executive or leading positions at the Bank and set required job responsibilities and qualifications in cooperation with Human Resources and concerned departments.
- Present suggestions on Bank fixed and variable remuneration policy structure and raising the same to the Board for approval.
- Conduct periodical review remuneration policy or when recommended by the Board and present recommendations to the Board to amend/ update such policy.
- Conduct a periodic assessment of the adequacy and effectiveness of the remuneration policy to ensure the achievement of the declared objectives.
- Present necessary recommendation to the Board regarding Board members' remuneration.
- Review financial remuneration plan structures related to share options for board's approval.
- Study remuneration recommendations presented by executive management concerning remuneration, CEO remuneration and executive management remuneration.
- Cooperate with the Risk Committee to evaluate suggested incentives under the remuneration system.
- Conduct independent annual revision of the remuneration system to evaluate the Bank's compliance with the financial remuneration practices, either through internal Audit department or an outsource consultancy bureau.
- Provide all remuneration granted to Bank representatives in subsidiaries.

Names of the Nomination and Remuneration Committee Members and number of meetings held in 2019

Meeting dates during 2019							Attendace %
Dates and number of meetings / Names	9 Jan	13 Mar	7 Apr	7 Jul	7 Oct	8 Dec	
	13	14	15	16	17	18	
Mr. Abdul Aziz Yaaqub Al Nafisi Head of Committee	√	√	√	√	√	√	100
Mr. Noorur Rahman Abid	√	√	√	√	√	√	100
Mr. Barrak Ali Al-Sheatan	√	√	√	√	√	√	100
Mr. Mutlaq Mubarak Al-Sanei	X	√	√	√	√	√	83

√ Attended X Absent

6-3 Risk Committee

The key role of the Risk Committee is to assist the Board of directors in meeting its obligations in terms of overall supervision on the current risk conditions, risk strategy and the bank's appetite towards credit, banking, real estate and investment activities risks as well as all related policies and procedures. The committee shall comprise minimum 4 members including the chairman and the deputy. Committee membership period shall coincide with the KFH board membership term.

The Committee held (6) meetings in 2019, and issued (1) minutes of a decision by circulation, to perform its duties and functions. The Committee performs several duties and responsibilities as follows:

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

Names of Board Members in the Risk Committee and the number of meetings held in 2019

Dates and number of meetings / Names	Meeting dates during 2019						Attendace %
	13 Jan	7 Mar	28 Apr	14 Jul	15 Sep	28 Oct	
	15	16	17	18	19	20	
Mr. Khaled Salem Al Nisf Head of Committee	√	√	√	√	√	√	100
Mr. Raed Khaled Al-Kharafi *	√	√	Replaced				100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	100
Mr. Mutlaq Mubarak Al-Sanei	√	√	√	√	√	√	100
Ms. Hanan Yousif Ali Yousif*	Was not a board member		Under recruitment		√	√	100

√ Attended X Absent

P.S. The member Mr. Ra'ed Khaled Al Kharafi has been replaced by Ms. Hanan Yousif Ali Yousif, representative of Kuwait Awqaf Public Foundation.

6-4 Governance Committee

Governance Committee's main task is to assist the Board of Directors in performing its duties, supervising sound governance and develop governance policies and procedures. The committee shall monitor compliance with governance polices and governance guide by the board and its committees.

The Board Governance Committee comprises three Board members including the Committee Chairman and Vice chairman. Membership in this Committee coincides with Board membership.

The Committee holds its meetings whenever required provided that the number of meetings shall not be less than two meetings per year. The Committee held (3) meetings in 2019.

The Governance Committee duties include the following:

- Develop governance manual and framework and provide suggestions on revision and updating from time to time.
- Review Bank policies and practices to ensure their adequacy in terms of governance standards.
- Review and assess professional code of ethics, code of conduct and other approved policies and guidelines in the Bank.
- Review key issues related to shareholders' relations and the Bank contributions to charity works.
- Review the corporate governance section in the annual report.
- Annual evaluation of performance in terms of the Governance Committee and its duties as well as the annual revision of the Committee authorities and functions.

Names of Board Members in the Governance Committee and the number of meetings held in 2019

Names / Dates and number of meetings	Meeting dates during 2019			Attendace %
	4 Feb	10 Apr	5 Dec	
	15	16	17	
Mr. Barrak Ali Al-Sheatan Head of Committee	√	√	√	100
Mr. Hamad Abdul Mohsen Al Marzouq	√	√	√	100
Mr. Ra'ed Khaled Al-Kharafi *	√	Replaced		100
Ms. Hanan Yousif Ali Yousif *	Was not a board member	Under recruitment	√	100

√ Attended   X Absent

P.S. The member Mr. Ra'ed Khaled Al Kharafi has been replaced by Ms. Hanan Yousif Ali Yousif representative of Kuwait Awqaf Public Foundation.

6-5 Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling its obligations regarding investment and banking activities according to the authorities delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may assist the Board in performing its duties and responsibilities. The Board shall appoint Committee members who shall not be less than six members. The Board also appoints the Committee Chairman from its members. The membership of the Committee shall be for three years or the period remaining from the Board term.

The Committee held (17) meetings in 2019. The executive committee issued (4) minutes of meeting by passing to perform its duties and functions.

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

- Supervise strategy implementation mechanism and the Bank action plan, monitor performance efficiency. Review performance reports and present recommendation to the board in this respect.
- Review and approve performance reports financing transactions and investment offers presented by Executive Management according to the authorizations and delegations regulations set by the Board.
- Approve or reject any suggestions related to finance, liquidity and / or market risks based on the financial authorities and limits approved by the Board in regard to single customer credit concentration limits.
- Review management strategy in regard to proposed provisions and management plan to retrieve bad debts (if any).
- Periodic revision of the diversity and credibility of the finance portfolio.
- Coordination with the Risk Committee to prepare periodic reports for updating risk limits and possible increase of risks.

Names of Executive Committee Members and Number of Meetings held in 2019

	Meeting dates during 2019																	
Dates and number of meetings / **Names**	16 Jan 28	11 Feb 29	13 Mar 30	25 Mar 31	24 Apr 32	22 May 33	10 Jun 34	23 Jun 35	26 Jun 36	15 Jul 37	18 Sep 38	2 Oct 39	30 Oct 40	13 Nov 41	27 Nov 42	11 Dec 43	22 Dec 44	Attendace %
Mr. Hamad Abdul Mohsen Al Marzouq Head of Committee	√	√	√	√	√	X	√	√	√	√	√	√	X	√	√	√	√	88
Mr. Abdul Aziz Yaaqub Al Nafisi	√	√	√	√	√	√	√	√	√	√	√	√	X	√	√	√	√	94
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Fahd Ali Al Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Mutlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100

√ Attended   X Absent

6-6 Investment Committee

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

The committee held (5) meetings during 2019.

The main functions of the investment committee include but not limited to the following:

- The committee shall assist the banks board to execute its supervisory responsibilities over the bank's investment assets including investment funds and portfolio. The committee shall raise its recommendations to the board and follow up investments as per approved policies and procedures.
- Review reports related to the bank investments current status and the prevailing conditions in local and international markets in addition to all information that would enable the committee to perform its responsibilities professionally and efficiently.
- Update board on any material changes on the bank investments.
- Follow up the implementation of strategic policies and goals set by the board in regard to all investment activities.
- View all newly proposed investments and verify their conformity with the board plans and raise a recommendation to the board in this respect.
- Seek assistance of an outsource consultant to assist the committee in its missions.
- Present recommendations to the board in regard to any subject it may deem suitable.
- Acquire any information required in regard to the status of investment portfolio through CEO.
- Review executive management recommendations regarding the decisions for merging current investments and raise the same to the board.
- The committee shall practice any responsibilities and duties assigned by the board.
- The committee shall raise to the board a recommendation to increase or decrease the capital of the companies in which the bank is a shareholder.

This covenant shall be reviewed and updated when required taking into consideration any changes in the bank business governance framework, strategies, regulations, policies or any other material factors. Amendments and updates made on the regulations must be approved by the board.

Names of Investment Committee members and number of meetings held in 2019

	Meeting dates during 2019					Attendace %
Dates and number of meetings / **Names**	31 Jan	2 May	15 Jul	2 Oct	18 Dec	
	11	12	13	14	15	
Mr. Fahd Ali Al Ghanim Head of Committee	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	100
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	100

√ Attended X Absent

6-7 Merger Committee

- The board of director has resolved to form a merger committee with the following duties:
- Follow up latest developments on the memorandum of understanding and confidentiality signed between KFH and AUB- Bahrain, in light of the proposed merger transaction between the two banks.
- Present recommendations to the board on the evaluation and swap price report.
- Present recommendations to the board on the appointment of additional advisors to complete the merging process.
- Follow up merging related issues with the regulatory authorities including CBK, CMA and other regulatory authorities.
- Present recommendations to the board on any other merging related issues to be presented to the board.

Names of Merger Committee members and number of meetings held in 2019

Meeting dates during 2019		Attendace %
Names / **Dates and number of meetings**	12 Sep	
	7	
Mr. Abdul Aziz Yaaqub Al Nafisi Head of Committee	√	100
Mr. Fahd Ali Al Ghanim	√	100
Mr. Muad Saud Al Osaimi	√	100
Mr. Salah Abdulaziz Al-Muraikhi	√	100

√ Attended X Absent

The merger committee held several meetings with the regulatory authorities in 2019, but were not inserted in the statistics, noting that the Merger Committee held six meetings during 2018.

Fatwa & Shari'a Supervisory Board

KFH Fatwa & Shari'a Supervisory Board held (49) meetings in 2019, i.e. one meeting per week with the following attendance ratio:

Meeting dates during 2019		Attendance %
Board Members	Attendance Frequency	
Shaikh/Dr Sayyid Mohammad Sayyid Abdul Razaq Al-Tabtabae Chairman	49	100
Shaikh/Dr. Anwar Shuaib AL-Abdulsalam	45	92
Shaikh/Dr. Mubarak Jeza Al-Harbi	43	88
Shaikh/Dr. Esam Abdulrahim Ghareeb	45	92
Shaikh/Dr. Khaled Shujaa Al-Otaibi	40	82

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

Financing Facilities: KD 179,805 .

Credit Cards: KD 1,896.

Date: 10/06/1441

Corresponding to : 04/02/2020

The Honorable Shareholders – Kuwait Finance House

Final External Shari'a Audit Report for the year ending 31/12/2019

Reference is made to the engagement contract concluded between us. Having examined the information, which we received, including your request to conduct a review on the operations and activities performed within the above-mentioned period, we hereby present to you the following report as per the requirements of the regulatory authorities:

First: The External Shari'a Audit Bureau's Scope of Work

The scope of work comprises of conducting a Shari'a audit on KFH departments' activities including commercial and financial transactions, securities and contracts, and determine the extent of their compliance with the resolutions of the Fatwa and Shari'a Supervisory Board (FSSB), Shari'a standards endorsed and determined by the FSSB and regulatory authorities' instructions related to external Shari'a audit.

Second: External Shari'a Audit Bureau Responsibilities

External Shari'a Audit Bureau shall be responsible for determining the Bank's compliance with the resolutions of the resolutions of the Fatwa and Shari'a Supervisory Board (FSSB), Shari'a standards endorsed and determined by the FSSB and regulatory authorities' instructions related to external Shari'a audit, by expressing an independent opinion based on our audit on the commercial and financial transactions, securities and contracts.

Third: Bank's Responsibility

The Bank's executive management shall ensure compliance and provide all necessary information concerning the external Shari'a audit process on commercial and financial transactions, securities and contracts.

Fourth: General External Shari'a Audit Policies

- Verify the Bank's compliance with Shari'a rules and regulations as per the resolutions of the FSSB, specific Shari'a standards endorsed by the FSSB and regulatory authorities' instructions related to external Shari'a audit.
- Verify that the securities transactions, commercial and financial transactions and contracts, which have been reviewed and examined, are in conformity with the resolutions of the FSSB, Shari'a standards endorsed and determined by the FSSB and regulatory authorities' instructions related to external Shari'a audit.
- Verify the soundness of transaction procedures, responsible parties and completion stages.
- Verify the existence of a reference base of Shari'a principles for those transactions.
- Provide Shari'a remedies for violations (if any) in the securities transactions, commercial and financial transactions and contracts or in the execution method and determine a timeline for the required remedy.
- Conduct field visits and document the same.
- Determine external Shari'a audit procedures which have led to the results contained in this report.
- Review of Internal Shari'a Audit Department report.

Fifth: Audit Results and Procedures

1- **Organizational Structure:** the organizational structure issued by KFH Board of Directors has been reviewed as approved on 08/05/2019.

2- **Review of the Fatwa and Shari'a Supervisory Board's Endorsement on the New/ Amended Policies and Procedures:**

The amendments were made within the said period as provided by the Strategy and Corporate Affairs Department and as follows:

- Reviewed and examined Shari'a approvals on the amendments made on the policies manual with a total of (35) amendments.
- Reviewed and examined Shari'a approvals on the amendments made on the procedures manual with a total of (120) amendments.

3- **Review of the Fatwa & Shari'a Supervisory Board's Activities:**

- Reviewed the minutes of meetings of the FSSB issued during 2019 with a total of (49) meetings.
- Reviewed the FSSB's annual Shari'a report for the year 2019.

4- **Review of the Internal Shari'a Audit Department's Activities:**

- Reviewed the Internal Shari'a audit plan for the year 2019.
- Reviewed and examined the Internal Shari'a Audit Department's reports for the year 2019.
- Reviewed the Shari'a reports of subsidiaries.
- Reviewed the Shari'a violations contained in the Internal Shari'a Audit Department's report and subsidiaries' report and the FSSB's remedial recommendations on such violations.
- Reviewed activities of all sectors of the Bank (12 sectors).
- Reviewed audit samples which have been examined by the internal Shari'a Audit Department for the year 2019 comprising (25) departments out of (57) departments.

5- **Review of Banking Accounts:**

- Verified and reviewed the Shari'a approvals on banking accounts in foreign banks.
- Verified the transfer of earned interest to the special segregated fund account.

6- **Review of Financial Statements:**

- Reviewed the approved financial statements dated 09/01/2020 and found them in compliance with the resolutions of the FSSB.

7- **Examination of the Distribution of Expenses and Profit, and Loss Allocation:**

- Verified that the FSSB has reviewed the distribution of expenses and profit, and loss allocation as per Shari'a principles.

8- **Examination and Review of All Securities Transactions, Contracts, and Commercial and Financial Transactions**

These transactions were executed by the concerned parties at the Bank and the execution stages as per the resolutions of the FSSB.

A. **Securities:** Shari'a approvals on securities have been reviewed as follows:

S	Responsible Party	Transactions	No. of Transactions
1	KFH Capital	Subsidiaries	15
2	KFH Capital	Affiliates and enterprises	4
3	KFH Capital	Listed securities	4
4	KFH Capital	Unlisted securities	18
5	KFH Capital	Investment funds	5
6	KFH Capital	Managed portfolios	6
7	KFH Capital	Investment capital	3
8	Treasury	Issued Sukuk	66

B. **Contracts:** Reviewed and verified Shari'a approvals on contract templates according to concerned department.

S	Responsible Party	No. of Contracts
1	Strategy & Corporate Affairs	20
2	Legal Group	3
3	Human Resource and General Services	180
4	Information Technology	285
5	Product	27
6	Secretariat	1
7	Banking Cards	31
8	Financial Control	6

C. **Commercial & Financial Transactions:**

- Real Estate: Verified and reviewed Shari'a approvals on -commercial and investment - real estate activities and the responsible parties (Corporate Banking and Individual Finance).
- Banking Cards: Reviewed Shari'a approvals on banking cards rules and regulations and the responsible function (Group Banking Cards) as follows:

S	Types of Bank Cards	No. of Cards
1	ATM	11
2	Credit Cards	11
3	Prepaid Cards	5

- **Fees and Commissions:** Reviewed Shari'a approvals on the fees and commissions list at the Bank.
- **Products:** Reviewed Shari'a approvals on products and responsible party (Group Products Dept.).

S	Product Title	No. of Products
1	Car financing and leasing	7
2	Investment accounts	14
3	Investment deposits	8
4	Investment plans	5
5	Financing products	9
6	Investment products	1

- **Special Contracts, Customer Segments and Marketing Campaigns:** Reviewed and examined Shari'a approvals on special contracts, customer segments and marketing campaigns, with (99) campaigns in total with Group Product being the responsible department.
- **Marketing Campaigns and Sponsorships:** Reviewed the approvals on the marketing campaigns and sponsorships with Strategy and Corporate Affairs being the responsible party as follows:

S	Type	Number
1	Marketing campaigns	22
2	Sponsorships	113

Sixth: Shari’a References

Verified FSSB’s approval and endorsement on the reference base of Shari’a principles related to securities, commercial and financial transactions and contracts which were examined as follows:

S	Transaction	Shari’a Reference
1	Contracts and agreements	Fatwa & Shari’a Supervisory Board Resolution
2	Shares	
3	Sukuk	
4	Funds	
5	Bank Cards	
6	Products: Murabaha, Tawarruq, Reverse Murabaha, and other products	

Seventh: Field Visits

We have made the following field visits and the results are as follows:

S	Dept.	Date	No.	Visit Results
1	Internal Shari’a Audit	18/06/2019 02/02/2020	17	Coordinate among departments, examine audit samples, review minutes to verify Shari’a approvals on contracts and amendments on policies and procedures, discuss external Shari’a audit requirements for all departments.
2	Finance & Corporate Banking	3/07/2019	1	Identify department’s functions – discuss external Shari’a auditor requirements.
3	Strategy & Corporate Affairs	08/07/2019 30/01/2020	6	Identify department’s functions – discuss external Shari’a auditor requirements – verify Shari’a approvals on contracts – marketing campaigns and sponsorships.
4	Financial Control	10/07/2019 02/02/2020	4	Identify department’s functions – discuss external Shari’a auditor requirements – discuss balance sheet items – view Shari’a approvals on contracts.
5	Information Technology	15/07/2019 17/11/2019	2	Identify department’s functions – discuss external Shari’a auditor requirements
6	Human Resource & General Services	16/07/2019 14/01/2020	4	Identify department’s functions – discuss external Shari’a auditor requirements - view Shari’a approvals on contracts.
7	Internal Audit	22/07/2019	1	Identify department’s functions – discuss external Shari’a auditor requirements
8	Legal Dept.	23/07/2019	1	Identify department’s functions – discuss external Shari’a auditor requirements
9	Operations	29/07/2019 22/01/2020	3	Identify department’s functions and view sector samples
10	Products	29/07/2019 19/01/2020	2	Identify department’s functions – discuss external Shari’a auditor requirements

S	Dept.	Date	No.	Visit Results
11	Private Banking	31/07/2019	1	Identify department's functions – discuss external Shari'a auditor requirements
12	Treasury	31/07/2019 28/01/2020	1	Identify department's functions – discuss external Shari'a auditor requirements
13	Financial Risks	1/08/2019	1	Identify department's functions – discuss external Shari'a auditor requirements
14	Retail Banking	1/09/2019 19/01/2020	2	Identify department's functions – discuss external Shari'a auditor requirements

Eighth: Shari'a Violations (if any)

No Shari'a violations were observed.

Ninth: Final Opinion and Recommendations:

We believe that the audit process which we have conducted provide an adequate basis to express our independent opinion. We have received the notes, confirmations, information, explanations and declarations, which we consider necessary, to give us sufficient evidence and reasonable assurance that the Bank's executive management has adhered to Shari'a provisions and complied with the resolutions of the Fatwa and Shari'a Supervisory Board, specific Shari'a standards endorsed by the FSSB and regulatory authorities' instructions related to external Shari'a audit. Accordingly, the external Shari'a audit bureau has reached a final opinion that the Bank has complied with all Shari'a provisions in accordance with the resolutions of the Shari'a Supervisory Board.

External Shari'a Auditor
Dr. Abdulaziz Khalaf Jarallah

Legal Representative
Yahia Al-Hammadi

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board acknowledges the value of strong internal control systems to the effectiveness and efficiency of operations, quality of internal and external reporting, compliance with the applicable laws and regulations and to KFH Group's overall governance. The Board has established an organization structure that sets clearly the lines of authorities. Senior Management is responsible for establishing and operating the internal control systems to manage the risks of not achieving KFH Group's objectives. The internal control systems can only provide reasonable but not absolute 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 also reviews the management letters issued by the bank's external auditors and reviews the report on Accounting and Other Records and Internal Control System (ICR) issued by the ICR auditors. The ICR auditors' opinion in this respect is included in the Annual Report.

The Board believes that the internal control systems adopted and operating during the year ended 31 December 2019 are adequate to provide reasonable assurance regarding the achievement of KFH Group's objectives.

External Auditors' Report on Internal Control Systems

Kuwait Finance House K.S.C.P.
P.O Box: 24989, Safat 13110,
Kuwait
27 June, 2019

Board of Directors,

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 17 March 2019, we have examined the accounting and other records and internal control systems of Kuwait Finance House K.S.C.P. for the year ended 31 December 2018.

We covered the following processes of the Bank:

- Corporate Governance
- Investment
- Treasury
- Retail and Private Banking
- Group Corporate Banking
- Information Technology
- Operations Department
- Human Resource and General Services
- Group Financial Control
- Risk Management
- Anti-Money Laundering
- Legal Group
- Internal Audit
- Strategy & Corporate Affairs
- Shari'a Control & Advisory
- Customer Complaints Unit
- Fraud
- Compliance

In addition to the above departments, we have also covered the following Banking and Financial Subsidiaries of Kuwait Finance House K.S.C.P. :

- Kuwait Finance House, Bahrain (B.S.C.C)
- Kuwait Finance House (Malaysia) Berhad
- Kuveyt Turk Participation Bank
- KFH Capital Investment Company (K.S.C.C)
- E'AMAR
- Saudi KFH
- KFH Private Equity Limited

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2019 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012, instructions dated 23 July 2013 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Bank operations, during the year ended 31 December 2018, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

a) The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 14 January 2019,

b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2018, and

c) The actions taken by the Bank to address the findings referred in the report, including previous years' findings, are satisfactory.

Yours faithfully,

Qais M Al Nisf
License No. 38 - A
BDO Al Nisf & Partners

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 and modifies the Bank's remuneration policy and its design, 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:

1. Basic salary
2. 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.

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 of each category. The analysis include the fixed and variable parts of the remuneration package and methods of payment.

First: Board of Directors Remuneration

The financial remunerations cost of the Board of Directors are disclosed in Note (27) 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 2019 to the 5 highest paid senior executive officers, which includes their salaries and short & 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 2019 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 3,335,123 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

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

The total remuneration charged for the year 2019 to this category amounted to KD 5,058,413 The remuneration package of each executive in this category included fixed and variable pay components including salaries (basic and cash / non-cash benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

2. Financial Control and Risk Staff:

The total remuneration charged for the year 2019 to this category amounted to KD 5,661,289. 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 pay 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.

3. Material Risk Takers:

The total remuneration charged for the year 2019 to this category amounted to KD 2,950,461 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.

Group Risk Management and Governance Requirements

KFH pays special care and attention to risk management and governance which is considered one of prudent management pillars within the banking business. Group Risk Management ("GRM") has a clear and continued footprint in KFH Group where it plays a vital role in evaluating risk exposures on Group level. Group Risk Management ("GRM") continues its global coverage for purpose of risk identification, assessment, and mitigation on a Group level. Considering the continuing challenges presented by the global economic and political landscape, the practice and attention of GRM plays an ever-growing role within the KFH Group.

The year 2019 was characterized by an evolution in global risk factors, though "GRM" succeeded in the implementation of strategic initiatives to safeguard the Group's capital optimization engagement and asset quality improvement.

GRM took significant steps in upgrading its measurement, monitoring, and reporting systems, whereby bank-wide risk management is overseen on a comprehensive basis. Risk Exposures have been monitored, analysed and recommendations communicated to the Board of Directors ("BoD"), Board Risk Committee ("BRC") and Executive Management as well. Adopting these recommendations across the Group had produced a positive impact in maintaining the Group's Capital Adequacy and Asset Quality ratios.

In compliance with the governance standards and requirements, the Governance Committee has reviewed and updated a set of governance policies and procedures at KFH and subsidiaries as per the regulatory authorities' requirements.

Because of global heightened concerns and for the development of risk management practices within the Group, "GRM" structural organizational and framework formed to follow-up with these challenges and to take on a proactive role in mitigating any future potential raising risks. This framework and organization is aimed to:

- Provide a fully integrated and proactive risk assessment in regards to the current and future business activities
- Provide a comprehensive support to all Subsidiaries' Risk Departments
- Continue updating KFH Group's Board Risk Committee and Board of Directors with timely information on business developments as well as comprehensive recommendations aimed at mitigating any risks and support the prevalent risk-appetite.

In seeking to improve Risk Management and awareness across KFH Group, the bank have its Management Risk Committee ("MRC"), that aimed to support the Bank's management to understand, oversee, and manage group key risk exposures, optimize group enterprise risk profile and risk appetite and regulatory requirements.

One of the key pillars of the mission of "GRM" is to support the continuous improvements throughout the Group by the means of executing standardized frameworks and methodologies. On that part, "GRM" regularly conducts Stress-Tests and Internal Capital Adequacy Assessments ("ICAAP") across KFH Group. Consequently, KFH Group continues to be compliant with all regulatory requirements and internally developed Capital Adequacy Key Risk Indicators (KRIs).

Group Risk Management ("GRM") continued in the Group Capital Management Program, which involved internally identified initiatives to calibrate the Group's Risk Weighted Assets. Capital Adequacy Ratio (CAR) has stood at 17.67% for the year end ahead of regulatory requirements.

GRM also updated the Risk Appetite Framework (RAF) and regularly monitored KRIs across the Group.

Driven by the Asset and Liabilities Committee (ALCO), Market Risk and Liquidity is regularly monitored and reported across the Group. Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") comply with required level and ensure the ability to fulfil depositors' claims.

The Operational Risk Management ("ORM") function continuously enhancing its capabilities for managing and monitoring key risks within the Group.

Similarly, KFH has upgraded its Anti-Money Laundering Framework to ensure compliance with Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT") regulations.

Technology has been driving change at a rapid rate in the financial services and banking industries and will continue to do so for the foreseeable future, bringing both innovation opportunities for growth, but also introducing new risks. Thus, KFH established a dedicated function to manage these risks in early 2016, the Group Technology Risk function continue to monitor and assess the banks technology related practices to ensure industry recognized controls and practices are implemented which provide underlying support to the Bank's core businesses.

Capital Adequacy Disclosures
Basel III

Capital Adequacy Disclosures

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

First: Group Structure

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

1. Principal operating material subsidiaries:

1.1 **Kuwait Turkish Participation Bank:** is a 62% (2018: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis.

1.2 **Kuwait Finance House B.S.C.:** is a 100% (2018: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing Sharia compliant products and banking services, management of investment accounts on profit sharing basis and corporate finance.

1.3 **Kuwait Finance House (Malaysia) Berhard:** is a 100% (2018: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.4 **Saudi Kuwaiti Finance House S.S.C. (Closed):** is a 100% (2018: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.5 **Kuwait Finance House Capital Investment Company K.S.C. (Closed)*:** is a 99.9% (2018: 99.9%) owned Investment Company. Its activities comply with Islamic Shari'a including investments, Islamic finance services, equity trading, private equity investments, real estate investments and asset management services.

1.6 **KFH Private Equity Ltd:** is a 100% (2018: 100%) owned Investment Company registered at the Cayman Islands. Its main activities comprise global private equity investments.

1.7 **Kuwait Finance House Real Estate Company K.S.C (Closed)*:** is a 99.9% (2018: 99.9%) owned subsidiary. The company's activities include the provision of real estate rental and development services.

1.8 **Al Enma'a Real Estate Company K.S.C.P:** is a 56% (2018: 56%) owned subsidiary. The company's main activities include real estate development investment and trading.

1.9 **Development Enterprises Holding Company K.S.C (Closed):** is a 99.9% (2018: 99.9%) owned subsidiary. Its main activities include infrastructure and industrial investments.

1.10 **Baitak Real Estate Investment Company S.S.C. :** is a 100% (2018: 100%) owned real estate Investment Company registered in the Kingdom of Saudi Arabia. Its main activities comprise real estate investments and development.

1.11 **International Turnkey Systems Company K.S.C. (Closed):** is a 97% (2018: 97%) owned subsidiary whose activities include hardware and software maintenance and provision of specialized technical consultancies.

1.12 **Gulf International Automobile Trading Company K.S.C. (Closed)*:** is a 99.6% (2018: 99.6%) owned subsidiary engaged in trading, import and export of used cars.

1.13 **E'amar:** is a 100% (2018: 100%) wholly owned subsidiary engaged in Islamic investments.

1.14 **Al Salam Hospital K.S.C. (Closed):** is a 76% (2018: 76%) owned subsidiary engaged in completing all activities related to the field of healthcare services.

1.15 **Muthana GCC Islamic Banks Fund:** is a 87% (2018: 92%) owned subsidiary engaged in Islamic equity investment activity.

1.16 **Muthana Islamic Index Fund:** is a -% (2018: 20%) owned subsidiary engaged in Islamic equity investment activity.

1.17 **Turkapital Holding B.S.C. (C):** is a 51% (2018: 51%) owned subsidiary conducting its activities in real estate, car leasing and insurance services.

*Effective Ownership percentage is 100% (2018: 100%).

2. Major associates of the group:

2.1 **Sharjah Islamic Bank P.J.S.C.:** is a 18% (2018: 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 **Ibdar Bank B.S.C.:** is a 35% (2018: 35%) owned bank registered in Bahrain. Its main activities include providing a variety of investment products and services including the issuance of Islamic bonds, wealth management, treasury investments and investments in various economic sectors.

2.3 **Aviation Lease and Finance Company K.S.C.P. (ALAFCO):** is a 46% (2018: 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) – related to 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 maximum of 1.25% of credit risk-weighted assets).

As at 31 December 2019, Tier (1) "Core Capital" amounted KD 2,124,702 thousand (2018: KD 1,941,387 thousand), Tier (2) "Supplementary Capital" amounted KD 206,905 thousand (2018: KD 190,477 thousand).

KD 000's

Regulatory Capital Components	2019	2018
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,275,091	2,086,578
Regulatory Adjustments for CET1	205,552	200,729
Total Common Equity Tier 1 (CET1)	**2,069,539**	**1,885,849**
Additional Tier 1 Capital **(AT1)**	55,163	55,538
Total Tier 1 (T1=CET1+AT1)	**2,124,702**	**1,941,387**
Tier 2 Capital **(T2)**	206,905	190,477
Total Capital (TC=T1+T2)	**2,331,607**	**2,131,864**
Total Risk Weighted Assets	**13,192,800**	**12,201,132**
Capital Adequacy Ratios		
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.69%	15.46%
Tier 1 (as percentage of risk-weighted assets)	16.11%	15.91%
Total capital (as percentage of risk-weighted assets)	17.67%	17.47%
Minimum capital ratio		
Common Equity Tier 1 minimum ratio	11.5%	11.5%
Tier 1 minimum ratio	13.0%	13.0%
Total capital minimum ratio	15.0%	15.0%

B. Reconciliation of Regulatory Capital:

1. Common Disclosure Template:

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

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	2019	2018
1	Directly issued qualifying common share capital plus related stock surplus	1,417,982	1,354,559
2	Retained earnings	193,117	190,024
3	Accumulated other comprehensive income (and other reserves)	489,351	402,137
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)	104,876	76,435
6	Proposed issue of bonus shares	69,765	63,423
	Common Equity Tier 1 capital before regulatory adjustments	**2,275,091**	**2,086,578**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	292	292
9	Other intangibles (net of related tax liability)	31,037	30,888
10	Proposed Cash dividends	137,980	125,097
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
12	Cash-flow hedge reserve		
13	Shortfall of provisions to expected losses		
14	Taskeek gain on sale (as set out in para 72 of these guidelines)		
15	Gains and losses due to changes in own credit risk on fair valued liabilities		
16	Defined-benefit pension fund net assets (para 68)		
17	Investments in treasury shares (if not already netted off paid-in capital on reported balance sheet)	36,243	44,452
18	Reciprocal cross-holdings in common equity		
19	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)		
20	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)		
21	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)		
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
23	Amount exceeding the 15% threshold		
24	of which: significant investments in the common stock of financial institutions		

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 (CET1)	205,552	200,729
	Common Equity Tier 1 capital (CET1)	**2,069,539**	**1,885,849**
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
31	of which: classified as equity under applicable accounting standards		
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)	55,163	55,538
35	of which: instruments issued by subsidiaries subject to phase-out		
	Additional Tier 1 capital before regulatory adjustments	**55,163**	**55,538**
	Additional Tier 1 capital: regulatory adjustments		
36	Investments in own Additional Tier 1 instruments		
37	Reciprocal cross-holdings in Additional Tier 1 instruments		
38	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above 10% threshold)		
39	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
40	National specific regulatory adjustments		
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
	Total regulatory adjustments to Additional Tier 1 capital		
	Additional Tier 1 capital (AT1)	**55,163**	**55,538**
	Tier 1 capital (T1 = CET1 + AT1)	**2,124,702**	**1,941,387**
	Tier 2 capital: instruments and provisions		
42	Directly issued qualifying Tier 2 instruments plus related stock surplus		
43	Directly issued capital instruments subject to phase-out from Tier 2		
44	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 36) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	58,849	54,638
45	of which: instruments issued by subsidiaries subject to phase-out		
46	General provisions included in Tier 2 capital	148,056	135,839
	Tier 2 capital before regulatory adjustments	**206,905**	**190,477**

	Tier 2 capital: regulatory adjustments		
47	Investments in own Tier 2 instruments		
48	Reciprocal cross-holdings in Tier 2 instruments		
49	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above the 10% threshold)		
50	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
51	National specific regulatory adjustments		
52	Total regulatory adjustments to Tier 2 capital		
	Tier 2 capital (T2)	**206,905**	**190,477**
	Total capital (TC = T1 + T2)	**2,331,607**	**2,131,864**
	Total risk weighted assets (after applying 50% additional weighting)	**13,192,800**	**12,201,132**
	Capital ratios and buffers		
53	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.69%	15.46%
54	Tier 1 (as a percentage of risk weighted assets)	16.11%	15.91%
55	Total capital (as a percentage of risk weighted assets)	17.67%	17.47%
56	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%	11.5%
57	of which: capital conservation buffer requirement	2.5%	2.5%
58	of which: bank specific countercyclical buffer requirement		
59	of which: D-SIB buffer requirement	2.0%	2.0%
60	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.69%	8.46%
	Minimum capital ratios		
61	Common Equity Tier 1 minimum ratio	11.5%	11.5%
62	Tier 1 minimum ratio	13.0%	13.0%
63	Total capital minimum ratio	15.0%	15.0%
	Amounts below the thresholds for deduction (before risk weighting)		
64	Non-significant investments in the capital of other financials		
65	Significant investments in the common stock of financials		
66	Mortgage servicing rights (net of related tax liability)		
67	Deferred tax assets arising from temporary differences (net of related tax liability)	22,537	34,005
	Applicable caps on the inclusion of provisions in Tier 2		
68	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	360,564	290,215
69	Cap on inclusion of provisions in Tier 2 under standardized approach	148,056	135,839
70	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
71	Cap for inclusion of provisions in Tier 2 under internal ratings-based		

2. Reconciliation Requirements Form:

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

Step 1

For the year ended 31-12-2019:

KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	2019	**2019**	
Assets			
Cash and balances with banks	1,910,088	1,910,088	
Due from banks	3,782,828	3,782,828	
Financing receivables	9,336,555	9,336,555	
of which General Provisions (netted above) capped for Tier 2 inclusion	148,056	148,056	A
Investment in Sukuk	2,276,432	2,276,432	
Trading properties	107,613	107,613	
Investments	210,524	210,524	
Investment in associates and joint ventures	504,343	504,343	
Investment properties	455,406	455,406	
Other Assets	546,782	546,782	
Intangible assets and goodwill	31,329	31,329	
of which goodwill	292	292	B
of which other intangibles	31,037	31,037	C
Property and equipment	228,958	228,958	
Total Assets	**19,390,858**	**19,390,858**	
Liabilities			
Due to banks and financial institutions	2,427,166	2,427,166	
Sukuk Payable	319,965	319,965	
Depositors' accounts	13,552,645	13,552,645	
Other liabilities	847,707	847,707	
Total Liabilities	**17,147,483**	**17,147,483**	
Equity Attributable to the shareholders of the bank			
Share Capital	697,649	697,649	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	69,765	69,765	S
Treasury shares	(36,243)	(36,243)	F

Reserves	470,908	470,908	
of which: statutory reserve	324,875	324,875	G
of which: voluntary reserve	310,127	310,127	H
of which: treasury shares reserve	11,899	11,899	I
of which: fair value reserve	51,815	51,815	
of which: eligible as CET1 Capital	48,856	48,856	K
of which: eligible as depositors accounts	2,959	2,959	
of which: revaluation reserve	(263,569)	(263,569)	
of which: eligible as CET1 Capital	(200,301)	(200,301)	L
of which: eligible as depositors accounts	(63,268)	(63,268)	
of which: other reserves	(19,376)	(19,376)	
of which: eligible as CET1 Capital	(6,105)	(6,105)	M
of which: eligible as depositors accounts	(13,271)	(13,271)	
of which: Retained earnings	55,137	55,137	T
Proposed Cash Dividends	137,980	137,980	N
Total Equity Attributable to the shareholders of the bank	**2,060,392**	**2,060,392**	
Non-controlling interests	182,983	182,983	
Non-controlling interests eligible as CET1 capital	104,876	104,876	O
Non-controlling interests eligible as AT1 capital	55,163	55,163	P
Non-controlling interests eligible as Tier 2 capital	58,849	58,849	Q
Total Equity	**2,243,375**	**2,243,375**	
Total Liabilities and Equity	**19,390,858**	**19,390,858**	

For the year ended 31-12-2018:

KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	2018	**2018**	
Assets			
Cash and balances with banks	1,381,170	1,381,170	
Due from banks	3,443,689	3,443,689	
Financing receivables	9,190,235	9,190,235	
of which General Provisions (netted above) capped for Tier 2 inclusion	135,839	135,839	A
Investment in Sukuk	1,563,361	1,563,361	
Trading properties	147,639	147,639	
Investments	284,883	284,883	
Investment in associates and joint ventures	499,179	499,179	
Investment properties	489,609	489,609	
Other Assets	544,416	544,416	
Intangible assets and goodwill	31,180	31,180	
of which goodwill	292	292	B
of which other intangibles	30,888	30,888	C
Property and equipment	194,917	194,917	
Total Assets	**17,770,278**	**17,770,278**	
Liabilities			
Due to banks and financial institutions	2,689,079	2,689,079	
Sukuk Payable	498,588	498,588	
Depositors' accounts	11,780,310	11,780,310	
Other liabilities	728,131	728,131	
Total Liabilities	**15,696,108**	**15,696,108**	
Equity Attributable to the shareholders of the bank			
Share Capital	634,226	634,226	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	63,423	63,423	S
Treasury shares	(44,452)	(44,452)	F

Reserves	395,278	395,278	
of which: statutory reserve	298,527	298,527	G
of which: voluntary reserve	298,527	298,527	H
of which: treasury shares reserve	6,947	6,947	I
of which: fair value reserve	(14,715)	(14,715)	
of which: eligible as CET1 Capital	(17,602)	(17,602)	K
of which: eligible as depositors accounts	2,887	2,887	
of which: revaluation reserve	(238,293)	(238,293)	
of which: eligible as CET1 Capital	(176,567)	(176,567)	L
of which: eligible as depositors accounts	(61,726)	(61,726)	
of which: other reserves	(20,642)	(20,642)	
of which: eligible as CET1 Capital	(7,695)	(7,695)	M
of which: eligible as depositors accounts	(12,947)	(12,947)	
of which: Retained earnings	64,927	64,927	T
Proposed Cash Dividends	125,097	125,097	N
Total Equity Attributable to the shareholders of the bank	**1,893,905**	**1,893,905**	
Non-controlling interests	180,265	180,265	
Non-controlling interests eligible as CET1 capital	76,435	76,435	O
Non-controlling interests eligible as AT1 capital	55,538	55,538	P
Non-controlling interests eligible as Tier 2 capital	54,638	54,638	Q
Total Equity	**2,074,170**	**2,074,170**	
Total Liabilities and Equity	**17,770,278**	**17,770,278**	

Step 2 of Reconciliation requirements

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital 2019	Component of regulatory capital 2018	Source based on reference letters of the balance sheet from step 1
1	Directly issued qualifying common share capital plus related stock surplus	1,417,982	1,354,559	D + E
2	Retained earnings	193,117	190,024	T + N
3	Accumulated other comprehensive income (and other reserves)	489,351	402,137	G+H+I+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	104,876	76,435	O
5	Proposed issue of bonus shares	69,765	63,423	S
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2,275,091**	**2,086,578**	
	Common Equity Tier 1 capital: regulatory adjustments			
7	Goodwill	(292)	(292)	B
8	Other intangible assets	(31,037)	(30,888)	C
9	Treasury shares	(36,243)	(44,452)	F
10	Proposed Cash dividends	(137,980)	(125,097)	N
11	**Total regulatory adjustments to Common Equity Tier1**	**(205,552)**	**(200,729)**	
12	**Common Equity Tier 1 capital (CET1)**	**2,069,539**	**1,885,849**	
	Additional Tier 1 capital: instruments			
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	55,163	55,538	P
14	**Total Tier 1 capital**	**2,124,702**	**1,941,387**	
	Tier 2 capital: instruments and provisions			
15	Common share capital issued by subsidiaries and held by third parties (minority interest)	58,849	54,638	Q
16	General Provisions included in Tier 2 Capital	148,056	135,839	A
17	**Total Tier 2 capital**	**206,905**	**190,477**	
	Total capital	**2,331,607**	**2,131,864**	

Third: Risk weighted assets and Minimum Capital Requirement

A. Credit risk

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

- Clearly defined credit policies. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation. Also include Risk Appetite policy that defines the acceptable concentration limits for clients.
- A system of credit authority matrix that ensures (1) authorities are commensurate with the experience, ability and personal character of individuals, (2) the Risk Management department reviews and challenges credit requests, (3) significant credit exposures are approved by management committees or the Board as per authority matrix
- A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.
- A system of limits to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.
- A process to ensure credit policies are complied with regulatory requirements by making sure that the required documentation is in place and the required approvals are obtained
- Effective follow-up processes to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits

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

KFH has reviewed and enhanced its corporate financing credit process. The main enhancements to the process includes:
(a) Streamlining of the process itself to ensure efficient and effective decision making process and clear assignment of responsibilities,
(b) Enhancing and realigning the credit authority matrix to ensure proper and clear escalation of decisions and the involvement of all relevant parties from the business, risk, and the Board,
(c) Activate the Credit Committee with the adequate level of membership and authority level to review and approve or recommend credit requests.
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 Moody's rating system for internal credit ratings.

1. Credit Risk Capital Requirements:

For the year ended 31-12-2019:

KD 000's

Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	451,420	451,420	-	-
2	Claims on sovereigns	5,058,229	5,058,229	1,534,345	230,152
3	Claims on public sector entities	495,999	495,999	69,058	10,359
4	Claims on MDBs	16,631	16,631	4,044	607
5	Claims on banks	2,505,551	2,505,551	693,861	104,079
6	Claims on corporates	3,730,613	3,432,097	2,818,483	422,772
7	Regulatory retail exposure	3,774,357	3,701,530	2,834,658	425,199
8	Qualifying residential housing financing facilities	493,306	369,214	102,908	15,436
9	Past due exposures	361,863	275,798	137,207	20,581
10	Inventory and commodities	29,986	29,986	44,774	6,716
11	Real estate investments	1,363,552	934,468	1,488,330	223,250
12	Investment and financing with customers	748,864	622,246	737,187	110,578
13	Other exposures	1,223,663	1,223,663	1,167,133	175,069
	Total	**20,254,034**	**19,116,832**	**11,631,988**	**1,744,798**

For the year ended 31-12-2018:

KD 000's

Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	262,824	262,824	-	-
2	Claims on sovereigns	4,135,692	4,135,692	497,086	74,563
3	Claims on public sector entities	489,954	489,954	35,236	5,285
4	Claims on MDBs	65,400	65,400	12,387	1,858
5	Claims on banks	2,210,535	2,210,535	671,226	100,684
6	Claims on corporates	3,388,318	3,130,379	2,587,675	388,151
7	Regulatory retail exposure	3,716,793	3,656,298	2,787,540	418,131
8	Qualifying residential housing financing facilities	466,564	414,818	116,160	17,424
9	Past due exposures	372,192	241,467	108,032	16,205
10	Inventory and commodities	37,996	37,996	56,999	8,550
11	Real estate investments	1,439,625	994,886	1,591,973	238,796
12	Investment and financing with customers	939,583	780,584	933,227	139,984
13	Other exposures	1,402,768	1,402,768	1,315,207	197,281
	Total	**18,928,244**	**17,823,601**	**10,712,748**	**1,606,912**

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

For the year ended 31-12-2019:

KD 000's

Ser.	Credit risk exposures	Total	Self-Financed	Finance form Investment Accounts
1	Cash item	451,420	280,693	170,727
2	Claims on sovereigns	5,058,229	3,145,299	1,912,930
3	Claims on public sector entities	495,999	308,417	187,582
4	Claims on MDBs	16,631	10,341	6,290
5	Claims on banks	2,505,551	1,642,081	863,470
6	Claims on corporates	3,730,613	2,524,874	1,205,739
7	Regulatory retail exposure	3,774,357	2,395,636	1,378,721
8	Qualifying residential housing financing facilities	493,306	306,738	186,568
9	Past due exposures	361,863	226,066	135,797
10	Inventory and commodities	29,986	18,645	11,341
11	Real estate investments	1,363,552	847,856	515,696
12	Investment and financing with customers	748,864	469,776	279,088
13	Other exposures	1,223,663	760,874	462,789
	Total	**20,254,034**	**12,937,296**	**7,316,738**

For the year ended 31-12-2018:

KD 000's

Ser.	Credit risk exposures	Total	Self-Financed	Finance form Investment Accounts
1	Cash item	262,824	163,796	99,028
2	Claims on sovereigns	4,135,692	2,577,515	1,558,177
3	Claims on public sector entities	489,954	305,347	184,607
4	Claims on MDBs	65,400	40,758	24,642
5	Claims on banks	2,210,535	1,460,097	750,438
6	Claims on corporates	3,388,318	2,317,507	1,070,811
7	Regulatory retail exposure	3,716,793	2,378,052	1,338,741
8	Qualifying residential housing financing facilities	466,564	290,770	175,794
9	Past due exposures	372,192	232,811	139,381
10	Inventory and commodities	37,996	23,679	14,317
11	Real estate investments	1,439,625	897,195	542,430
12	Investment and financing with customers	939,583	590,586	348,997
13	Other exposures	1,402,768	874,226	528,542
	Total	**18,928,244**	**12,152,339**	**6,775,905**

3. Net Credit Exposures classified as Rated or Unrated (External Ratings)

For the year ended 31-12-2019:

KD 000's

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	451,420	-	451,420
2	Claims on sovereigns	5,058,229	5,058,229	-
3	Claims on public sector entities	495,999	495,999	-
4	Claims on MDBs	16,631	16,631	-
5	Claims on banks	2,505,551	2,436,787	68,764
6	Claims on corporates	3,432,097	34,052	3,398,045
7	Regulatory retail exposure	3,701,530	-	3,701,530
8	Qualifying residential housing financing facilities	369,214	-	369,214
9	Past due exposures	275,798	-	275,798
10	Inventory and commodities	29,986	-	29,986
11	Real estate investments	934,468	-	934,468
12	Investment and financing with customers	622,246	-	622,246
13	Other exposures	1,223,663	-	1,223,663
	Total	**19,116,832**	**8,041,698**	**11,075,134**

For the year ended 31-12-2018:

KD 000's

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	262,824	-	262,824
2	Claims on sovereigns	4,135,692	4,135,372	320
3	Claims on public sector entities	489,954	461,151	28,803
4	Claims on MDBs	65,400	65,400	-
5	Claims on banks	2,210,535	1,984,035	226,500
6	Claims on corporates	3,130,379	100,985	3,029,394
7	Regulatory retail exposure	3,656,298	-	3,656,298
8	Qualifying residential housing financing facilities	414,818	-	414,818
9	Past due exposures	241,467	-	241,467
10	Inventory and commodities	37,996	-	37,996
11	Real estate investments	994,886	-	994,886
12	Investment and financing with customers	780,584	-	780,584
13	Other exposures	1,402,768	-	1,402,768
	Total	**17,823,601**	**6,746,943**	**11,076,658**

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

For the year ended 31-12-2019:

KD 000's

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance form Investment Accounts
1	Cash item	274,142	170,416	103,726
2	Claims on sovereigns	4,766,597	2,963,351	1,803,246
3	Claims on public sector entities	496,216	308,489	187,727
4	Claims on MDBs	13,846	8,607	5,239
5	Claims on banks	2,482,859	1,628,611	854,248
6	Claims on corporates	3,673,160	2,491,424	1,181,736
7	Regulatory retail exposure	3,818,610	2,430,652	1,387,958
8	Qualifying residential housing financing facilities	455,605	283,223	172,382
9	Past due exposures	370,652	231,467	139,185
10	Inventory and commodities	29,648	18,430	11,218
11	Real estate investments	1,406,000	874,056	531,944
12	Investment and financing with customers	753,858	473,183	280,675
13	Other exposures	1,380,123	857,996	522,127
	Total	**19,921,316**	**12,739,905**	**7,181,411**

For the year ended 31-12-2018:

KD 000's

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance form Investment Accounts
1	Cash item	265,924	163,710	102,214
2	Claims on sovereigns	4,016,751	2,473,420	1,543,331
3	Claims on public sector entities	382,586	236,690	145,896
4	Claims on MDBs	67,463	41,554	25,909
5	Claims on banks	1,840,718	1,206,107	634,611
6	Claims on corporates	3,832,540	2,618,083	1,214,457
7	Regulatory retail exposure	3,714,719	2,349,096	1,365,623
8	Qualifying residential housing financing facilities	508,436	312,361	196,075
9	Past due exposures	404,177	249,754	154,423
10	Inventory and commodities	36,230	22,305	13,925
11	Real estate investments	875,980	540,647	335,333
12	Investment and financing with customers	1,438,208	887,742	550,466
13	Other exposures	1,389,579	856,176	533,403
	Total	**18,773,311**	**11,957,645**	**6,815,666**

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

a. Geographical Distributions for Credit Risk Exposure

For the year ended 31-12-2019: KD 000's

Ser.	Credit Risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	107,638	-	336,664	7,118	-	451,420
2	Claims on sovereigns	2,939,839	-	1,843,640	274,750	-	5,058,229
3	Claims on public sector entities	495,999	-	-	-	-	495,999
4	Claims on MDBs	16,631	-	-	-	-	16,631
5	Claims on banks	1,072,476	136,101	707,663	468,638	120,673	2,505,551
6	Claims on corporates	1,642,039	32,188	1,838,113	213,783	4,490	3,730,613
7	Regulatory retail exposure	2,998,919	-	623,234	152,204	-	3,774,357
8	Qualifying residential housing financing facilities	126,959	-	298,471	67,876	-	493,306
9	Past due exposures	288,837	-	47,138	25,888	-	361,863
10	Inventory and commodities	29,986	-	-	-	-	29,986
11	Real estate investments	1,315,166	11,472	5,653	31,261	-	1,363,552
12	Investment and financing with customers	739,632	-	9,232	-	-	748,864
13	Other exposures	1,008,880	55,616	93,610	62,259	3,298	1,223,663
	Total	**12,783,001**	**235,377**	**5,803,418**	**1,303,777**	**128,461**	**20,254,034**

For the year ended 31-12-2018: KD 000's

Ser.	Credit Risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	95,690	-	159,055	8,079	-	262,824
2	Claims on sovereigns	3,069,558	-	879,791	186,343	-	4,135,692
3	Claims on public sector entities	461,151	-	-	28,803	-	489,954
4	Claims on MDBs	65,400	-	-	-	-	65,400
5	Claims on banks	1,309,118	101,065	602,753	84,195	113,404	2,210,535
6	Claims on corporates	1,469,482	401	1,636,842	280,616	977	3,388,318
7	Regulatory retail exposure	2,858,996	-	683,349	174,448	-	3,716,793
8	Qualifying residential housing financing facilities	107,031	-	308,074	51,459	-	466,564
9	Past due exposures	312,923	-	32,563	26,706	-	372,192
10	Inventory and commodities	37,987	-	-	9	-	37,996
11	Real estate investments	1,362,115	24,890	7,186	45,434	-	1,439,625
12	Investment and financing with customers	738,972	10,835	-	189,776	-	939,583
13	Other exposures	1,043,856	52,169	232,424	67,456	6,863	1,402,768
	Total	**12,932,279**	**189,360**	**4,542,037**	**1,143,324**	**121,244**	**18,928,244**

b. Maturities of total Credit Risk exposures

For the year ended 31-12-2019:

KD 000's

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	451,420	-	-	451,420
2	Claims on sovereigns	3,764,272	792,236	501,721	5,058,229
3	Claims on public sector entities	90,765	350,347	54,887	495,999
4	Claims on MDBs	-	-	16,631	16,631
5	Claims on banks	2,157,366	308,611	39,574	2,505,551
6	Claims on corporates	1,022,623	982,396	1,725,594	3,730,613
7	Regulatory retail exposure	154,785	266,667	3,352,905	3,774,357
8	Qualifying residential housing financing facilities	5,779	21,632	465,895	493,306
9	Past due exposures	-	-	361,863	361,863
10	Inventory and commodities	-	-	29,986	29,986
11	Real estate investments	11,003	-	1,352,549	1,363,552
12	Investment and financing with customers	259,708	271,323	217,833	748,864
13	Other exposures	67,475	42,107	1,114,081	1,223,663
	Total	**7,985,196**	**3,035,319**	**9,233,519**	**20,254,034**

For the year ended 31-12-2018:

KD 000's

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	262,824	-	-	262,824
2	Claims on sovereigns	2,591,477	852,716	691,499	4,135,692
3	Claims on public sector entities	278,993	157,546	53,415	489,954
4	Claims on MDBs	51,561	-	13,839	65,400
5	Claims on banks	1,862,923	197,767	149,845	2,210,535
6	Claims on corporates	666,772	978,185	1,743,361	3,388,318
7	Regulatory retail exposure	174,900	331,149	3,210,744	3,716,793
8	Qualifying residential housing financing facilities	3,173	15,097	448,294	466,564
9	Past due exposures	-	-	372,192	372,192
10	Inventory and commodities	4,819	4,482	28,695	37,996
11	Real estate investments	-	436	1,439,189	1,439,625
12	Investment and financing with customers	289,416	350,081	300,086	939,583
13	Other exposures	52,547	78,641	1,271,580	1,402,768
	Total	**6,239,405**	**2,966,100**	**9,722,739**	**18,928,244**

c. Main sectors of total Credit Risk exposures

For the year ended 31-12-2019:

KD 000's

Ser.	Credit Risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & Real estate	Government	Others	Total
1	Cash item	9	451,355	56	-	-	451,420
2	Claims on sovereigns	-	-	-	5,058,229	-	5,058,229
3	Claims on public sector entities	-	-	-	-	495,999	495,999
4	Claims on MDBs	-	16,631	-	-	-	16,631
5	Claims on banks	-	2,505,551	-	-	-	2,505,551
6	Claims on corporates	1,299,868	178,616	1,121,058	-	1,131,071	3,730,613
7	Regulatory retail exposure	250,691	1,258	109,051	-	3,413,357	3,774,357
8	Qualifying residential housing financing facilities	-	-	-	-	493,306	493,306
9	Past due exposures	70,606	11,155	207,215	-	72,887	361,863
10	Inventory and commodities	-	-	-	-	29,986	29,986
11	Real estate investments	-	-	557,138	-	806,414	1,363,552
12	Investment and financing with customers	-	14,806	689,477	-	44,581	748,864
13	Other exposures	161,805	236,159	345,102	-	480,597	1,223,663
	Total	**1,782,979**	**3,415,531**	**3,029,097**	**5,058,229**	**6,968,198**	**20,254,034**

For the year ended 31-12-2018:

KD 000's

Ser.	Credit Risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & Real estate	Government	Others	Total
1	Cash item	10	166,995	46	-	95,773	262,824
2	Claims on sovereigns	-	-	-	4,135,692	-	4,135,692
3	Claims on public sector entities	-	-	-	-	489,954	489,954
4	Claims on MDBs	-	65,400	-	-	-	65,400
5	Claims on banks	-	2,210,535	-	-	-	2,210,535
6	Claims on corporates	973,468	300,594	790,774	-	1,323,482	3,388,318
7	Regulatory retail exposure	302,012	-	140,982	-	3,273,799	3,716,793
8	Qualifying residential housing financing facilities	-	-	-	-	466,564	466,564
9	Past due exposures	72,843	59,898	170,079	-	69,372	372,192
10	Inventory and commodities	1,434	-	600	-	35,962	37,996
11	Real estate investments	-	-	498,235	-	941,390	1,439,625
12	Investment and financing with customers	43,069	15,461	445,557	-	435,496	939,583
13	Other exposures	21,528	201,661	286,128	-	893,451	1,402,768
	Total	**1,414,364**	**3,020,544**	**2,332,401**	**4,135,692**	**8,025,243**	**18,928,244**

6. Past due and impairment provisions

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

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

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

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

As at 31 December 2019, non-performing cash finance facilities before impairment (net of deferred profit and suspended profit) amounted to KD 211,084 thousand (2018: KD 217,758 thousand). A specific provision of KD 123,773 thousand (2018: KD 95,968 thousand) has been made, as detailed below:

a. Exposures based on standard portfolios

For the year ended 31-12-2019: KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Claims on corporate	122,900	97,112	94,588	217,500
2	Regulatory retail exposure	20,397	14,372	20,843	146,885
3	Qualifying residential housing financing Facilities	3,017	676	3,467	38,594
4	Investment and financing with customers	64,770	11,613	5,253	161,261
	Total	**211,084**	**123,773**	**124,151**	**564,240**

For the year ended 31-12-2018: KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Claims on corporate	50,109	67,897	105,430	251,151
2	Regulatory retail exposure	45,276	14,430	18,174	163,020
3	Qualifying residential housing financing Facilities	2,065	486	0	33,228
4	Investment and financing with customers	120,308	13,155	25,323	132,286
	Total	**217,758**	**95,968**	**148,927**	**579,685**

b. Exposures based on geographical

For the year ended 31-12-2019: KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Middle East & North Africa	116,719	39,504	88,710	404,633
2	Europe	80,746	79,539	34,290	117,638
3	Asia	13,619	4,730	1,151	41,969
	Total	**211,084**	**123,773**	**124,151**	**564,240**

For the year ended 31-12-2018:

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Middle East & North Africa	155,651	68,878	111,034	385,832
2	Europe	49,368	23,190	32,541	151,325
3	Asia	12,739	3,900	5,352	42,528
	Total	**217,758**	**95,968**	**148,927**	**579,685**

c. Exposures based on Industrial

For the year ended 31-12-2019:

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Manufacturing and Trade	43,700	41,515	44,079	182,667
2	Banks and financial institutions	17,938	10,915	31,249	31
3	Constructions & real estate	87,962	33,965	22,696	198,799
4	Others	61,484	37,378	26,127	182,743
	Total	**211,084**	**123,773**	**124,151**	**564,240**

For the year ended 31-12-2018:

KD 000's

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Specific Provision Write-off	Past due
1	Manufacturing and Trade	31,029	18,829	102,859	173,688
2	Banks and financial institutions	717	38,990	6,474	28
3	Constructions & real estate	103,136	20,979	21,419	175,288
4	Others	82,876	17,170	18,175	230,681
	Total	**217,758**	**95,968**	**148,927**	**579,685**

d. General provision allocation

KD 000's

Ser.	Description of credit risk exposures	2019	2018
1	Claims on sovereigns	247	77
2	Claims on Public Sectors Entities	5,106	4,931
3	Claims on banks	14,920	5,210
4	Claims on corporates	183,410	131,455
5	Regulatory retail exposures	60,837	48,650
6	Investment and financing with customers	84,852	87,892
	Total	**349,372**	**278,215**

7. Applicable Risk Mitigation Methods

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

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

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

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

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

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

- Cash Items: e.g. Hamish Jiddiyyah (collateral deposit, Urbūn, Musharakah investment accounts, or cash deposits in the bank.)
- Securities: for listed and unlisted entities
- Real Estate: Commercial and residential real estate
- Assignments of right and guarantees
- Goods and commodities
- Machinery and equipment
- Cars/ vehicles

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

a. Risk mitigation means of total credit risk exposures

For the year ended 31-12-2019:

KD 000's

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible collaterals
1	Cash item	451,420	-
2	Claims on sovereigns	5,058,229	-
3	Claims on public sector entities	495,999	-
4	Claims on MDBs	16,631	-
5	Claims on banks	2,505,551	-
6	Claims on corporates	3,730,613	298,516
7	Regulatory retail exposure	3,774,357	72,827
8	Qualifying residential housing financing facilities	493,306	124,092
9	Past due exposures	361,863	86,065
10	Inventory and commodities	29,986	-
11	Real estate investments	1,363,552	429,084
12	Investment and financing with customers	748,864	126,618
13	Other exposures	1,223,663	-
	Total	**20,254,034**	**1,137,202**

For the year ended 31-12-2018:

KD 000's

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible collaterals
1	Cash item	262,824	-
2	Claims on sovereigns	4,135,692	-
3	Claims on public sector entities	489,954	-
4	Claims on MDBs	65,400	-
5	Claims on banks	2,210,535	-
6	Claims on corporates	3,388,318	257,939
7	Regulatory retail exposure	3,716,793	60,495
8	Qualifying residential housing financing facilities	466,564	51,746
9	Past due exposures	372,192	130,726
10	Inventory and commodities	37,996	-
11	Real estate investments	1,439,625	444,738
12	Investment and financing with customers	939,583	158,999
13	Other exposures	1,402,768	-
	Total	**18,928,244**	**1,104,643**

b. Market risk

Market Risk Weighted Exposure during the financial year 2019 amounted KD 218,025 thousand (2018: KD 263,163 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 32,704 thousand (2018: KD 39,475 thousand).

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

c. Operational risk

Operational risk weighted exposures calculated during the year 2019 amounted to KD 1,342,788 thousand (2018: KD 1,225,221 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 201,418 thousand (2018: KD 183,783 thousand).

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

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

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

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

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

Fourth: Risk Management:

Risk management is kept at the center of the executive agenda, it is embedded in everyday management of the business. The variety of its business portfolio requires KFH to identify, measure, aggregate and manage risks effectively, and to allocate capital among businesses appropriately. Risk is managed through a framework of principles, organizational structures as well as measurement and management processes that are integrated with the activities of the business sectors. KFH's approach to risk management involves a number of fundamental elements that drives processes across the lines of business.

Provide effective Risk Management framework across the group which support stable and controlled growth considering the best Risk / Return trade off, in addition to improve group asset quality with efficient use of resources.

Enhancement of KFH-Group rating.

Improve meeting regulatory requirements and to be proactive to satisfy the future needs.

Provide support to management for risk informative decisions and considering forward looking scenarios while reviewing business strategies.

Risk Strategy is formulated under three pillars:

Group capital planning and Risk weighted Assets optimization:

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

Improving Asset Quality and Risk Appetite

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

Group integration:

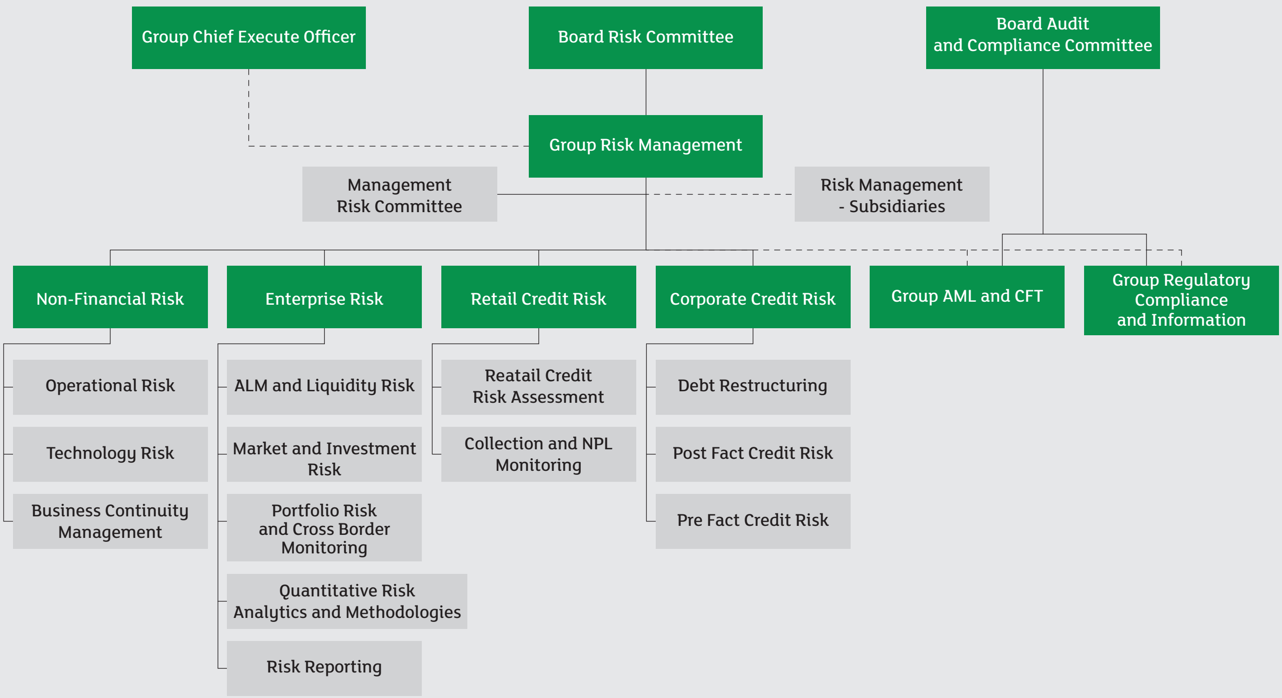
Enhancing risk governance, culture and integration across the group.

The policies are being reviewed on a regular basis for any potential enhancement from the governance prospective and to reflect the regulatory requirement as well. The best practices that improve the governance are being rolled over KFH Banking Subsidiaries.

Risk Governance Structure at the Group Level

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/ risk experienced judgment as well as compliance with internal risk management guidelines and strategy of the bank. The current risk management structure works to enhance best utilization of capabilities and knowledge sharing by grouping together financial and nonfinancial risk units and establishing a new function to oversee the retail credit portfolio to ensure that risks are identified and properly mitigated in line with the established risk governance framework.

Also, the bank has **Management Risk Committee (MRC)** to support and help management to understand, oversee and manage group key risk exposures, optimize group enterprise risk profile within the context of the group approved strategy, risk appetite and regulatory requirements and to embed and maintain risk aware culture within the group. The key role of MRC is to support BRC in achieving its duties and objectives sets by Board through advice, facilitation, monitoring and follow up on execution of decisions and in maintaining high risk governance standards.



Risk Management by Risk Type

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

a) Credit risk

Credit risk is one of the major types of risk encountered by KFH. KFH is exposed to credit risk mainly through its finance portfolio. Credit risk sources may be categorized as follows:

- Counterparty Risks/ Settlement risks resulting from exposures to finance portfolio or sukuks portfolio as follows:
- Corporate finance: overdrafts granted to finance customers excluding real estate companies.
- Retail finance: overdrafts granted to retails customers excluding real estate companies.
- SME finance and banking: exposures less than KD 250,000 excluding real estate companies.
- Real estate companies finance: exposures granted to local and global real estate companies of finance and retail customers.

- Investment companies finance: direct finance or through treasury.

- Default risks to settle sukuks/ sovereign risks.

• **Concentration risks** resulting from major credit exposures of a certain or a group of customers or sectors, thus exposing the bank to major losses in case of deterioration of credit circumstances or to avoid excessive credit concentrations.

• The bank is also exposed to credit risk through its investment portfolio in case of customers default to settle liabilities or financial value as per contracts.

Governance and Organizational Structure

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

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

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

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

Special Purpose Committee: Held once per month, this committee performs a detailed review over the portfolio of clients of the wholesale banking department. In addition to portfolio performance analysis, the committee reviews on a client-by-client basis each past due, collateral coverage, exceptions granted, limits expiry etc. to ensure minimal level of defaults and better credit quality of the portfolio.

Businesses: 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 reporting to the GCRO oversees the overall asset portfolio at KFH and ensures its alignment with the approved risk appetite; it is also responsible for defining the methodologies and policies for managing credit risk as well as the models required for measurement.

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

Methods and Processes

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

- Clearly defined credit policies for Corporate, Retail, Real Estate and Financial institutions finance. These policies articulate the requirements for approval of new, renewed and amended credit facilities in terms of financial requirements and documentation.
- A system of credit authority matrix that ensures (1) authorities are commensurate with the experience, ability and personal character of individuals, (2) the Risk Management department reviews and challenges credit requests, (3) significant credit exposures are approved by management committees or the Board as per delegation of authority matrix.
- A credit rating system for Corporate, SME, Financial Institutions, Real Estate, and High Net Worth financing is in place.
- A system of limits to ensure that the bank undertakes risks within the approved appetite and within regulatory requirements.
- A process to ensure credit policies are complied with regulatory requirements by making sure that the required documentation is in place and the required approvals are obtained
- Effective follow-up processes to mitigate arrears through early detection of deterioration in the financing portfolio and associated management actions to handle such credits.

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

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

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

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.

b) Market risk

Sources of Risk

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

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

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

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

Governance and Organization

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

Board of Directors / Board Risk Committee: The board is ultimately responsible for ensuring effective market risk management. It sets the

market risk appetite for the bank and approves the major policies for managing market risk. The Board also oversees the risk profile of the bank throughout the Board Risk Committee.

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

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

Risk Management Department:

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

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

Methods and Processes

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

Market risk Framework operates within the bank's strategy and approved risk appetite. Hence the framework will take into considerations the following:

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

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

In terms of inventory risk, KFH has a well-developed and successful business model for managing its car fleet for sales and leasing. This includes well-developed relationships with suppliers to source and sell cars without negatively impacting the business.

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) Liquidity Risk

Sources of Risk

KFH identifies sources of liquidity risk as follows:

Liquidity risk: Risk arising from KFH's inability to meet its commitments when they become due as result of a drop in market liquidity or unavailable funding options or from 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 compared to the market.

Governance and Organization

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

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

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

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

Risk Management Department:

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

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

Methods and Processes

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

The Contingency Plan has been implemented to enable KFH to manage the liquidity during liquidity crisis.

As set out in BASEL III guidelines and in reference to the best practices of managing and monitoring the banks liquidity risk, KFH has adopted the BASEL III Liquidity ratios; Liquidity coverage ratio (LCR), and Net Stable Funding ratio (NSFR).

LCR and NSFR are being measured on frequently basis throughout KFH Kuwait and banking group as per the Central bank of Kuwait circular and guidelines to ensure that KFH is at all times managing the liquidity risks, well-funded and complied with the liquidity regulator's 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 funded 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 to establish 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 that is adequately funded. In addition, it has an approved funding contingency plan in order to follow the prudent liquidity management practices. As well as the daily monitoring of liquidity and funding positions under forecasted and stressed business assumptions and report this to ALCO, 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 risks

Sources of Risk

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

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

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

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

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

Governance and Organization

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

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

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

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

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

Methods and Processes

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

KFH is implementing Risk Control Self-Assessment "RCSA" process which entails defining business objectives and the respective key risks, mapping control activities to the risks, assigning control activities owners, and assessing the effectiveness of controls and the residual risks and developing risk treatment action plans intended to mitigate risks. RCSAs has been conducted and completed for Business Units that is according to Operational Risk Management's Plan.

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

e) Rate of Return Risks

Profit rate Risk result from the possible impact of those changes on the yield curve over future cash flows or fair value of financial tools. The group is not exposed to profit rate risks as the bank operates in accordance with Sharia regulations. However, variations in the rate of return may affect the fair value of certain financial available for sale assets. Risk department follows up and measures variation in profit rate risk and applies various stringent scenarios, taking into consideration factors impacting contract prices including:

- CBK discount rate
- Economic activity (growth/ recession)
- Current phase of economic cycle.
- Profit distribution ratios provided by other Islamic banks.

Fifth: Investment Accounts Related Information

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

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

Information on Long Term Investment Plans and Deposits

KFH provides many types of investment deposits for customers to avail large number of investment tools that help customer to invest and achieve safe and secured profits. KFH offers numerous types of investment deposits with different advantages and features in terms of investment tenure, profits ratios and distribution as well as currencies, whether it be Kuwaiti Dinar or in Foreign currencies. Such deposits include: (Continuous Deposit, Alkhumasiya Deposit, Investment Deposit in Foreign Currencies, and long term investment plans).

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 the Gold Account which enables customers to buy, sell, withdraw and deposit gold (when needed) through banking accounts while holding gold owned by the customer as a trust at KFH. Moreover, KFH's customers using KFH online service can benefit from the "Gold Account" service to open an account, buy and sell gold, and request statement of account through KFH online services, KFH mobile application, or KFH ATMs.

Sixth: Shari’a Controls

Fatwa and Shari’a Supervisory Board

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

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

Consolidated Financial Statements And Auditors' Report

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

31 DECEMBER 2019

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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 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted 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' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on Islamic financing to customers

The recognition of credit losses on Islamic financing to customers ("financing facilities") is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with the Central Bank of Kuwait (the "CBK") guidelines, or the provision required by the CBK rules on classification of financing facilities of their provision (the "CBK instructions") as disclosed in the accounting policies in Note 2.6 and Note 10 to the consolidated financial statements.

Recognition of ECL under IFRS 9, according to CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date for classification of credit 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. Recognition of specific provision on 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.

Our audit procedures included assessing the design and implementation of controls over, 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.

With respect to the ECL based on IFRS 9, according to CBK guidelines, we have selected a samples of financing facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group to determine ECL. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of associates and joint ventures

The investment in associates and joint ventures are accounted for under the equity method of accounting and considered for impairment in case of indication of impairment. Significant management judgement is required in determining the indications of impairment and recoverable amount of investment in associates and joint ventures based on value in use. Accordingly, we considered this as a key audit matter.

We carried out procedures to understand management's process for identifying impairment triggers such as significant adverse changes in the technological, market, economic, or legal environment in which the investee operates, structural changes in the industry in which the investee operates, changes in the political or legal environment affecting the investee's business and changes in the investee's financial condition. Our audit procedures included, amongst others, assessing the appropriateness of the recoverable amounts determined by management and the valuation methods used. For impairment assessment we evaluated the reasonableness of the key assumptions used by management in determining the value-in-use computation

We also assessed the adequacy of the Group's disclosure in Note 13 and 14 of the consolidated financial statements.

Impairment test of investment properties and trading properties

Management's assessment of impairment of real estate properties was significant to our audit because this process is complex and requires judgement. Furthermore, impairment testing of real estate properties can be inherently subjective which increases the risk of error, particularly given the number and diverse nature and location of the Group's real estate properties. Accordingly, we considered this a key audit matter.

We selected samples and considered the methodology and the appropriateness of the valuation models and inputs used to value the real estate properties. Further, we used our internal specialists to assess the valuation of a sample of real estate properties located outside the State of Kuwait. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuation such as the rents, gross multiplier yield, market comparable, and discount rates. We also evaluated the Group's assessment whether objective evidence of impairment exists for international real estate.

The disclosure relating to the investment properties is given in note 15 to the consolidated financial statements.

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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)

Valuation of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments")
The Group has significant Islamic derivative financial instruments, the valuation of which is determined through the application of valuation techniques, which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of Islamic derivative financial instruments and the related estimation and uncertainty, this is considered as key audit matter.

Our audit procedures included assessment of controls over the identification, measurement and management of Islamic derivative financial instrument to confirm the operating effectiveness of the key controls in place.

Our audit procedures also comprised of an assessment of the methodology and the appropriateness of the valuation models used to value Islamic derivative financial instruments. Further, we used our internal specialists to assess the valuation of a sample of each type of Islamic derivative financial instruments. As part of these audit procedures, we assessed the accuracy of key inputs used in the valuations such as contractual cash flows, risk free rates, profit rate volatility, swap rates, profit spot rates, implied forward rates and quoted prices from market data providers, by benchmarking them with external data. Finally, we considered completeness and accuracy of the disclosures related to Islamic derivative financial instruments to assess compliance with the disclosure requirements.

The disclosure relating to Islamic derivative financial instruments is given in Note 26 to the consolidated financial statements.

Other information included in the Group's 2019 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2019 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 for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of Consolidated Financial statements (continued)

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

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

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

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

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

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

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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 2/I.B.S./343/2014 dated 21 October 2014 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 2/I.B.S./343/2014 dated 21 October 2014 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 2019 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 2019 that might have had a material effect on the business of the Bank or on its financial position.

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

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

9 January 2020
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2019

	Notes	*2019* KD 000's	*2018* KD 000's
INCOME			
Financing income		**931,574**	862,055
Finance cost and distribution to depositors		**(401,319)**	(334,786)
Net financing income		**530,255**	527,269
Investment income	3	**130,249**	63,319
Fees and commissions income		**79,129**	86,627
Net gain from foreign currencies		**34,061**	30,277
Other income	4	**40,708**	38,516
TOTAL OPERATING INCOME		**814,402**	746,008
EXPENSES			
Staff costs		**(182,439)**	(177,569)
General and administrative expenses		**(78,843)**	(81,487)
Depreciation and amortization		**(42,989)**	(33,404)
TOTAL OPERATING EXPENSES		**(304,271)**	(292,460)
NET OPERATING INCOME		**510,131**	453,548
Provisions and impairment	5	**(196,908)**	(162,510)
Gain for the year from discontinuing operations		**-**	410
PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		**313,223**	291,448
Taxation	6	**(50,460)**	(26,982)
Proposed directors' fees	23	**(942)**	(942)
PROFIT FOR THE YEAR		**261,821**	263,524
Attributable to:			
Shareholders of the Bank		**251,023**	227,411
Non-controlling interests		**10,798**	36,113
		261,821	263,524
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	7	**36.45 fils**	33.06 fils

The attached notes 1 to 36 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 2019

	KD 000's **2019**	*2018*
Profit for the year	**261,821**	263,524
Items that will not be reclassified to consolidated statement of income in subsequent periods:		
Revaluation loss on equity investments at fair value through other comprehensive income	**(1,280)**	(4,790)
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	**65,253**	(21,385)
Recycled to consolidated statement of income	**10,802**	6,021
Net gain (loss) on investments in sukuk at fair value through other comprehensive income	**76,055**	(15,364)
Share of other comprehensive income (loss) of associates and joint ventures	**1,430**	(597)
Exchange differences on translation of foreign operations	**(42,008)**	(122,546)
Other comprehensive income (loss) for the year	**34,197**	(143,297)
Total comprehensive income	**296,018**	120,227
Attributable to:		
Shareholders of the Bank	**292,056**	133,487
Non-controlling interests	**3,962**	(13,260)
	296,018	120,227

The attached notes 1 to 36 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 2019

	Notes	***2019*** (*KD 000's*)	*2018* (*KD 000's*)
ASSETS			
Cash and balances with banks	8	**1,910,088**	1,381,170
Due from banks	9	**3,782,828**	3,443,689
Financing receivables	10	**9,336,555**	9,190,235
Investment in Sukuk	11	**2,276,432**	1,563,361
Trading properties		**107,613**	147,639
Investments	12	**210,524**	284,883
Investment in associates and joint ventures	13,14	**504,343**	499,179
Investment properties	15	**455,406**	489,609
Other assets	16	**546,782**	544,416
Intangible assets and goodwill	17	**31,329**	31,180
Property and equipment		**228,958**	194,917
TOTAL ASSETS		**19,390,858**	17,770,278
LIABILITIES			
Due to banks and financial institutions		**2,427,166**	2,689,079
Sukuk payables		**319,965**	498,588
Depositors' accounts	19	**13,552,645**	11,780,310
Other liabilities	20	**847,707**	728,131
TOTAL LIABILITIES		**17,147,483**	15,696,108
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	22	**697,649**	634,226
Share premium	21	**720,333**	720,333
Proposed issue of bonus shares	23	**69,765**	63,423
Treasury shares	22	**(36,243)**	(44,452)
Reserves	21	**470,908**	395,278
		1,922,412	1,768,808
Proposed cash dividends	23	**137,980**	125,097
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**2,060,392**	1,893,905
Non-controlling interests		**182,983**	180,265
TOTAL EQUITY		**2,243,375**	2,074,170
TOTAL LIABILITIES AND EQUITY		**19,390,858**	17,770,278

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN SAAD AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 36 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 2019

KD 000's

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

The attached notes 1 to 36 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 2019

KD 000's

	Attributable to the shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 21)*	*Subtotal*	*Proposed cash dividends*	*Subtotal*		
Balance as at 1 January 2018	576,569	720,333	57,657	(45,063)	466,101	1,775,597	96,645	1,872,242	243,880	2,116,122
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(3,282)	(3,282)	-	(3,282)	(961)	(4,243)
Restated balance at 1 January 2018	576,569	720,333	57,657	(45,063)	462,819	1,772,315	96,645	1,868,960	242,919	2,111,879
Profit for the year	-	-	-	-	227,411	227,411	-	227,411	36,113	263,524
Other comprehensive loss	-	-	-	-	(93,924)	(93,924)	-	(93,924)	(49,373)	(143,297)
Total comprehensive income (loss)	-	-	-	-	133,487	133,487	-	133,487	(13,260)	120,227
Issue of bonus shares (Note 23)	57,657	-	(57,657)	-	-	-	-	-	-	-
Zakat	-	-	-	-	(12,578)	(12,578)	-	(12,578)	-	(12,578)
Share based payments (Note 24)	-	-	-	-	490	490	-	490	-	490
Cash dividends paid	-	-	-	-	-	-	(96,645)	(96,645)	-	(96,645)
Distribution of profit (Note 23):										
Proposed issue of bonus shares	-	-	63,423	-	(63,423)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(125,097)	(125,097)	125,097	-	-	-
Net movement in treasury shares	-	-	-	611	211	822	-	822	-	822
Deconsolidation of a subsidiary	-	-	-	-	(341)	(341)	-	(341)	(43,972)	(44,313)
Disposal of a subsidiary	-	-	-	-	(290)	(290)	-	(290)	(955)	(1,245)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,554)	(1,554)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	(2,913)	(2,913)
Balance as at 31 December 2018	634,226	720,333	63,423	(44,452)	395,278	1,768,808	125,097	1,893,905	180,265	2,074,170

The attached notes 1 to 36 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 2019

	Notes	2019	2018
			KD 000's
OPERATING ACTIVITIES			
Profit for the year		**261,821**	263,524
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**42,989**	33,404
Provisions and impairment	5	**196,908**	162,510
Dividend income	3	**(4,845)**	(4,695)
Gain on sale of investments	3	**(32,636)**	(4,209)
Gain on sale of real estate investments	3	**(17,900)**	(13,963)
Share of results of investment in associates and joint ventures	3	**(22,408)**	(28,192)
Other investment (income) loss	3	**(41,281)**	2,306
		382,648	410,685
Changes in operating assets and liabilities:			
(Increase) decrease in operating assets:			
Financing receivables and due from banks		**(169,588)**	(501,547)
Investment in Sukuk		**(718,465)**	(141,895)
Trading properties		**42,640**	13,489
Other assets		**(18,694)**	(25,875)
Statutory deposit with Central Banks		**(280,069)**	239,587
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**(440,536)**	318,592
Depositors' accounts		**1,772,335**	183,577
Other liabilities		**135,491**	(27,183)
Net cash flows from operating activities		**705,762**	469,430
INVESTING ACTIVITIES			
Investments, net		**146,091**	14,454
Purchase of investment properties		**(1,406)**	(2,915)
Proceeds from sale of investment properties		**40,015**	27,833
Purchase of property and equipment		**(33,828)**	(46,561)
Proceeds from sale of property and equipment		**3,064**	6,042
Intangible assets, net		**(4,594)**	(6,336)
Purchase of investments in associates and joint ventures		**-**	(304)
Proceeds from sale of investments in associates and joint ventures		**6,102**	3,857
Proceed from disposal of subsidiaries		**307**	34,133
Dividend received		**14,429**	13,711
Net cash flows from investing activities		**170,180**	43,914
FINANCING ACTIVITIES			
Cash dividends paid		**(125,097)**	(96,645)
Zakat paid		**(13,236)**	(12,578)
Net movement in treasury shares		**13,161**	822
Dividend paid to non-controlling interests		**(1,047)**	(1,554)
Net cash flows used in financing activities		**(126,219)**	(109,955)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**749,723**	403,389
Cash and cash equivalents as at 1 January		**1,770,279**	1,366,890
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	8	**2,520,002**	1,770,279

The attached notes 1 to 36 form part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 9 January 2020. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 18.1. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait ("the CBK"). It is engaged in all Islamic banking activities for its own account as well as for third parties, including financing, purchase and sale of investments, leasing, project construction and other trading activities without practising usury. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on financing facilities computed under IFRS 9: Financial Instruments ("IFRS 9") in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

2.2 PRESENTATION OF FINANCIAL STATEMENTS

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

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

2.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those used in the previous year except for the adoption of IFRS 16: Leases effective from 1 January 2019.

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

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Kuwait Finance House K.S.C.P. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 16: Leases (continued)
Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance cost and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases where the Group is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The Group has applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The Group has recorded right-of-use assets representing the right to use the underlying assets under property and equipment and the corresponding lease liabilities to make lease payments under other liabilities.

The Group’s accounting policies for right-of-use assets and lease liabilities is explained in Note 2.6.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 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 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 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3: Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

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2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

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

2.5 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries, associates and joint ventures are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All significant intercompany balances and transactions, including unrealised profits 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 18 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control.

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

Investment in an associate and joint ventures are initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's share of its associates' and joint ventures post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

Foreign currency translation

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

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are included within net gain/loss from foreign currencies in the consolidated statement of income.

Non–monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)
Transactions and balances (continued)
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.

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

i) Financing income is income from murabaha, istisna'a, leased assets, wakala investments and investment in Sukuk and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.

ii) Fees and commission income is 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, transfer and distribution of investment properties, 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 of 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.

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 becomes 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)
Depreciation is provided on a straight-line basis over the estimated useful lives, that range from 20 – 25 years other than freehold land which is deemed to have an indefinite life.

Properties under construction
Properties under construction or development for future use as investment properties are classified as investment properties and are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of the asset.

Precious metals inventory
Precious metals inventory primarily comprises Gold, which is carried at the fair value less cost to sell.

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.

Day1 profit or loss
When the transaction price of the instrument differs from the fair value at origination 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and yield (SPPY test)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Yield (the 'SPPY test').

'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 statement of income on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to statement of income on derecognition
- Financial assets carried at fair value through profit or loss (FVTPL)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
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 and financing receivables are classified as debt instruments at amortised cost.

Debt instruments at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Profit income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Debt instruments at FVOCI:
A debt instrument is carried at FVOCI if it meets both of the following conditions:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPY test

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit income and foreign exchange gains, losses and ECL are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

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. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial asset at FVTPL:
The Group classifies financial assets at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, profit income and dividends are recorded in the consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are certain perpetual Sukuks, equities and derivatives that are not designated as hedging instruments in a hedge relationship.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
The Group has determined the classification and measurement of its financial assets as follows:

i. Cash and cash equivalents
Cash and cash equivalents comprise cash, balances with Central Banks, balances with banks and financial institutions, cash in transit and exchange of deposits maturing within three months of contract date. Cash and cash equivalents are carried at amortised cost using effective profit rate.

ii. Due from banks
Due from banks are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality banks. These are stated at amortised cost using effective profit rate.

iii. Financing receivables
Financing receivables are financial assets with fixed or determinable payments that are not quoted in an active market and principally comprise murabahas, istisna'a, wakala receivables and leased assets. The financing receivables are stated at amortised cost using effective profit rate.

Murabaha
Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group.

Istisna'a
Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

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

Leased assets - the Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost using effective profit rate.

Trade receivable
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of expected credit losses and are stated at amortised cost.

iv. Investments
Group's financial investments consists of investment in Sukuk, equity investments and investment in funds. Sukuk are classified at FVOCI based on the business model in which these securities are managed. The management of the Group classifies investment in Sukuk as debt instruments at FVOCI. Equity investments are generally carried at FVTPL except for those specific investments for which the Group has made an election to classify at FVOCI. Investment in funds are carried at FVTPL.

v. Venture capital at fair value through statement of income
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 statement of income in accordance with IFRS 9, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through statement of income 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Financial liabilities
The Group has determined the classification and measurement of its financial liabilities as follows:

i. Due to banks and depositors' accounts
These are measured at amortised cost.

ii. Trade payable
Trade payable mainly relates to non-banking subsidiaries of the Group. Liabilities are recognised for amounts to be paid in the future for goods whether or not billed to the Group.

iii. Accrued expenses
Liabilities are recognised for amounts to be paid in the future for services received whether or not billed to the Group.

iv. Financial guarantees
In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the 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.

De-recognition of financial assets and financial liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financier on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
De-recognition due to substantial modification or terms and conditions
The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded..

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the financing
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPY criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated 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.

Derivative financial instruments and hedge accounting

i. Derivatives not designated as hedges:

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts instruments (“the instruments”) are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. These instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of these instruments are taken directly to the consolidated statement of 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 a 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:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

ii. Derivatives designated as hedges (continued):

- There is ‘an economic relationship’ between the hedge item and the hedging instrument.
- The effect of the credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges:
The gain or loss on the hedging instrument is recognised in consolidated statement of income while the hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item, if applicable, and be recognised in consolidated statement of income.

Cash flow hedges:
The effective portion of the gain or loss on the hedging instrument is recognised in the consolidated statement of other comprehensive income, while any ineffective portion is recognised immediately in the consolidated statement of income. The cash flow hedge reserve is adjusted to the lower of cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects consolidated statement of income.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in the consolidated statement of other comprehensive income at that time remains in the consolidated statement of other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the consolidated statement of other comprehensive income is immediately transferred to the consolidated statement of income.

Hedges of a net investment:
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity are transferred to consolidated statement of income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets
The Group recognises ECL for financing receivable, due from banks, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together "financing facilities") and investment in Sukuk at FVOCI.

Balances with CBK is low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of financing facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines or the provisions required by the CBK instructions.

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

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

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

Stage 1: 12-month ECL
The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date.

Stage 2: Lifetime ECL – not credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired
The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

Except for consumer and instalment financing, transfer of credit facility from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the financial assets to Stage 2. Transfer of financial assets from Stage 3 to Stage 2 or Stage 1 is subject to approval of CBK.

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

The Group 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.

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

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At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)

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

Determining the stage of impairment

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and backstop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. The Group considers an exposure to have significantly increased in credit risk when there is significant deterioration in customer rating compared to rating at origination, restructured due to financial difficulties of the customers and other conditions mentioned below.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. The Group also consider that events explained below (and not restricted to) as indicators of significant increase in credit risk as opposed to a default.

- All Financial assets are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade;
- All rescheduled financial assets are classified under the Stage 2 unless it qualifies for Stage 3 classification.
- Internal rating of the customer indicating default or near-default
- The customer requesting emergency funding from the Group;
- The customer having past due liabilities to public creditors or employees;
- The customer is deceased;
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral;
- A material decrease in the customer's turnover, loss of major customers or deterioration of customer financial position;
- A covenant breach not waived by the Group;
- The obligor (or any legal entity within the obligor's group) filing for bankruptcy application / protection or liquidation;
- Obligor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties;
- Legal measures and action against customer by other creditors;
- Clear evidence that the customer is unable to pay financing receivable on maturity dates;

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

- The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses point in time PD (PITPD) to calculate the ECL. The minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade financing facilities except for financing facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing financing (except for credit cards).
- The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including payments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor (CCF) on utilized cash and 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses (continued)
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. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Provisions for credit losses in accordance with CBK instructions
The Group is required to calculate provisions for credit losses on financing receivables in accordance with the instructions of CBK on the classification of financing receivables and calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Provisions for credit losses in accordance with CBK instructions (continued)

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	20 years
▪ Furniture, fixtures and equipment	3 to 5 years
▪ Motor vehicles	3 years

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)
The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

Leases
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date of the underlying asset if available of use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Group as a lessor
i. Leased assets
This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Leased assets are stated at amounts equal to the net investment outstanding in the leases.

ii. Operating leases
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

Intangible assets
An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

▪ License of Islamic brokerage company	assessed to have an indefinite useful life
▪ Software development cost	3 to 5 years
▪ Software license right	15 years
▪ Other rights	3 to 7 years

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Taxation
Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

The Bank calculates shareholders Zakat at 2.577% on net working capital on completing fiscal year and is paid under the direction of the Bank's Fatwa and Shareea'a Supervisory Board, and netting the amount paid by 1% of net profit attributed to the Zakat paid to the Ministry of Finance as per the Zakat Law. Such Zakat is charged to voluntary reserve.

Non-current assets held for sale and disposal groups
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets carried at FVOCI or FVTPL
For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

For financial assets where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, book value multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Investment properties
For investment properties, fair value is determined by registered real estate valuers who have relevant experience in the property market.

Due from/to customers for contract work
Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

Share based payments
The Group operates an employees' share purchase plan for certain eligible employees, whereby employees render services as consideration for equity instruments (equity-settled transactions) and cash (cash-settled transactions).

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.

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At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments (continued)

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

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 presented in the consolidated statement of income net of any reimbursement.

Reserves for maintenance

Provisions for maintenance –related costs are recognised when the service is provided. Initial recognition is based on historical experience. The initial estimate of maintenance –related costs is revised annually.

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.

Treasury shares

The Group's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

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.

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At 31 December 2019

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments (continued)

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

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.

Determining the lease term of contracts with renewal options (continued)

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Estimation uncertainty

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

Impairment of goodwill and intangible assets with indefinite useful life

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of investment in associates and joint ventures

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates or joint ventures are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Impairment of investment properties and trading properties

The Group reviews the carrying amounts of its investment and trading properties to determine whether there is an indication that those assets have suffered an impairment loss if the fair values are below than the carrying values. The Group management determines the appropriate techniques and inputs required for measuring the fair value using observable market data and as appropriate, the Group uses reputed valuers qualified to do the valuation.

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.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (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 and qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

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.

3 INVESTMENT INCOME

	KD 000's	
	2019	*2018*
Gain on sale of real estate investments	**17,900**	13,963
Rental income from investment properties	**11,179**	14,566
Dividend income	**4,845**	4,695
Gain on sale of investments	**32,636**	4,209
Share of results of investment in associates and joint ventures (Note 13 and Note 14)	**22,408**	28,192
Others	**41,281**	(2,306)
	130,249	63,319

4 OTHER INCOME

	KD 000's	
	2019	*2018*
Income from sale of property and equipment	**2,182**	8,540
Real estate trading, development and construction income	**4,117**	3,781
Income from maintenance, services and consultancy	**13,049**	11,491
Rental income from operating lease	**7,997**	8,039
Other income	**13,363**	6,665
	40,708	38,516

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5 PROVISIONS AND IMPAIRMENT

	KD 000's	
	2019	*2018*
Expected credit losses for investment in Sukuk (Note 11)	**12,583**	5,662
Expected credit losses for other financial assets	**3,658**	8,344
Impairment on financing receivables* (Note 10)	**225,628**	87,835
Recovery of written-off debts	**(40,455)**	(28,082)
Impairment of investment properties** (Note 15)	**8,909**	71,117
Impairment of property and equipment	**1,121**	1,141
Reversal of impairment of non-cash facilities (Note 10)	**(26,459)**	(2,875)
Impairment of trading properties	**134**	240
Impairment of other assets and other provisions	**11,789**	19,128
	196,908	162,510

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

** During the previous year, full impairment against certain real estate investments in GCC amounting to KD 63,779 thousand was recorded due to uncertainty in the recoverable amount in view of market outlook.

6 TAXATION

	KD 000's	
	2019	*2018*
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**2,450**	2,210
National Labour Support Tax (NLST)	**6,485**	4,078
Zakat (based on Zakat Law No. 46/2006)	**2,584**	2,223
Taxation related to subsidiaries	**38,941**	18,471
	50,460	26,982

7 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to the shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group.

Basic and diluted earnings per share:	***2019***	*2018*
Profit for the year attributable to shareholders of the Bank (thousand KD)	**251,023**	227,411
Weighted average number of shares outstanding during the year (thousands share)	**6,887,313**	6,879,463
Basic and diluted earnings per share attributable to the shareholders of the Bank	**36.45 fils**	33.06 fils

Basic and diluted earnings per share from continuing operations:	***2019***	*2018*
Profit for the year from continuing operations attributable to shareholders of the Bank (thousand KD)	**251,023**	222,825
Weighted average number of shares outstanding during the year (thousands share)	**6,887,313**	6,879,463
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	**36.45 fils**	32.39 fils

The employees' share based payments plan has no dilutive impact on earnings per share.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 22).

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8 CASH AND BALANCES WITH BANKS

	KD 000's	
	2019	*2018*
Cash	**222,319**	218,746
Balances with Central Banks	**1,043,565**	701,407
Balances with banks and financial institutions – current accounts	**644,204**	461,017
Cash and balances with banks and financial institutions	**1,910,088**	1,381,170
Due from bank within 3 months of contract date	**1,366,498**	865,624
Less: Statutory deposits with Central Banks	**(756,584)**	(476,515)
Cash and cash equivalents	**2,520,002**	1,770,279

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

9 DUE FROM BANKS

	KD 000's	
	2019	*2018*
Due from banks	**1,832,398**	1,329,215
Due from Central Banks	**1,950,430**	2,114,474
	3,782,828	3,443,689

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

10 FINANCING RECEIVABLES

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

	KD 000's	
	2019	*2018*
Financing receivables		
Murabaha and wakala	**9,039,692**	8,773,431
Leased assets	**2,003,959**	1,972,101
Istisna'a and other receivables	**90,864**	89,306
	11,134,515	10,834,838
Less: deferred and suspended profit	**(1,324,815)**	(1,270,420)
Net receivables	**9,809,700**	9,564,418
Less: impairment	**(473,145)**	(374,183)
	9,336,555	9,190,235

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10 FINANCING RECEIVABLES (continued)

	Specific		*General*		*Total*	
	2019	*2018*	***2019***	*2018*	***2019***	*2018*
						KD 000's
Balance as at beginning of year	**95,968**	166,713	**278,215**	277,695	**374,183**	444,408
Provided during the year (Note 5)	**151,956**	78,182	**73,672**	9,653	**225,628**	87,835
Amounts written off and foreign currency translation	**(124,151)**	(148,927)	**(2,515)**	(9,133)	**(126,666)**	(158,060)
Balance as at end of year	**123,773**	95,968	**349,372**	278,215	**473,145**	374,183

Reversal of provision for the year on non-cash facilities is KD 26,459 thousand (2018: KD 2,875 thousand) (Note 5). The available provision balance on non-cash facilities of KD 15,450 thousand (2018: KD 42,260 thousand) is included under other liabilities (Note 20).

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

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

	KD 000's	
	2019	*2018*
Within one year	**998,566**	996,148
One to five years	**344,167**	349,464
More than five years	**661,226**	626,489
	2,003,959	1,972,101

Non-performing financing facilities
As at 31 December 2019, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 211,084 thousand (2018: KD 217,758 thousand).

Total provision for credit losses recorded as per CBK instructions for utilized and unutilized cash and non-cash financing facilities as at 31 December 2019 is KD 488,595 thousand (2018: KD 416,443 thousand) which exceeds the ECL for financing receivables as per CBK instructions by KD 125,521 thousand (2018: KD 43,575 thousand).

11 INVESTMENT IN SUKUK

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.

2019	***Stage 1 Individual***	***Stage 2 Individual***	***Stage 3 Individual***	***Total***
				KD 000's
High grade	**1,723,362**	**-**	**-**	**1,723,362**
Standard grade	**572,842**	**-**	**-**	**572,842**
Gross carrying amount	**2,296,204**	**-**	**-**	**2,296,204**
ECL allowance	**(19,772)**	**-**	**-**	**(19,772)**
Carrying value	**2,276,432**	**-**	**-**	**2,276,432**

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11 INVESTMENT IN SUKUK (continued)

2018	*Stage 1 Individual*	*Stage 2 Individual*	*Stage 3 Individual*	*Total*
				KD 000's
High grade	1,366,246	-	-	1,366,246
Standard grade	204,304	-	-	204,304
Gross carrying amount	1,570,550	-	-	1,570,550
ECL allowance	(7,189)	-	-	(7,189)
Carrying value	1,563,361	-	-	1,563,361

Movement in the gross carrying amount and the corresponding expected credit losses in relation to the Group's investment in Sukuk carried at fair value through other comprehensive income is as follows:

2019	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
				KD 000's
Gross carrying amount as at 1 January 2019	**1,570,550**	**-**	**-**	**1,570,550**
Net movement during the year	**725,654**	**-**	**-**	**725,654**
At 31 December 2019	**2,296,204**	**-**	**-**	**2,296,204**

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

2018	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
				KD 000's
Gross carrying amount as at 1 January 2018	1,418,033	-	1,308	1,419,341
Net movement during the year	152,517	-	(1,308)	151,209
At 31 December 2018	1,570,550	-	-	1,570,550

2018	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
				KD 000's
ECL allowance as at 1 January 2018	1,527	-	1,308	2,835
Re-measurements during the year (Note 5)	5,662	-	-	5,662
Amounts written-off	-	-	(1,308)	(1,308)
At 31 December 2018	7,189	-	-	7,189

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12 INVESTMENTS

	KD 000's	
	2019	*2018*
Equities and funds	**189,467**	254,951
Venture capital at fair value through statement of income	**21,057**	29,932
	210,524	284,883
Investments at fair value through profit or loss	**100,774**	161,906
Investments at fair value through other comprehensive income	**88,693**	93,045
Venture capital at fair value through statement of income	**21,057**	29,932
	210,524	284,883

13 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		***Country of registration***	***Principal activities***	***Financial statemen reporting date***
	2019	*2018*			
Sharjah Islamic Bank P.J.S.C.	**18**	18	United Arab Emirates	Islamic banking services	30 September 201
Ibdar Bank B.S.C.	**35**	35	Bahrain	Islamic banking service	30 September 201
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	**46**	46	Kuwait	Aircraft leasing and financing services	30 September 201

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

Summarised consolidated statement of financial position:

	KD 000's	
	2019	*2018*
Assets	**5,778,660**	5,607,341
Liabilities	**(4,714,156)**	(4,546,119)
Equity	**1,064,504**	1,061,222
Carrying amount of the investment	**297,613**	296,203

Summarised consolidated statement of income:

	KD 000's	
	2019	*2018*
Revenues	**314,555**	323,215
Expenses	**(260,506)**	(244,429)
Profit for the year	**54,049**	78,786
Group's share of profit for the year	**12,533**	24,039

Investments in associates with a carrying amount of KD 250,623 thousand (2018: KD 242,802 thousand) have a market value of KD 185,903 thousand at 31 December 2019 (2018: KD 217,607 thousand) based on published quotes.

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13 INVESTMENT IN ASSOCIATES (continued)

Dividends received from the associates during the current year amounted to KD 9,584 thousand (2018: KD 7,911 thousand).

14 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2019	*2018*			
Diyar Homes Company W.L.L (Souq Al Muharraq)	**50**	50	Bahrain	Real estate development	31 October 2019
Al Durrat Al Tijaria Company W.L.L	**50**	50	Bahrain	Real estate development	31 October 2019
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	31 October 2019

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

Summarised consolidated statement of financial position:

	KD 000's	
	2019	*2018*
Assets	**829,672**	983,997
Liabilities	**(387,186)**	(540,048)
Equity	**442,486**	443,949
Carrying amount of the investment	**206,730**	202,976

Summarised consolidated statement of income:

	KD 000's	
	2019	*2018*
Revenues	**72,018**	41,779
Expenses	**(54,284)**	(34,184)
Profit for the year	**17,734**	7,595
Group's share of profit for the year	**9,875**	4,153

Dividends received from the joint ventures during the current year amounted to Nil (2018: KD 1,105 thousand).

15 INVESTMENT PROPERTIES

	KD 000's	
	2019	*2018*
As at 1 January	**489,609**	554,321
Additions	**1,406**	2,915
Transfer from other assets	**-**	29,306
Disposals	**(20,315)**	(18,996)
Depreciation charge for the year	**(6,385)**	(6,820)
Impairment (Note 5)	**(8,909)**	(71,117)
As at 31 December	**455,406**	489,609

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15 INVESTMENT PROPERTIES (continued)

	KD 000's	
	2019	*2018*
Developed properties	**343,876**	375,106
Properties under construction	**111,530**	114,503
	455,406	489,609

16 OTHER ASSETS

	KD 000's	
	2019	*2018*
Precious metals inventory	**111,943**	38,080
Trade receivable, net	**89,248**	79,576
Clearing accounts	**130,549**	176,027
Receivables on sale of investment	**2,104**	34,389
Deferred tax	**22,538**	34,005
Advances and prepayments	**55,511**	48,552
Other miscellaneous assets	**134,889**	133,787
	546,782	544,416

17 INTANGIBLE ASSETS AND GOODWILL

	KD 000's	
	2019	*2018*
Intangible assets	**31,037**	30,888
Goodwill	**292**	292
	31,329	31,180

Movement of intangible assets is as follows:

	KD 000's	
	2019	*2018*
Cost		
As at 1 January	**75,553**	74,499
Additions	**6,807**	7,248
Disposal	**(3,330)**	-
Foreign exchange translation	**(1,939)**	(6,194)
As at 31 December	**77,091**	75,553

	KD 000's	
	2019	*2018*
Accumulated amortization		
As at 1 January	**44,665**	42,489
Charge for the year	**3,963**	5,012
Disposals	**(517)**	-
Foreign exchange translation	**(2,057)**	(2,836)
As at 31 December	**46,054**	44,665
Net book value		
As at 31 December	**31,037**	30,888

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17 INTANGIBLE ASSETS AND GOODWILL (continued)

Intangible asset includes license of an Islamic brokerage company amounting to KD 14,671 thousand (2018: KD 14,671 thousand) and is considered as an intangible asset with an indefinite useful life. The carrying value of the Islamic brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit (CGU). The recoverable amount of the license has been determined using a discount rate of 8.8% (2018: 9.1%) and a terminal growth rate of 2.7% (2018: 3.0%). As a result, the management believes there are no indications of any impairment in value. Other intangible assets amounting to KD 16,366 thousand (2018: KD 16,217 thousand) represent software development cost, software license right and other rights with finite useful lives. Intangible assets with finite lives are amortised over their useful economic life.

18 SUBSIDIARIES

18.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2019	*2018*		
Kuwait Turkish Participation Bank	Turkey	**62**	62	Islamic banking services	31 December 2019
Kuwait Finance House B.S.C.	Bahrain	**100**	100	Islamic banking services	31 December 2019
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	31 December 2019
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	**100**	100	Islamic investment	31 December 2019
KFH Capital Investments Company K.S.C. (Closed) *	Kuwait	**99.9**	99.9	Islamic finance and investments	31 October 2019
KFH Private Equity Ltd	Cayman Islands	**100**	100	Islamic investments	31 December 2019
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	**99.9**	99.9	Real estate development and leasing	31 October 2019
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	**56**	56	Real estate, investment, trading and real estate management	31 October 2019
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	**99.9**	99.9	Infrastructure and industrial investment	31 December 2019
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	**100**	100	Real estate development and investment	30 September 2019
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	**97**	97	Computer maintenance, consultancy and software services	30 September 2019
Gulf International Automobile Trading Company K.S.C. (Closed) *	Kuwait	**99.6**	99.6	Trading, import and export of used cars	30 September 2019

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18 SUBSIDIARIES (continued)

18.1 Details of principal operating material subsidiaries (continued)

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
E'amar	Cayman Islands	**100**	100	Islamic investments	31 December 2019
Al Salam Hospital K.S.C. (Closed)	Kuwait	**76**	76	Healthcare services	30 September 2019
Muthana GCC Islamic Banks Fund	Kuwait	**87**	92	Islamic equity investments	30 September 2019
Muthana Islamic Index Fund	Kuwait	**-**	20	Islamic equity investments	30 September 2019
Turkapital Holding B.S.C.(C)	Bahrain	**51**	51	Real estate, auto leasing and insurance	30 September 2019

** Effective ownership percentage is 100% (2018: 100%).*

18.2 Material partly-owned subsidiary
Financial information of subsidiary that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Non-controlling interest percentage*	
		2019	*2018*
Kuwait Turkish Participation Bank	Turkey	**38%**	38%

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

Summarised consolidated statement of income for the year ended:

	KD 000's	
	2019	*2018*
Revenues	**508,298**	427,068
Expenses	**(433,734)**	(322,082)
Profit for the year	**74,564**	104,986
Attributable to non-controlling interest profit	**28,155**	39,643

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18 SUBSIDIARIES (continued)

18.2 Material partly-owned subsidiary (continued)

Summarised consolidated statement of financial position as at:

	KD 000's	
	2019	*2018*
Total assets	**5,481,274**	4,302,308
Total liabilities	**(5,064,630)**	(3,932,558)
Total equity	**416,644**	369,750
Attributable to non-controlling interests	**157,325**	139,618

Summarised consolidated statement of cash flows for year ended:

	KD 000's	
	2019	*2018*
Operating	**716,577**	216,532
Investing	**(647,285)**	780
Financing	**(216,646)**	(116,707)
Net (decrease) increase in cash and cash equivalents	**(147,354)**	100,605

19 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'a.

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

b) The fair values of depositors' accounts do not differ from their carrying book values.

20 OTHER LIABILITIES

	KD 000's	
	2019	*2018*
Trade payables	**196,929**	163,521
Accrued expenses	**174,817**	147,679
Certified cheques	**57,578**	60,218
Due to customers for contract work	**31,652**	35,811
Maintenance and other reserve	**117,745**	77,156
Employees' end of service benefits	**76,104**	73,478
Refundable deposits	**5,897**	6,309
Provision on non-cash facilities (Note 10)	**15,450**	42,260
Other miscellaneous liabilities	**171,535**	121,699
	847,707	728,131

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21 RESERVES

KD 000's

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

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21 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 2018	274,841	274,841	88,716	6,736	19,151	(163,822)	(34,362)	466,101
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	8,208	-	(11,490)	-	-	(3,282)
Restated balance at 1 January 2018	274,841	274,841	96,924	6,736	7,661	(163,822)	(34,362)	462,819
Profit for the year	-	-	227,411	-	-	-	-	227,411
Other comprehensive loss	-	-	-	-	(20,084)	(73,840)	-	(93,924)
Total comprehensive income (loss)	-	-	227,411	-	(20,084)	(73,840)	-	133,487
Zakat	-	-	(12,578)	-	-	-	-	(12,578)
Transfer to reserves	23,686	23,686	(47,372)	-	-	-	-	-
Proposed issuance of bonus shares (Note 23)	-	-	(63,423)	-	-	-	-	(63,423)
Proposed cash dividends (Note 23)	-	-	(125,097)	-	-	-	-	(125,097)
Share based payments (Note 24)	-	-	-	-	-	-	490	490
Deconsolidation of a subsidiary	-	-	(10,938)	-	(2,292)	(341)	13,230	(341)
Disposal of a subsidiary	-	-	-	-	-	(290)	-	(290)
Net movement in treasury shares	-	-	-	211	-	-	-	211
Balance as at 31 December 2018	298,527	298,527	64,927	6,947	(14,715)	(238,293)	(20,642)	395,278

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

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21 RESERVES (continued)

Statutory reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a minimum of 10% of the profit for the year before KFAS, NLST, Zakat, and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

Voluntary reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a maximum of 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

Voluntary reserve is available to be distributed to shareholders at the discretion of the Bank's Board of Directors in ways that may be deemed beneficial to the Bank, except for the amount of KD 36,243 thousand (2018: KD 44,452 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 22).

The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the paid-up share capital and transfer amounts in excess of 50% of the paid-up capital from statutory reserve and voluntary reserve to retained earnings.

The share premium balance is not available for distribution.

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

22 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 18 March 2019 approved 10% bonus shares on outstanding shares amounting to KD 63,423 thousand for the year ended 31 December 2018 (Note 23).

Share capital

	KD 000's	
	2019	*2018*
Authorized, issued and fully paid in cash and bonus shares:		
6,976,489,202 (2018: 6,342,262,911) shares of 100 fils each	**697,649**	634,226

The movement in ordinary shares in issue during the year was as follows:

	2019	*2018*
Number of shares in issue as at 1 January	**6,342,262,911**	5,765,693,556
Bonus shares issued	**634,226,291**	576,569,355
Number of shares in issue 31 December	**6,976,489,202**	6,342,262,911

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2019	*2018*
Number of treasury shares	**77,469,236**	87,436,110
Treasury shares as a percentage of total shares in issue	**1.11%**	1.38%
Cost of treasury shares (KD)	**36,242,560**	44,451,503
Market value of treasury shares (KD)	**62,827,550**	53,336,027

The balance in the treasury share reserve account is not available for distribution.

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

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22 SHARE CAPITAL AND TREASURY SHARES (continued)

An amount of KD 36,243 thousand (2018: KD 44,452 thousand) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

The weighted average market price of the Bank's shares for the year ended 31 December 2019 was 698 fils (2018: 587 fils) per share.

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

The Board of Directors of the Bank has proposed a cash dividend of 20% for the year ended 31 December 2019 (2018: 20%) and issuance of bonus shares of 10% (2018: 10%) of paid up share capital as follows:

	2019		*2018*	
		Total KD 000's		*Total KD 000's*
Proposed cash dividends (per share)	20 fils	**137,980**	20 fils	125,097
Proposed issuance of bonus shares (per 100 shares)	10 shares	**69,765**	10 shares	63,423

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

The Board of Directors of the Bank has proposed Directors' fees of KD 942 thousand (2018: KD 942 thousand), (Note 27) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

24 SHARE BASED PAYMENTS

The Bank operates long-term incentive scheme plan (LTIS) approved by the Board of Directors and authorized by the Bank's extraordinary general assembly and ordinary assembly. The LTIS operate on a rolling yearly employees' share purchase plan where new plans is rolled out to eligible employees every year. Shares issued under each plan will vest at the end of three years from the allocation date subject to agreed performance conditions approved by the Board of Directors being met.

25 CONTINGENCIES AND CAPITAL COMMITMENTS

At the reporting date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	KD 000's	
	2019	*2018*
Acceptances and letters of credit	**140,041**	151,421
Letter of Guarantees	**1,556,923**	1,712,382
Contingencies	**1,696,964**	1,863,803

	KD 000's	
	2019	*2018*
Capital commitments and others	**356,144**	294,675

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

In the ordinary course of business the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts ("Islamic derivative financial instruments") to mitigate foreign currency and profit rate risk. Currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose.

Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

			KD 000's
	Positive fair value	***Negative fair value***	***Notional amount***
31 December 2019			
Forward contracts	1,165	1,966	670,811
Profit rate swaps	-	14,402	227,378
Currency swaps	12,083	15,157	1,810,765
Embedded precious metals	-	444	231,950
	13,248	**31,969**	**2,940,904**

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2018			
Forward contracts	2,568	3,733	336,980
Profit rate swaps	73	3,289	224,633
Currency swaps	895	8,372	792,523
Embedded precious metals	-	459	132,457
	3,536	15,853	1,486,593

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

In respect of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the gross and net cash flows:

				KD 000's
	Notional amount	*Within 3 months*	*3 to 12 months*	*More than 12 months*
31 December 2019				
Cash inflows	2,940,904	1,108,385	1,190,769	641,750
Cash outflows	(2,702,252)	(1,111,384)	(1,062,126)	(528,742)
Net cash flows	**238,652**	**(2,999)**	**128,643**	**113,008**
31 December 2018				
Cash inflows	1,486,593	631,157	407,268	448,168
Cash outflows	(1,360,223)	(630,044)	(339,358)	(390,821)
Net cash flows	126,370	1,113	67,910	57,347

27 RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholders, directors and executive employees, officers of the Group, their immediate relatives, associated companies, joint ventures and companies of which they are the principal owners) are depositors and financing facilities, customers of the Group, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

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

						KD 000's
					Total	
	Major shareholders	*Associates and joint ventures*	*Board Members and executive Officers*	*Other related party*	*2019*	*2018*
Financing income	**-**	**7,689**	**188**	**387**	**8,264**	6,721
Fee and commission income	**-**	**29**	**185**	**86**	**300**	730
Finance costs and distribution to depositors	**31,323**	**2,260**	**111**	**946**	**34,640**	33,474

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

						KD 000's
					Total	
	Major shareholders	*Associates and joint ventures*	*Board Members and executive Officers*	*Other related party*	*2019*	*2018*
Financing receivables	**-**	**246,486**	**3,566**	**945**	**250,997**	263,176
Due to banks and financial institutions	**854,478**	**45,627**	**-**	**-**	**900,105**	1,416,143
Depositors' accounts	**-**	**88,650**	**10,262**	**19,814**	**118,726**	85,182
Contingencies and commitments	**486**	**9,363**	**-**	**4,332**	**14,181**	16,321

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

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27 RELATED PARTY TRANSACTIONS (continued)

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

	The number of Board Members or Executive Officers		*The number of related parties (Relatives of board members or executive officers)*		***KD 000's***	
	2019	*2018*	***2019***	*2018*	***2019***	*2018*
Board Members						
Finance facilities	**24**	29	**10**	16	**2,296**	2,119
Depositors' accounts	**47**	57	**75**	87	**12,387**	16,889
Collateral against financing facilities	**4**	4	**1**	3	**2,624**	1,950
Executive officers						
Finance facilities	**70**	69	**21**	16	**1,927**	2,456
Depositors' accounts	**79**	76	**108**	78	**11,138**	7,627
Collateral against financing facilities	**8**	8	**4**	4	**2,815**	4,920

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	KD 000's	
	Total	
	2019	*2018*
Salaries, allowances and bonuses of key management personnel	**16,625**	17,207
Termination and long-term benefits of key management personnel	**1,079**	1,228
Board of directors remuneration *	**1,858**	1,729
	19,562	20,164

* Board of director's remuneration include amount of KD 942 thousand (2018: KD 942 thousand) related to the Bank. The board of director's remuneration is subject to the approval of the Annual General Assembly (Note:23).

28 SEGMENTAL ANALYSIS

Primary segment information

For management purposes, the Group is organized into four major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, murabaha investments, investment in Sukuk, exchange of deposits with banks and financial institutions and international banking relationships.

Retail and Private Banking: Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals

Corporates Banking: Providing a range of banking services and investment products to corporates, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

Investment: Managing direct equity and real estate investments, non-banking Group entities, associates and Joint ventures.

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28 SEGMENTAL ANALYSIS (continued)

31 December 2019	***Treasury***	***Retail and private Banking***	***Corporate Banking***	***Investment***	***Total***
					KD 000's
Total assets	**6,433,023**	**6,085,972**	**4,978,542**	**1,893,321**	**19,390,858**
Total liabilities	**2,990,037**	**10,836,616**	**2,624,440**	**696,390**	**17,147,483**
Operating income	**100,119**	**301,044**	**230,580**	**182,659**	**814,402**
Provisions and impairment	**(1,935)**	**(15,113)**	**(78,810)**	**(101,050)**	**(196,908)**
Profit (loss) for the year	**83,244**	**114,756**	**79,610**	**(15,789)**	**261,821**

31 December 2018	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
					KD 000's
Total assets	4,963,624	5,813,751	4,931,364	2,061,539	17,770,278
Total liabilities	3,500,725	9,467,206	2,142,414	585,763	15,696,108
Operating income	60,165	296,190	246,740	142,913	746,008
Provisions and impairment	(1,979)	(17,864)	(39,827)	(102,840)	(162,510)
Profit (loss) for the year	45,608	103,742	140,070	(25,896)	263,524

Secondary segment information

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

	Assets		*Contingencies and capital commitments*	***KD 000's***
	2019	*2018*	***2019***	*2018*
Geographical areas:				
Middle East	**12,838,248**	12,175,300	**663,574**	669,317
Europe	**5,360,817**	4,586,413	**1,278,971**	1,363,275
Other	**1,191,793**	1,008,565	**110,563**	125,886
	19,390,858	17,770,278	**2,053,108**	2,158,478

	Local		*International*		*Total*	***KD 000's***
	2019	*2018*	***2019***	*2018*	***2019***	*2018*
Operating income	**368,953**	371,711	**445,449**	374,297	**814,402**	746,008
Profit for the year	**191,671**	162,130	**70,150**	101,394	**261,821**	263,524

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29 RISK MANAGEMENT

Risk management is an integral part of Group decision-making processes. It is implemented through a governance process that emphasizes on independent risk assessment, control and monitoring, overseen directly by the Board and senior management.

KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and market regulations and risk management best practices. KFH operates a “three lines of defence” system for managing risk.

The first line of defence recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

The second line of defence comprises the Risk Management Department and the Financial Control Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The risk management department is responsible for managing and monitoring risk exposures. It also, measures risk using risk models and presents reports to the Board Risk Committee and the Board of Directors. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank’s Board of Directors are willing to accept.

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (within accepted Shari’a products) to manage exposures and emerging risks resulting from changes in yields, foreign currencies and, equity risks. The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration
In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging (Shari’a compliance) is used within the Bank to manage risk concentrations at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Group has similar risk management structures, policies and procedures as overseen by the Bank’s Board of Directors.

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30 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has process to review credit quality to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by using credit risk rating model, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which is exposed to and take corrective actions.

Assessment of expected credit losses

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

- the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as releasing security (if any is held);
- the customer is past due more than 90 days on any material credit obligation to the Group; or
- customer is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

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

The Group considers a variety of indicators that may indicate 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 account of all aspects of perceived risk. The Group uses Moody's Risk Analyst (MRA) as its internal credit-rating engine. The MRA tool provides the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group' rating policy. The attributable risk ratings are assessed and updated regularly.

The group uses of 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.

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30 CREDIT RISK (continued)

Assessment of expected credit losses *(continued)*

The Group assesses the PD for its retail portfolio through application scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility.

Incorporation of forward-looking information

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

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown (before impairment, net of deferred and suspended profit), before the effect of mitigation through the use of master netting and collateral agreements.

		KD 000' s	
	Notes	***2019***	*2018*
Balances with banks and financial institutions	8	**1,687,769**	1,162,424
Due from banks	9	**3,782,828**	3,443,689
Financing receivables	10	**9,809,700**	9,564,418
Investment in Sukuk	11	**2,296,204**	1,570,550
Trade and other receivables		**281,752**	296,304
Total		**17,858,253**	16,037,385
Contingencies	25	**1,696,964**	1,863,803
Commitments	25	**356,144**	294,675
Total		**2,053,108**	2,158,478
Total credit risk exposure		**19,911,361**	18,195,863

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 2019 was KD 240,031 thousand (2018: KD 275,392 thousand) before taking account of any collaterals.

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

	KD 000's	
	2019	*2018*
Middle East	**11,649,002**	10,979,525
Europe	**5,227,580**	4,187,448
Other	**981,671**	870,412
	17,858,253	16,037,385

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30 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

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

	KD 000's	
	2019	*2018*
Trading and manufacturing	**4,383,273**	4,210,042
Banks and financial institutions	**7,651,507**	6,207,407
Construction and real estate	**2,797,710**	2,760,204
Other	**3,025,763**	2,859,732
	17,858,253	16,037,385

Credit quality per class of financial assets

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

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2019				
Balances with banks and financial institutions	**1,687,769**	**-**	**-**	**1,687,769**
Due from banks	**3,782,828**	**-**	**-**	**3,782,828**
Financing receivables (Note 10)	**7,877,748**	**1,156,628**	**775,324**	**9,809,700**
Investment in Sukuk	**1,723,362**	**572,842**	**-**	**2,296,204**
Trade and other receivables	**281,752**	**-**	**-**	**281,752**
	15,353,459	**1,729,470**	**775,324**	**17,858,253**

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2018				
Balances with banks and financial institutions	1,162,424	-	-	1,162,424
Due from banks	3,443,689	-	-	3,443,689
Financing receivables (Note 10)	7,733,158	1,033,817	797,443	9,564,418
Investment in Sukuk	1,366,246	204,304	-	1,570,550
Trade and other receivables	296,304	-	-	296,304
	14,001,821	1,238,121	797,443	16,037,385

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

				KD 000's
	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
31 December 2019				
Financing receivables	**318,362**	**113,611**	**132,267**	**564,240**
31 December 2018				
Financing receivables	352,908	134,551	92,226	579,685

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30 CREDIT RISK (continued)

Collateral
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Group's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to past due or impaired finance facilities as at 31 December 2019 was KD 281,072 thousand (2018: KD 315,388 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee and real estate assets.

31 LIQUIDITY RISK
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base while manages assets and monitors future cash flows with liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high quality liquid assets, which could be used to secure additional funding if required.

In addition, the Group maintains 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 committed lines of credit that it can access to meet liquidity needs.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year-end are based on contractual payment arrangement and planned exit dates.

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

				KD 000's
	Up to 3 months	*3 to 12 months*	*After one year*	***Total***
Assets				
Cash and balances with banks	**1,873,319**	**5,388**	**31,381**	**1,910,088**
Due from banks	**2,505,967**	**1,006,429**	**270,432**	**3,782,828**
Financing receivables	**2,239,235**	**2,302,324**	**4,794,996**	**9,336,555**
Investment in Sukuk	**33,020**	**278,823**	**1,964,589**	**2,276,432**
Trading properties	**9,301**	**8,477**	**89,835**	**107,613**
Investments	**5,934**	**19,352**	**185,238**	**210,524**
Investment in associates and joint ventures	**-**	**-**	**504,343**	**504,343**
Investment properties	**2,627**	**10,706**	**442,073**	**455,406**
Other assets	**132,657**	**46,529**	**367,596**	**546,782**
Intangible assets and goodwill	**-**	**-**	**31,329**	**31,329**
Property and equipment	**-**	**-**	**228,958**	**228,958**
	6,802,060	**3,678,028**	**8,910,770**	**19,390,858**
Liabilities				
Due to banks and financial institutions	**1,342,297**	**703,667**	**381,202**	**2,427,166**
Sukuk payables	**38,916**	**59,599**	**221,450**	**319,965**
Depositors' accounts	**9,493,294**	**901,524**	**3,157,827**	**13,552,645**
Other liabilities	**148,997**	**123,603**	**575,107**	**847,707**
	11,023,504	**1,788,393**	**4,335,586**	**17,147,483**

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31 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2018 is as follows:

				KD 000's
	Up to 3 months	*3 to 12 months*	*After one year*	*Total*
Assets				
Cash and balances with banks	1,350,439	1,387	29,344	1,381,170
Due from banks	2,011,981	1,236,469	195,239	3,443,689
Financing receivables	2,139,513	2,397,779	4,652,943	9,190,235
Investment in Sukuk	59,240	197,141	1,306,980	1,563,361
Trading properties	7,136	18,065	122,438	147,639
Investments	13,654	26,741	244,488	284,883
Investment in associates and joint ventures	-	-	499,179	499,179
Investment properties	-	14,877	474,732	489,609
Other assets	174,327	40,788	329,301	544,416
Intangible assets and goodwill	-	-	31,180	31,180
Property and equipment	-	-	194,917	194,917
	5,756,290	3,933,247	8,080,741	17,770,278
Liabilities				
Due to banks and financial institutions	1,472,236	618,414	598,429	2,689,079
Sukuk payables	33,580	143,840	321,168	498,588
Depositors' accounts	7,860,098	594,454	3,325,758	11,780,310
Other liabilities	182,433	117,863	427,835	728,131
	9,548,347	1,474,571	4,673,190	15,696,108

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

				KD 000's
	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
2019				
Contingencies (Note 25)	**556,954**	**361,616**	**778,394**	**1,696,964**
Capital commitments (Note 25)	**38,091**	**92,808**	**225,245**	**356,144**
Total	**595,045**	**454,424**	**1,003,639**	**2,053,108**

				KD 000's
	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
2018				
Contingencies (Note 25)	**621,770**	**306,739**	**935,294**	**1,863,803**
Capital commitments (Note 25)	**58,690**	**41,544**	**194,441**	**294,675**
Total	**680,460**	**348,283**	**1,129,735**	**2,158,478**

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

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32 MARKET RISK

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

Profit rate risk
In accordance with the provisions of Islamic Shari'a, the Group generates assets and liabilities that have cash inflows and outflows, or fair values and their profitability and performance is evaluated through the sensitivity of profit rates fluctuations. The group manages the risk arising from these exposures to maximize profit for shareholders and depositors.

Currency risk
This is the risk of incurring losses due to changes in currency exchange rates.

Currency risk is managed based on limits determined by the Bank's Board of Directors and a continuous assessment of the Group open positions, and current and expected exchange rate movements. The Group, wherever necessary, matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency. The Group also uses currency swap and forward foreign exchange contracts (within Shari'a complaint products) to mitigate foreign currency risk.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2019 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of equity investments at FVOCI).

KD 000's

	31 December 2019			*31 December 2018*		
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	**+1**	**1,212**	**45**	+1	589	50
Bahraini Dinar	**+1**	**(1,001)**	**125**	+1	(930)	156

Price risk
This is the risk arising from the changes in the market value of investments in equity, Sukuk, and real estate.

The effect on fair value reserve (as a result of a change in the fair value of equity investments at FVOCI at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

KD 000's

	2019		*2018*	
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Boursa Kuwait	**+1**	**85**	+1	87
Other GCC indices	**+1**	**161**	+1	153

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32 MARKET RISK (continued)

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, processes or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Group has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk managed by the Operational Risk Management, which reviews policies, procedures, products, services and support business lines in managing and monitoring operational risks as part of overall Group-wide risk management.

Operational Risk Management of the Group is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and monitoring operational risks in Group.

Country risk
Country risk is the risk that incidents within a country could have an adverse effect on the Group directly in impairing the value of the Group or indirectly through an obligor’s inability to meet its obligations to the Group. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

33 CAPITAL MANAGEMENT

The primary objectives of the Group’s capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group’s capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group’s regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) and its amendments are shown below:

		KD 000's
Capital adequacy	***2019***	*2018*
Risk Weighted Assets	**13,192,800**	12,201,132
Capital required	**1,978,920**	1,830,170
Capital available		
Tier 1 capital	**2,124,702**	1,941,387
Tier 2 capital	**206,905**	190,477
Total capital	**2,331,607**	2,131,864
Tier 1 capital adequacy ratio	**16.11 %**	15.91%
Total capital adequacy ratio	**17.67 %**	17.47%

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33 CAPITAL MANAGEMENT (continued)

The Group's financial leverage ratio for the year ended 31 December 2019 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

	KD 000's	
	2019	*2018*
Tier 1 capital	**2,124,702**	1,941,387
Total exposure	**22,279,223**	20,157,606
Financial leverage ratio	**9.54%**	9.63%

34 MANAGEMENT OF PURCHASED DEBTS

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the Bank is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

35 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2019 amounted to KD 1,042,413 thousand (2018: KD 1,110,608 thousand).

Fees and commission income include fees of KD 4,313 thousand (2018: KD 4,226 thousand) arising from trust and fiduciary activities.

36 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 2019.

				KD 000's
Financial assets measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Venture capital at fair value through statement of income (Note 12)	**-**	**21,057**	**-**	**21,057**
Equities at FVTPL (Note 12)	**22,496**	**50,858**	**27,420**	**100,774**
Equities at FVOCI (Note 12)	**29,330**	**-**	**59,363**	**88,693**
Investment in Sukuk (Note 11)	**2,161,416**	**-**	**115,016**	**2,276,432**
Derivative financial assets:				
Forward contracts	**-**	**1,165**	**-**	**1,165**
Profit rate swaps	**-**	**-**	**-**	**-**
Currency swaps	**-**	**12,083**	**-**	**12,083**
Non-financial assets:				
Investment properties	**-**	**535,375**	**-**	**535,375**
	2,213,242	**620,538**	**201,799**	**3,035,579**

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36 FAIR VALUES (continued)

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2018.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of income (Note 12)	-	29,932	-	29,932
Investments at FVTPL (Note 12)	52,258	52,252	57,396	161,906
Investments at FVOCI (Note 12)	29,022	-	64,023	93,045
Investment in Sukuk (Note 11)	1,291,591	-	271,770	1,563,361
Derivative financial assets:				
Forward contracts	-	2,568	-	2,568
Profit rate swaps	-	73	-	73
Currency swaps	-	895	-	895
Non-financial assets:				
Investment properties	-	647,569	-	647,569
	1,372,871	733,289	393,189	2,499,349

				KD 000's
Financial liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	-	3,733	-	3,733
Profit rate swaps	-	3,289	-	3,289
Currency swaps	-	8,372	-	8,372
Embedded precious metals	-	459	-	459
	-	15,853	-	15,853

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted Sukuk of KD 115,016 thousand (2018: KD 271,770 thousand) and unquoted equity investments of KD 86,783 thousand (2018: KD 121,419 thousand). Investment in Sukuk included in this category represent Investment in Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Investment in Sukuk are estimated using discounted cash flow method using discount rate (ranging from 2.1% to 7.8%). 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%.

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36 FAIR VALUES (continued)

Instruments disclosed in note 26 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date.

All investment properties are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets measured at fair value:

	KD 000's	
	2019	*2018*
As at 1 January	**393,189**	324,499
IFRS 9 impact	**-**	100,676
	393,189	425,175
Re-measurement recognised in other comprehensive income	**(10,900)**	(3,405)
Disposal, net	**(180,490)**	(28,581)
As at 31 December	**201,799**	393,189

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