

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2025



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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 2025, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the Central Bank of Kuwait (“CBK”) for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the ‘Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements’ section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“IESBA Code”), as applicable to audits of financial statements of public interest entities, 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.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Credit losses on financing receivables

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

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

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

Due to the significance of financing facilities and the related estimation uncertainty and management’s judgement in assessing significant increase in credit risk and classification of financing facilities into various stages, adjustment to ECL models, if any this was considered as a key audit matter.

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

a) Credit losses on financing receivables (continued)

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected a sample of financing facilities outstanding as at the reporting date, which included rescheduled financing facilities, and evaluated the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. We involved our specialists to review the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") and the overlays, if any, considered by management, in order to determine ECL taking into consideration CBK guidelines. For a sample of credit facilities, we have computed ECL including the eligibility and value of collateral considered in the ECL models used by the Group.

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

b) Impairment assessment of goodwill

The Group had goodwill with a carrying value of KD 2,047,469 thousand as at 31 December 2025, recognised on the acquisition of Kuwait Finance House B.S.C. (c) [formerly, Ahli United Bank B.S.C. (c)] in 2022. IFRS Accounting Standards requires management to assess goodwill for impairment at each reporting date with any impairment loss to be charged to profit or loss. Goodwill was allocated to individual cash-generating units during 2022 and there has been no change in the allocation since then. Management engaged an external expert to assist them in performing the impairment assessment of goodwill. The impairment assessment of goodwill is significant to our audit because the assessment of the recoverable amount of goodwill, based on the higher of fair value less cost to sell ("FVLCTS") and the value-in-use ("VIU"), is complex and requires management to apply significant judgements. Estimates of future cash flows used in VIU includes estimates such as management's view of the growth in the banking sector and economic conditions, for example economic growth and expected inflation rates and yield rates. For FVLCTS, the estimation of comparable market transactions required management to apply considerable judgement. Therefore, we have considered the impairment assessment of goodwill as a key audit matter.

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

b) Impairment assessment of goodwill (continued)

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

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

We have also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 13 to the consolidated financial statements, against the requirements of IFRS Accounting Standards.

Other Information included in the Group's 2025 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2025 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 IFRS Accounting Standards as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

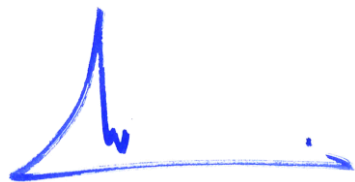
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments; and 2/I.B.S./343/2014 dated 21 October 2014 and its amendments, respectively; the Companies Law No.1 of 2016, as amended and its executive regulations, as amended and by the Bank's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/I.B.S./ 343/2014 dated 21 October 2014 and its amendments, respectively; the Companies Law No.1 of 2016, as amended and its executive regulations, as amended or of the Bank's Memorandum of Incorporation and Articles of Association, as amended have occurred during the year ended 31 December 2025 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 2025 that might have had a material effect on the business of the Bank or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
(AL-AIBAN, AL-OSAIMI & PARTNERS)



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

27 January 2026
Kuwait

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2025

		<i>KD 000's</i>	
	<i>Notes</i>	<u>2025</u>	<u>2024</u>
INCOME			
Financing income		3,250,512	2,886,460
Finance cost and distribution to depositors		(1,971,288)	(1,739,486)
Net financing income		1,279,224	1,146,974
Fees and commissions income		482,671	371,555
Fees and commissions expense		(253,227)	(194,332)
Net fees and commission income		229,444	177,223
Investment income	3	161,657	137,798
Net gain from foreign currencies		69,356	153,807
Other income	4	93,645	76,360
TOTAL OPERATING INCOME		1,833,326	1,692,162
OPERATING EXPENSES			
Staff costs		(346,387)	(347,307)
General and administrative expenses		(186,497)	(168,490)
Depreciation and amortisation		(91,460)	(84,183)
TOTAL OPERATING EXPENSES		(624,344)	(599,980)
NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENT AND NET MONETARY LOSS			
Provisions and impairment	5	(161,444)	(119,996)
Net monetary loss	30	(135,373)	(155,322)
OPERATING PROFIT BEFORE TAXATION AND PROPOSED DIRECTORS' FEES		912,165	816,864
Taxation	6	(190,450)	(173,640)
Proposed directors' fees	20	(1,460)	(1,317)
PROFIT FOR THE YEAR		720,255	641,907
Attributable to:			
Shareholders of the Bank		632,108	601,802
Non-controlling interests		88,147	40,105
		720,255	641,907
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK			
	7	35.64 fils	33.68 fils

The attached notes 1 to 30 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 2025

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Profit for the year	720,255	641,907
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Revaluation gain (loss) on equity investments at fair value through other comprehensive income	6,277	(4,090)
Net change in pension fund reserve	(86)	1,270
<i>Items that are or may be reclassified subsequently to consolidated statement of income:</i>		
Investments in Sukuk at fair value through other comprehensive income:		
Net change in fair value during the year	64,693	(33,076)
Net transfer to consolidated statement of income	616	(5,711)
Net income (loss) on investments in Sukuk at fair value through other comprehensive income	65,309	(38,787)
Share of other comprehensive income of associates and joint ventures	-	5,183
Net change in fair value of cash flow hedges	(104)	67
Exchange differences on translation of foreign operations	(172,430)	(237,066)
Other comprehensive loss for the year	(101,034)	(273,423)
Total comprehensive income	619,221	368,484
Attributable to:		
Shareholders of the Bank	592,679	404,151
Non-controlling interests	26,542	(35,667)
	619,221	368,484

The attached notes 1 to 30 form part of these consolidated financial statements.

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

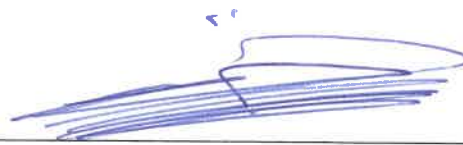
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2025

	Notes	<i>KD 000's</i>	
		2025	2024
ASSETS			
Cash and balances with banks and financial institutions	8	4,998,746	3,695,324
Due from banks	9	3,446,833	2,227,173
Financing receivables	10	21,817,004	19,069,673
Investment in debt securities	11	7,577,615	6,864,854
Investments		291,430	241,618
Investment in associates and joint ventures		252,482	383,919
Trading and investment properties		464,843	458,203
Other assets	12	1,148,267	1,059,019
Goodwill and intangible assets	13	2,328,566	2,328,003
Property and equipment		434,026	375,640
TOTAL ASSETS		42,759,812	36,703,426
LIABILITIES			
Due to banks		6,971,768	5,643,696
Due to financial institutions		4,738,107	3,030,485
Sukuk payables and term financing	15	1,414,401	986,639
Depositors' accounts	16	21,029,418	19,219,942
Other liabilities	17	1,761,249	1,404,764
TOTAL LIABILITIES		35,914,943	30,285,526
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	19	1,847,712	1,710,844
Share premium	19	4,267,447	4,267,447
Proposed issue of bonus shares	20	129,340	136,868
Treasury shares	19	(822,159)	(822,159)
Reserves	18	83,934	34,823
Proposed cash dividends	20	5,506,274	5,327,823
		240,868	191,165
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		5,747,142	5,518,988
Perpetual Tier 1 Capital Securities and Sukuks	21	641,257	504,059
Non-controlling interests		456,470	394,853
TOTAL EQUITY		6,844,869	6,417,900
TOTAL LIABILITIES AND EQUITY		42,759,812	36,703,426



HAMAD ABDOUL MOHSEN AL-MARZOUQ
(CHAIRMAN)



KHALED YOUSEF ALSHAMLAN
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 30 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 2025

	<i>Attributable to the shareholders of the Bank</i>						<i>Perpetual Tier 1 Capital Securities and Sukuks</i>	<i>Non-controlling interests</i>	<i>Total equity</i>		
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 18)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>			
Balance as at 1 January 2025	1,710,844	4,267,447	136,868	(822,159)	34,823	5,327,823	191,165	5,518,988	504,059	394,853	6,417,900
Profit for the year	-	-	-	-	632,108	632,108	-	632,108	-	88,147	720,255
Other comprehensive loss	-	-	-	-	(39,429)	(39,429)	-	(39,429)	-	(61,605)	(101,034)
Total comprehensive income	-	-	-	-	592,679	592,679	-	592,679	-	26,542	619,221
Issue of bonus shares (Note 20)	136,868	-	(136,868)	-	-	-	-	-	-	-	-
Cash dividends paid (Note 20)	-	-	-	-	-	-	(191,165)	(191,165)	-	-	(191,165)
Interim cash dividend (Note 20)	-	-	-	-	(172,049)	(172,049)	-	(172,049)	-	-	(172,049)
Distribution of profit (Note 20)	-	-	-	-	-	-	-	-	-	-	-
Proposed issue of bonus shares	-	-	129,340	-	(129,340)	-	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(240,868)	(240,868)	240,868	-	-	-	-
Zakat	-	-	-	-	(41,633)	(41,633)	-	(41,633)	-	-	(41,633)
Net movement on Perpetual Tier 1 Capital securities and Sukuks	-	-	-	-	(170)	(170)	-	(170)	(123,157)	-	(123,327)
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks	-	-	-	-	(18,909)	(18,909)	-	(18,909)	-	-	(18,909)
Issuance of Perpetual Tier 1 Capital Securities and Sukuks (Note 21)	-	-	-	-	(861)	(861)	-	(861)	260,355	-	259,494
Group's share of associate adjustments	-	-	-	-	(46)	(46)	-	(46)	-	-	(46)
Impact of application of IAS 29 (Note 30)	-	-	-	-	60,658	60,658	-	60,658	-	44,269	104,927
Sale of a subsidiary	-	-	-	-	(350)	(350)	-	(350)	-	(902)	(1,252)
Payment to non-controlling interest on capital redemption of a subsidiary	-	-	-	-	-	-	-	-	-	(4,433)	(4,433)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(11,668)	(11,668)
Change in ownership of subsidiaries without loss of control	-	-	-	-	-	-	-	-	-	4,706	4,706
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	3,103	3,103
Balance as at 31 December 2025	1,847,712	4,267,447	129,340	(822,159)	83,934	5,506,274	240,868	5,747,142	641,257	456,470	6,844,869

The attached notes 1 to 30 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 2025

	<i>Attributable to the shareholders of the Bank</i>						<i>Perpetual Tier 1 Capital Securities and Sukuks</i>	<i>Non-controlling interests</i>	<i>Total equity</i>		
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 18)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>			
Balance as at 1 January 2024	1,476,445	3,611,765	141,262	(113,103)	53,499	5,169,868	146,042	5,315,910	502,381	345,048	6,163,339
Profit for the year	-	-	-	-	601,802	601,802	-	601,802	-	40,105	641,907
Other comprehensive loss	-	-	-	-	(197,651)	(197,651)	-	(197,651)	-	(75,772)	(273,423)
Total comprehensive income (loss)	-	-	-	-	404,151	404,151	-	404,151	-	(35,667)	368,484
Issuance of ordinary shares	93,137	655,682	-	-	-	748,819	-	748,819	-	-	748,819
Issue of bonus shares (Note 20)	141,262	-	(141,262)	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	(56,011)	(56,011)	-	(56,011)	-	-	(56,011)
Cash dividends paid (Note 20)	-	-	-	-	-	-	(146,042)	(146,042)	-	-	(146,042)
Interim cash dividend (Note 20)	-	-	-	-	(159,304)	(159,304)	-	(159,304)	-	-	(159,304)
Distribution of profit (Note 20)	-	-	-	-	-	-	-	-	-	-	-
Proposed issue of bonus shares	-	-	136,868	-	(136,868)	-	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(191,165)	(191,165)	191,165	-	-	-	-
Net movement on treasury shares	-	-	-	(709,056)	2,687	(706,369)	-	(706,369)	-	-	(706,369)
Net movement on Perpetual Tier 1 Capital securities and Sukuks	-	-	-	-	(2,122)	(2,122)	-	(2,122)	1,678	-	(444)
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks	-	-	-	-	(22,625)	(22,625)	-	(22,625)	-	-	(22,625)
Group's share of associate adjustments	-	-	-	-	(4,815)	(4,815)	-	(4,815)	-	-	(4,815)
Impact of application of IAS 29 (Note 30)	-	-	-	-	136,877	136,877	-	136,877	-	99,893	236,770
Acquisition of non-controlling interest	-	-	-	-	(4,528)	(4,528)	-	(4,528)	-	(28,751)	(33,279)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(21,909)	(21,909)
Change in ownership of subsidiaries without loss of control	-	-	-	-	15,047	15,047	-	15,047	-	46,070	61,117
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	(9,831)	(9,831)
Balance as at 31 December 2024	1,710,844	4,267,447	136,868	(822,159)	34,823	5,327,823	191,165	5,518,988	504,059	394,853	6,417,900

The attached notes 1 to 30 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 2025

		KD 000'S	
	Notes	2025	2024
OPERATING ACTIVITIES			
Profit for the year		720,255	641,907
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		91,460	84,183
Provisions and impairment	5	161,444	119,996
Dividend income	3	(6,064)	(5,231)
Gain on sale of investments	3	(78,089)	(134,695)
Gain on sale of real estate investments	3	(24,745)	(17,497)
Share of results from investment in associates and joint ventures	3	(4,864)	(35,421)
Net monetary loss from hyperinflation	30	135,373	155,322
		994,770	808,564
Changes in operating assets and liabilities:			
<i>(Increase) decrease in operating assets:</i>			
Financing receivables and due from banks		(2,463,699)	635,117
Investment in debt securities		(605,481)	105,761
Other assets		(89,248)	(155,781)
Statutory deposit with Central Banks		(350,786)	708,337
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		3,035,694	690,391
Depositors' accounts		1,809,476	(2,592,873)
Other liabilities		14,817	(182,634)
Net cash flows from operating activities		2,345,543	16,882
INVESTING ACTIVITIES			
Net movement in investments		(39,111)	105,308
Purchase of trading & investment properties		(8,264)	(10,049)
Proceeds from sale of trading & investment properties		69,503	35,948
Purchase of property and equipment		(94,954)	(50,706)
Proceeds from sale of property and equipment		4,696	11,047
Intangible assets, net		6,178	(8,017)
Capital injection of investments in associates and joint ventures		-	(792)
Proceeds from sale/ redemption of investments in associates and joint ventures		143,596	148,811
Dividend received		7,839	55,328
Payment to non-controlling interest on capital redemption of a subsidiary		(4,433)	-
Proceeds from sale of subsidiary, net of cash disposed		4,219	100,466
Net cash flows from investing activities		89,269	387,344
FINANCING ACTIVITIES			
Profit payment on Perpetual Tier 1 Capital Securities and Sukuks		(18,909)	(22,625)
New issuance of Perpetual Tier 1 Capital Securities and Sukuks		259,494	-
Payment on settlement of Perpetual Tier 1 Sukuks		(123,327)	-
Cash dividends paid		(363,214)	(301,792)
Dividends paid to non-controlling interest		(11,668)	(21,909)
Movement in Sukuk payable and term financing	15	427,762	351,107
Zakat paid		(54,167)	(20,787)
Net movement in treasury shares		-	9,171
Net cash flows from (used in) financing activities		115,971	(6,835)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,550,783	397,391
Cash and cash equivalents as at 1 January		3,445,682	3,048,291
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	8	5,996,465	3,445,682

The attached notes 1 to 30 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2025 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 12 January 2026. 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 14.1. The Bank was incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait ("CBK"). The Bank is a public shareholding company listed in Kuwait Boursa and Bahrain Bourse, and is engaged in all Islamic banking activities for its own account as well as for third parties, including financing, purchase and sale of investments, leasing, project construction and other trading activities without practising usury. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the IFRS Accounting Standards with an amendment for measuring the expected credit loss ("ECL") on credit facilities at the higher of ECL computed under IFRS 9 – 'Financial Instruments' in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures.

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

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

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

2.2 PRESENTATION OF FINANCIAL STATEMENTS

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

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications do not affect the previously reported total assets, total liabilities, equity and profit for the year.

2.3 CHANGES IN ACCOUNTING POLICIES

New standards, interpretations, and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2025 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Lack of exchangeability – Amendments to IAS 21

For annual reporting periods beginning on or after 1 January 2025, *Lack of Exchangeability – Amendments to IAS 21* The Effects of Changes in Foreign Exchange Rates specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of an entity's financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

The amendment did not have a material impact on the Group's consolidated financial statements.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Amendments to Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- ▶ Clarifications of the requirements for recognition and derecognition of financial assets and liabilities
- ▶ A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date
- ▶ Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed
- ▶ Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments
- ▶ The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI)

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Bank is currently not intending to early adopt the Amendments.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations. There are specific presentation requirements and options for entities, that have specified main business activities (either providing finance to customers or investing in specific type of assets, or both).

It also requires disclosure of newly management-defined performance measures, which are subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes.

In addition, narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

The Group is currently working to identify the impacts the standard will have on the primary consolidated financial statements and notes to the consolidated financial statements. The Group considers its main business activities to include the provision of financing to customers and investing in financial assets. In accordance with IFRS 18, some of the income and expenses related to those activities are classified in the operating category, as an exception to the general requirements that would otherwise have resulted in their classification in the investing or financing categories.

2.5 BASIS OF CONSOLIDATION

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

a. Subsidiaries

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 14 for the list of material subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

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

2.6 MATERIAL ACCOUNTING POLICY INFORMATION

Business combinations and goodwill

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

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

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

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Business combinations and goodwill (continued)

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

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

Investment in associates and joint ventures

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

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

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

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

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

Foreign currency translation

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

Transactions and balances

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

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Foreign currency translation (continued)

Transactions and balances

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Group companies

On consolidation the assets and liabilities of foreign subsidiaries are translated into Kuwait Dinar at the rate of exchange prevailing at the reporting date and their income statements are translated at average exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal, liquidation, repayment of share capital or abandonment of all, or part of a foreign subsidiary, the component of other comprehensive income relating to that particular foreign subsidiary, is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign subsidiary and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiary and translated at the spot rate of exchange at the reporting date.

Revenue recognition

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

- i) Financing income includes the following:
 - ▶ Income from murabaha, istisna'a, leased assets, tawarruq, mudaraba, wakala investments, other financing receivables and advances and investment in debt securities, and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
Recognition of financing income is suspended on financing receivables where profit and / or principal is overdue by 90 days or more.
- ii) Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction.
- iii) Rental income from investment properties is recognised on an accrual basis.
- iv) Dividend income is recognised when the right to receive payment is established.
- v) Operating lease income is recognised on a straight-line basis in accordance with the lease agreement.
- vi) Gain from real estate investments includes gains from sale of investment properties and trading properties. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

IAS 29 Financial Reporting in Hyperinflationary Economies

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

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

IAS 29 Financial Reporting in Hyperinflationary Economies (continued)

The financial information of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, (a) the restatement effect resulting from restating the group interest in the equity of the hyperinflation foreign operations is presented in the consolidated statement of changes in equity and (b) the translation effect resulting from translating the group interest in the equity of the hyperinflationary foreign operation (excluding the effect any restatement required by IAS 29) at a closing rate that differs from previous closing rate is presented in the consolidated statement of other comprehensive income.

Trading and investment 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 are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at depreciated cost less impairment.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the investment property is recognised in the consolidated statement of income in the year of derecognition as gain of sale of real estate investment.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to property and equipment, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If property and equipment become an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

When the Group begins to redevelop an existing investment property with a view to selling the property, it is transferred to trading properties at carrying value.

Depreciation is provided on a straight-line basis over the estimated useful lives, that range from 20 – 40 years other than freehold land which is deemed to have an indefinite life.

Properties under construction

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

Precious metals inventory

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

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.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at initial recognition and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortised cost
- ▶ Fair value through other comprehensive income (FVOCI)
- ▶ Fair value through profit or loss (FVTPL)

Financial liabilities, other than financing commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Business model assessment

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

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

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

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

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

'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.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

The Group classifies its financial assets upon initial recognition into the following categories:

- ▶ Debt instruments at amortised cost
- ▶ Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to consolidated statement of income on derecognition
- ▶ Equity instruments at FVOCI, with no recycling of gains or losses to consolidated statement of income on derecognition
- ▶ Financial assets carried at fair value through profit or loss (FVTPL)

Debt instruments at amortised cost:

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- ▶ The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset meet the SPPY test.

Cash and balances with banks and financial institutions, due from banks, certain investment in debt securities and financing receivables are classified as debt instruments at amortised cost.

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

Debt instruments at FVOCI:

A debt instrument is carried at FVOCI if it meets both of the following conditions:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- ▶ The contractual terms of the financial asset meet the SPPY test

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

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of consolidated financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Equity instruments at FVOCI:

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Equity instruments at FVOCI: (continued)

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity (fair value reserve). Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial asset at FVTPL:

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

Changes in fair values, profit income and dividends are recorded in the consolidated statement of income according to the terms of the contract, or when the right to payment has been established. Included in this classification are certain debt securities, equities and derivatives that are not designated as hedging instruments in a hedge relationship.

The Group has determined the classification and measurement of its financial assets as follows:

i. Cash and cash equivalents

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

ii. Due from banks

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

iii. Financing receivables

Financing receivables are financial assets with fixed or determinable payments that are not quoted in an active market and principally comprise of Islamic financing facilities including murabahas, istisna'a, ijara, tawarruq, mudaraba, wakala receivables and leased assets, as well as other financing receivables and advances. The financing receivables are stated at amortised cost using effective profit rate.

Murabaha

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

Istisna'a

Istisna'a is a sale contract concluded between a buyer and a manufacturer, whereby the manufacturer undertakes, at the request of the buyer, to manufacture the subject matter of the contract (the product) according to the stipulated specifications, at an agreed upon price and method of payment, whether by paying in advance, by installments, or by deferring payment to a specific date in the future.

Ijara

The lease contract is concluded between the Group (the lessor) and the customer (the lessee), whereby the Group achieves a return by charging rents on the leased assets to the customers.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Tawarruq

It is a product in which a customer buys goods from the group on a deferred payment basis and then sells them immediately for cash to another party.

Mudaraba

It is an agreement between two parties whereby one of them provides funds (rabb al-mal) and the other makes efforts and provides expertise (mudarib) and he is responsible for investing these funds in a specific company or special activity in exchange for a pre-agreed percentage of the mudaraba revenues if there are profits, while in the event of a normal loss, the rabb al-mal will bear the loss of his money while the mudarib will bear the loss of his efforts. However, in case of negligence or breach of any of the terms and conditions of the mudaraba agreement, only the mudarib will bear the losses. The Group acts as a mudarib when accepting funds from depositors and as a rabb al-mal when investing these funds on a mudaraba basis.

Wakala

Wakala is an agreement whereby the Group provides an amount of money to a client under a wakala agreement, who invests this amount according to specific conditions in exchange for agreed fees. The agent is obligated to return the amount in case of negligence or violation of any of wakala's terms and conditions.

Other financing receivables and advances

Other financing receivables and advances are financial assets with fixed or determinable payments and fixed maturities. After initial recognition, they are subsequently measured at amortized cost using the effective profit rate method, adjusted to reflect actual fair value hedges, less any amounts written off and allowance for credit losses. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective profit rate. The amortization is included within 'finance income' in the consolidated statement of income.

Trade receivables

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

iv. Investments in debt securities

Investments in debt securities are classified at FVOCI, FVTPL and amortized cost based on the business model in which these securities are managed. These include investment in bonds, sukuks, notes and certificate of deposits issued by banks and other financial institutions and corporates.

v. Investments

Group's financial investments consists of investment in equity instruments and investment in funds. Investment in equity instruments are carried at FVTPL or FVOCI based on the business model in which these securities are managed. Investment in funds are carried at FVTPL.

vi. Venture capital at fair value through profit or loss

Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through profit or loss in accordance with IFRS 9, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recorded as unrealized gain (loss) in the consolidated statement of income.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Financial liabilities

The Group has determined the classification and measurement of its financial liabilities as follows:

i. Due to banks, depositors' accounts and Sukuk payables and term financing

These are measured at amortised cost. Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in "financing under repurchase agreements". The difference between the sale price and repurchase price is treated as finance costs and is accrued over the life of the agreement using the effective profit method.

ii. Trade payables

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

iii. Accrued expenses

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

iv. Financial guarantees

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and the provisions required by the CBK. Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a financing with pre-specified terms to the customer. Similar to financial guarantee contracts, a provision is measured, if they are an onerous contract, according to the CBK guidelines.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

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

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

Derecognition due to substantial modification of terms and conditions

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Derecognition due to substantial modification of terms and conditions (continued)

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

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

Any fees received as part of the modification are accounted for as follows:

- ▶ Fees that are considered in determining the fair value of the new financial asset and fees that represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- ▶ Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

In the context of IBOR, the Phase 2 amendments provide practical relief from certain requirements in IFRS Accounting Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- ▶ the change is necessary as a direct consequence of the reform; and
- ▶ the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When the changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

Derivatives financial instruments and hedge accounting

i. Derivatives not designated as hedges:

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

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Derivatives financial instruments and hedge accounting (continued)

ii. Derivatives designated as hedges:

For the purpose of hedge accounting, hedges are classified as:

- ▶ Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- ▶ Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to the particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- ▶ Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

Fair value hedges:

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

Cash flow hedges:

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

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

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.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Derivatives financial instruments and hedge accounting (continued)

Hedges of a net investment (continued):

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing profit rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 also requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the profit rate is not altered as a result of IBOR reform. Further, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

Impairment of financial assets

The Group recognises ECL for financing receivable, due from banks, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together “financing facilities”) and investment in debt securities carried at FVOCI and amortised cost.

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

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

Expected Credit Losses

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

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.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Expected Credit Losses (continued)

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure value of collaterals determined in accordance with CBK guideline.

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

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the asset. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Any subsequent recoveries are credited to credit loss expense.

When estimating ECL for undrawn financing commitments, the Group estimates the expected portion of the financing commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down.

The Group measures ECLs on guarantees based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure.

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

Determining the stage of impairment

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

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;

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Expected Credit Losses (continued)

Determining the stage of impairment (continued)

- ▶ Obligor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties;
- ▶ Legal measures and action against customer by other creditors;
- ▶ Clear evidence that the customer is unable to pay financing receivable on maturity dates;

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to Stage 2 even if other criteria do not indicate a significant increase in credit risk.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

Objective evidence that financial assets is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant financial asset and collectively for others not deemed individually significant.

Measurement of ECLs

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

- ▶ The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognized and is still in the portfolio. The Group uses point in time PD ("PITPD") to calculate the ECL. The minimum PD is 1% for Non-Investment Grade facilities and 0.75% for Investment Grade financing facilities except for financing facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and housing financing (except for credit cards).
- ▶ The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including payments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per CBK requirements, the Group applies 100% Credit Conversion Factor ("CCF") on utilized non-cash facilities. For unutilized facilities CCF is applied based on the CBK requirements for leverage ratio issued on 21 October 2014.
- ▶ The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. CBK guidelines have prescribed list of eligible collaterals and minimum hair-cuts that are applied in determination of LGD.

Further, as per CBK guidelines, for unsecured senior and subordinate financing facilities minimum LGD threshold applied is 50% and 75% respectively.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Expected Credit Losses (continued)***Measurement of ECLs (continued)*

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2, the Group considers a minimum maturity of 7 years for all financing facilities (excluding consumer financing & credit cards and personal housing financing which is regulated by CBK based on salary) unless financing facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings & credit cards and personal housing financings which is regulated by CBK based on salary in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, unemployment rates, Central Bank base rates, oil prices, commodity price index and equity price index and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated financing receivables

In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Derecognition decisions are determined on a case-by-case basis.

Presentation of allowance for ECL in the consolidated statement of financial position

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

Provisions for credit losses in accordance with CBK instructions

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

<i>Category</i>	<i>Criteria</i>	<i>Specific provisions</i>
Watch list	Irregular for a period of 31 to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

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

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

▶ Buildings	up to 50 years
▶ Furniture, fixtures and equipment	3 to 10 years
▶ Motor vehicles	3 years

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

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

Leases

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

Group as a lessee

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

i. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date of the underlying asset if available of use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, and is included under 'property and equipment' in the consolidated statement of financial position. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and the lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets ranging up to 25 years.

If the ownership of the leased asset is transferred to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment in accordance with the Group's impairment of non-financial assets policy.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Leases (continued)

ii. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental profit rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

i. Leased assets

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

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

ii. Operating leases

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is recognised in 'other income' in the consolidated statement of income.

Intangible assets

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

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

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

▶ Core deposits	12 years
▶ Brand/ trademark	3 years
▶ License	assessed to have an indefinite useful life
▶ Software development cost	3 to 5 years
▶ Software license right	15 years
▶ Other rights	3 to 7 years

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

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Intangible assets (continued)

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

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

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

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

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.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Taxation

Domestic Minimum Top-up Tax (DMTT)

Income taxes arising from tax law enacted by the State of Kuwait (Law No. 157 of 2024) for implementation of DMTT on entities which are part of multinational group with annual revenues of EUR 750 million or more are provided for in accordance with the Executive regulations issued through Ministerial Resolution No. 55 of 2025. Refer note 6 for further information.

Overseas tax

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.

Kuwait Foundation for the Advancement of Sciences

Contribution to Kuwait Foundation for the Advancement of Sciences is provided at 1% of the eligible profits in accordance with the Amiri Decree issued on 12 December 1976.

National Labour Support Tax and Zakat

National Labour Support Tax and Zakat was provided for in accordance with the applicable fiscal laws, rules and regulations. Consequent to the implementation of DMTT in the State of Kuwait, the Group is not liable to National Labour Support Tax and Zakat effective from 1 January 2025.

The Bank calculates shareholders' Zakat at 2.5775% on the Zakat pool upon completion of the fiscal year, in accordance with the Zakat Manual issued by Kuwait Zakat House as well as the resolutions and recommendations of the Bank's Fatwa and Shari'a Supervisory Board. The Zakat amount is charged to the voluntary reserve and is paid under the direction of the Fatwa and Shari'a Supervisory Board.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets carried at FVOCI or FVTPL

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Fair value measurement (continued)

Financial assets carried at FVOCI or FVTPL (continued)

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. reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation. In accordance with the provisions of these amendments, the Group applies the mandatory and temporary exception not to recognise deferred taxes associated with this additional taxation. Refer note 6 for further information.

Investment properties

For investment properties, fair value is determined by registered real estate valuers who have relevant experience in the property market.

Finance cost

Finance cost is directly attributable to due to banks and financial institutions and depositors' accounts. All finance costs are expensed in the period they occur.

Other provisions and reserves

Other provisions and reserves are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any reserve provision is recorded in the consolidated statement of income net of any reimbursement.

Employees' end of service benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard ("IAS") 19 – Employee Benefits are charged to the consolidated statement of income in the year to which they relate.

Treasury shares

The Group's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Significant judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

Classification of real estate

Management decides on acquisition of a developed and under development real estate property whether it should be classified as trading, investment property or property and equipment.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business or when it is being redeveloped for sale.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as property and equipment when it is acquired for owner occupation.

Determining the lease term of contracts with renewal options (Group as lessee)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 29.

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.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Estimation uncertainty (continued)

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.

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 criterion for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis
- ▶ Development of ECL models, including various formulas and choice of inputs
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The Group has the policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment losses on financing receivables – as per CBK guidelines

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- ▶ recent arm's length market transactions;
- ▶ current fair value of another instrument that is substantially the same;
- ▶ an earnings multiple;
- ▶ the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- ▶ other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

2.6 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Estimation uncertainty (continued)***Leases - Estimating the incremental financing rate*

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental financing rate ("IBR") to measure lease liabilities. The IBR is the rate that the Group would have to pay to get funding over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

3 INVESTMENT INCOME

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Gain on sale of real estate investments	24,745	17,497
Rental income from investment properties	5,644	5,571
Dividend income	6,064	5,231
Gain on sale of investments	78,089	134,695
Share of results of investment in associates and joint ventures	4,864	35,421
Others	42,251	(60,617)
	<u>161,657</u>	<u>137,798</u>

4 OTHER INCOME

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Income from sale of property and equipment	1,635	4,708
Real estate trading, development and construction income	1,862	1,052
Income from maintenance, services, and consultancy	50,075	44,405
Rental income from lease contracts	5,022	4,786
Other income	35,051	21,409
	<u>93,645</u>	<u>76,360</u>

5 PROVISIONS AND IMPAIRMENT

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Impairment on financing receivables (Note 10)	136,287	95,618
Recovery of written-off debts	(42,999)	(23,201)
Reversal of impairment of non-cash facilities	(1,149)	(1,156)
	<u>92,139</u>	<u>71,261</u>
Total financing provision	92,139	71,261
Expected credit losses (reversal) for investment in debt securities (Note 11)	616	(5,711)
Expected credit losses for other financial assets	1,509	3,963
Other provisions and impairment*	67,180	50,483
	<u>161,444</u>	<u>119,996</u>

5 PROVISIONS AND IMPAIRMENT (continued)

* Group undertakes Takaful activity through its subsidiaries in Kuwait and Türkiye. Other provisions and impairments include an amount of KD 71,090 thousand (2024: 61,510 thousand) related to estimated loss on Takaful contract liabilities of the Takaful subsidiaries. These amounts were netted off against other income in the prior year. Comparative information has been reclassified to conform with current year presentation.

6 TAXATION

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	5,782	5,559
National Labour Support Tax (NLST)	-	19,182
Zakat	-	7,825
BEPS Pillar 2	50,876	-
Taxation related to subsidiaries	133,792	141,074
	<u>190,450</u>	<u>173,640</u>

BEPS Pillar 2

During 2025, OECD Pillar Two tax reforms were introduced in many of the overseas jurisdictions where the Group operates. For example, both governments of Bahrain and United Arab Emirates enacted a DMTT effective for financial years beginning on or after 1 January 2025 ensuring a minimum effective tax rate of 15% in line with OECD Pillar Two requirements. In addition to jurisdictions that have enacted a Domestic Minimum Top-up Tax (DMTT), certain countries have also introduced the Income Inclusion Rule (IIR) and the Undertaxed Payments Rule (UTPR) effective for fiscal years beginning on or after 1 January 2025. These rules ensure that multinational groups are subject to a minimum effective tax rate of 15% globally, and any shortfall in tax is addressed either through top-up taxes in the parent jurisdiction under IIR or through allocation of top-up taxes to other jurisdictions under UTPR. The Group has provided for additional tax liabilities arising from the implementation of Pillar two regulations in all applicable jurisdictions.

Domestic Minimum Top-up Tax (DMTT)

The State of Kuwait issued Law No. 157 of 2024 on 31 December 2024 (the Law) introducing domestic minimum top-up tax (DMTT) effective from the year 2025 on entities which are part of multinational entities group (MNE Group) with annual revenues of EUR 750 million or more. The Law provides that a top-up tax shall be payable on the taxable income at a rate equal to the difference between 15% and the effective tax rate of all constituent entities of the MNE Group operating within Kuwait. The taxable income and effective tax rate are computed in accordance with the executive regulations issued through Ministerial Resolution No. 55 of 2025. The Law effectively replaces the existing National Labour Support Tax (NLST) and Zakat tax regimes in Kuwait for MNEs within the scope of this Law.

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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 after profit payment on Perpetual Tier 1 Capital Securities and Sukuks, by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group.

Basic and diluted earnings per share:	2025	2024
Profit for the year attributable to shareholders of the Bank (thousand KD)	632,108	601,802
Less: Profit payment on Perpetual Tier 1 Capital Securities and Sukuks (thousand KD)	(18,909)	(22,625)
Profit for the year attributable to shareholders of the Bank after profit payment on Perpetual Tier 1 Capital Securities and Sukuks (thousand KD)	613,199	579,177
Weighted average number of shares outstanding during the year, net of treasury shares (thousands share)	17,204,881	17,197,583
Basic and diluted earnings per share attributable to the shareholders of the Bank	35.64 fils	33.68 fils

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 20).

8 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	<i>KD 000's</i>	
	2025	2024
Cash	227,569	200,329
Balances with Central Banks	3,276,663	2,277,906
Balances with banks and financial institutions – current accounts	1,494,514	1,217,089
Cash and balance with banks and financial institutions	4,998,746	3,695,324
Due from banks within 3 months of contract date	2,495,895	897,748
Less: Statutory deposits with Central Banks	(1,498,176)	(1,147,390)
Cash and cash equivalents	5,996,465	3,445,682

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

	<i>KD 000's</i>	
	2025	2024
Due from banks	2,711,613	1,478,060
Due from central banks	735,220	749,113
	3,446,833	2,227,173

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 FINANCING RECEIVABLES

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

	<i>KD 000's</i>	
	2025	2024
Financing receivables		
Murabaha and wakala	22,313,490	19,434,801
Leased assets	2,808,783	2,654,641
Istisna'a and other receivables	330,453	216,984
	<u>25,452,726</u>	<u>22,306,426</u>
Less: deferred and suspended profit	(2,689,785)	(2,302,929)
Net financing receivables	22,762,941	20,003,497
Less: impairment	(945,937)	(933,824)
	<u><u>21,817,004</u></u>	<u><u>19,069,673</u></u>

	<i>KD 000's</i>					
	<i>Corporate</i>		<i>Retail</i>		<i>Total</i>	
	2025	2024	2025	2024	2025	2024
Middle East	9,275,937	8,249,506	6,941,414	6,555,359	16,217,351	14,804,865
Europe	5,271,497	3,991,369	853,454	684,095	6,124,951	4,675,464
Other	264,133	351,846	156,506	171,322	420,639	523,168
	<u>14,811,567</u>	<u>12,592,721</u>	<u>7,951,374</u>	<u>7,410,776</u>	<u>22,762,941</u>	<u>20,003,497</u>
Less: impairment					(945,937)	(933,824)
					<u><u>21,817,004</u></u>	<u><u>19,069,673</u></u>

Movement in provision for impairment as per CBK instructions is as follows:

	<i>KD 000's</i>					
	<i>Specific</i>		<i>General</i>		<i>Total</i>	
	2025	2024	2025	2024	2025	2024
Balance as at beginning of year	170,725	208,124	763,099	739,578	933,824	947,702
Provided during the year (Note 5)	145,109	52,247	(8,822)	43,371	136,287	95,618
Related to disposal of subsidiary	-	(6,343)	-	(8,299)	-	(14,642)
Amounts written off and foreign currency translation	(126,394)	(83,303)	2,220	(11,551)	(124,174)	(94,854)
Balance as at end of year	<u><u>189,440</u></u>	<u><u>170,725</u></u>	<u><u>756,497</u></u>	<u><u>763,099</u></u>	<u><u>945,937</u></u>	<u><u>933,824</u></u>

The available provision balance on non-cash facilities of KD 41,216 thousand (2024: KD 43,378 thousand) is included under other liabilities (Note 17).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 FINANCING RECEIVABLES (continued)

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

	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Within one year	1,331,269	1,561,728
One to five years	707,207	648,737
More than five years	770,307	444,176
	2,808,783	2,654,641

Non-performing financing facilities

As at 31 December 2025, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 344,382 thousand (2024: KD 355,275 thousand).

Total provision for ECL is accounted as per CBK regulation which require ECL to be measured at higher of the ECL computed under IFRS 9 in accordance with CBK or the provision required by CBK instructions. Total provision for credit losses recorded as per CBK instructions for utilized and unutilized cash and non-cash financing facilities as at 31 December 2025 is KD 987,153 thousand (2024: KD 977,202 thousand) which exceeds the ECL for financing receivables under IFRS 9 by KD 526,631 thousand (2024: KD 538,833 thousand).

An analysis of the carrying amounts of financing receivables (cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations is as below. Further, for contingent liabilities and commitments, the amounts in the table represent the amounts committed or guaranteed (non-cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations.

<i>31 December 2025</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
High	14,276,919	585,875	-	14,862,794
Standard	4,616,102	1,906,619	164,613	6,687,334
Past due or impaired	626,295	242,136	344,382	1,212,813
	19,519,316	2,734,630	508,995	22,762,941
Financing commitments and contingent liabilities (Note 22)	2,781,367	605,208	27,365	3,413,940
ECL provision for credit facilities	71,075	124,627	264,820	460,522
<i>31 December 2024</i>				
High	13,040,170	379,642	-	13,419,812
Standard	3,637,882	1,639,784	107,627	5,385,293
Past due or impaired	587,462	255,655	355,275	1,198,392
	17,265,514	2,275,081	462,902	20,003,497
Financing commitments and contingent liabilities (Note 22)	2,429,594	406,623	40,691	2,876,908
ECL provision for credit facilities	62,364	95,589	280,416	438,369

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10 FINANCING RECEIVABLES (continued)

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

	<i>KD 000's</i>			
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
31 December 2025				
Financing receivables	<u>626,295</u>	<u>139,316</u>	<u>102,820</u>	<u>868,431</u>
31 December 2024				
Financing receivables	<u>587,462</u>	<u>158,789</u>	<u>96,866</u>	<u>843,117</u>

An analysis of the changes in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
ECL allowance as at 1 January 2025	62,364	95,589	280,416	438,369
Transfer between stages:				
Transfer from / to Stage 1	15,153	(9,878)	(5,275)	-
Transfer from / to Stage 2	(2,126)	16,884	(14,758)	-
Transfer from / to Stage 3	(563)	(5,205)	5,768	-
Net (decrease) increase in ECL for the year	(5,681)	42,284	85,866	122,469
Amounts written off	-	-	(86,253)	(86,253)
Foreign exchange adjustments	1,928	(15,047)	(944)	(14,063)
At 31 December 2025	<u>71,075</u>	<u>124,627</u>	<u>264,820</u>	<u>460,522</u>
	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
ECL allowance as at 1 January 2024	83,433	119,909	240,299	443,641
Transfer between stages:				
Transfer from / to Stage 1	26,118	(9,502)	(16,616)	-
Transfer from / to Stage 2	(2,363)	6,374	(4,011)	-
Transfer from / to Stage 3	(692)	(9,966)	10,658	-
Net (decrease) increase in ECL for the year	(36,756)	4,871	130,795	98,910
Amounts written off	-	-	(66,260)	(66,260)
Related to disposal of subsidiary	(994)	(2,733)	(4,359)	(8,086)
Foreign exchange adjustments	(6,382)	(13,364)	(10,090)	(29,836)
At 31 December 2024	<u>62,364</u>	<u>95,589</u>	<u>280,416</u>	<u>438,369</u>

Sensitivity

For measuring the overall sensitivity of the forward-looking information and key economic variables on the Group's ECL on financing receivables, the Group conducts stress tests by allocating a higher weightage to the downside scenario which results in an increase in the Bank's ECL allowance for financing receivables in Stage 1 and Stage 2. However, the ECL so determined after incorporating the aggregate impact of these sensitivity adjustments, continues to remain lower than the total provision for credit losses recorded as per CBK instructions, and accordingly will not have an impact on the Group's consolidated statement of income as well as on the carrying value of these assets.

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11 INVESTMENT IN DEBT SECURITIES

	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Debt securities at fair value through other comprehensive income "FVOCI"	4,812,040	4,226,225
Debt securities measured at amortised cost	2,532,719	2,467,572
Debt securities at fair value through profit or loss "FVTPL"	232,856	171,057
	<u>7,577,615</u>	<u>6,864,854</u>

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and year-end stage classification (excluding debt securities carried at FVTPL).

<i>2025</i>	<i>KD 000's</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	4,250,771	-	-	4,250,771
Standard grade	3,040,327	87,385	-	3,127,712
Gross carrying amount	<u>7,291,098</u>	<u>87,385</u>	<u>-</u>	<u>7,378,483</u>
ECL allowance	<u>(32,701)</u>	<u>(1,023)</u>	<u>-</u>	<u>(33,724)</u>
Carrying value	<u>7,258,397</u>	<u>86,362</u>	<u>-</u>	<u>7,344,759</u>
	<i>KD 000's</i>			
<i>2024</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
High grade	4,198,555	352,994	-	4,551,549
Standard grade	2,136,506	42,472	-	2,178,978
Gross carrying amount	<u>6,335,061</u>	<u>395,466</u>	<u>-</u>	<u>6,730,527</u>
ECL allowance	<u>(25,116)</u>	<u>(11,614)</u>	<u>-</u>	<u>(36,730)</u>
Carrying value	<u>6,309,945</u>	<u>383,852</u>	<u>-</u>	<u>6,693,797</u>

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

<i>2025</i>	<i>KD 000's</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount as at 1 January 2025	6,335,061	395,466	-	6,730,527
Net movement during the year	<u>956,037</u>	<u>(308,081)</u>	<u>-</u>	<u>647,956</u>
At 31 December 2025	<u>7,291,098</u>	<u>87,385</u>	<u>-</u>	<u>7,378,483</u>

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11 INVESTMENT IN DEBT SECURITIES (continued)

2025				<i>KD 000's</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2025	25,116	11,614	-	36,730
Re-measurements during the year (Note 5)	10,994	(10,378)	-	616
Amounts written off and foreign currency translation	(3,409)	(213)	-	(3,622)
At 31 December 2025	<u>32,701</u>	<u>1,023</u>	<u>-</u>	<u>33,724</u>

2024				<i>KD 000's</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount as at 1 January 2024	6,004,292	601,658	-	6,605,950
Net movement during the year	330,769	(206,192)	-	124,577
At 31 December 2024	<u>6,335,061</u>	<u>395,466</u>	<u>-</u>	<u>6,730,527</u>

2024				<i>KD 000's</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2024	31,537	16,705	-	48,242
Re-measurements during the year (Note 5)	(974)	(4,737)	-	(5,711)
Related to disposal of subsidiary	(1,916)	-	-	(1,916)
Amounts written off and foreign currency translation	(3,531)	(354)	-	(3,885)
At 31 December 2024	<u>25,116</u>	<u>11,614</u>	<u>-</u>	<u>36,730</u>

12 OTHER ASSETS

	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Derivative assets (Note 23)	230,751	207,060
Precious metals inventory	194,173	210,260
Trade receivables and other debit balances	191,050	120,092
Profit receivable	115,263	120,457
Clearing accounts	86,901	87,735
Advances and prepayments	59,496	48,429
Properties acquired on settlement of financing receivables	98,906	87,159
Other miscellaneous assets	171,727	177,827
	<u>1,148,267</u>	<u>1,059,019</u>

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

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14 SUBSIDIARIES

14.1 Details of principal operating material subsidiaries

Name	Country of registration	Interest in equity %		Principal activity	Financial statements reporting date
		2025	2024		
Kuwait Turkish Participation Bank (KTPB)	Turkey	58	58	Islamic banking services	31 December 2025
Kuwait Finance House B.S.C. (c) [formerly, Ahli United Bank B.S.C. (c)] ("KFHB") *	Bahrain	100	100	Islamic banking services	31 December 2025
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	31 December 2025
Kuwait Finance House PLC (U.K.) ("KFHUK")	United Kingdom	100	100	Islamic banking services	31 December 2025
Kuwait Finance House Bank - Egypt S.A.E. ("KFHE")	Egypt	95.7	95.7	Islamic banking services	31 December 2025
Commercial Islamic Bank of Iraq P.S.C. ("CIBIQ")	Iraq	85.3	85.3	Islamic banking services	31 December 2025
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	100	100	Islamic investment	31 December 2025
KFH Capital Investments Company K.S.C. (Closed) **	Kuwait	99.9	99.9	Islamic finance and investments	31 October 2025
KFH Real Estate Company K.S.C. (Closed) **	Kuwait	99.9	99.9	Real estate development and leasing	31 October 2025
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	56	56	Real estate, investment, trading and real estate management	31 October 2025
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real estate development and investment	30 September 2025
International Turnkey Systems Company K.S.C. (Closed) **	Kuwait	98	98	Computer maintenance, consultancy and software services	30 September 2025
Al Salam Hospital K.S.C. (Closed)	Kuwait	76	76	Healthcare services	30 September 2025

* *KFHUK, KFHE, and CIBIQ are indirectly held subsidiaries through Kuwait Finance House B.S.C. (c) [formerly, Ahli United Bank B.S.C. (c)] ("KFHB").*

** *Effective ownership percentage is 100%(2024: 100%).*

14 SUBSIDIARIES (continued)**14.2 Material partly-owned subsidiaries**

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

Proportion of equity interest held by non-controlling interests:

	<i>Country of incorporation & operation</i>	<i>Non-controlling interest percentage</i>	
		<i>2025</i>	<i>2024</i>
Kuwait Turkish Participation Bank (KTPB)	Turkey	42%	42%

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

Summarised consolidated statement of income and comprehensive income for the year ended:

	<i>KTPB</i>	
	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Revenues	2,033,384	1,586,359
Expenses	(1,859,978)	(1,518,358)
Profit for the year	173,406	68,001
Profit attributable to non-controlling interest	73,160	28,690
Total comprehensive income (loss) for the year	26,796	(114,512)
Total comprehensive income (loss) attributable to non-controlling interest	11,305	(42,407)

Summarised consolidated statement of financial position as at:

	<i>KTPB</i>	
	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Total assets	10,514,422	7,949,816
Total liabilities	(9,414,565)	(7,036,320)
Total equity	1,099,857	913,496
Attributable to non-controlling interests	464,030	385,404

Summarised consolidated statement of cash flows for year ended:

	<i>KTPB</i>	
	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Operating	362,330	214,615
Investing	(356,912)	313,610
Financing	(18,373)	(78,827)
Net (decrease) increase in cash and cash equivalents	(12,955)	449,398

15 SUKUK PAYABLES AND TERM FINANCING

On 7 January 2025, the Bank concluded the second issuance of a 5-year senior unsecured Sukuk of USD 1,000,000 thousand which is listed on the London Stock Exchange. The Sukuk bears an expected profit rate of 5.376% per annum to be paid semi-annually in arrears, on each periodic distribution date, in accordance with the terms of the issue.

On 27 March 2025, the Bank concluded the second private placement issuance of a 10-year senior unsecured Sukuk of USD 500,000 thousand.

16 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.

17 OTHER LIABILITIES

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Trade payables	454,768	299,956
Accrued expenses	245,270	204,755
Certified cheques	49,128	55,941
Due to customers for contract work	17,634	9,790
Employees' end of service benefits	125,552	133,277
Provision on non-cash facilities (Note 10)	41,216	43,378
Derivative liabilities (Note 23)	115,075	69,373
Liabilities related to Takaful activities	231,162	170,164
Other miscellaneous liabilities *	481,444	418,130
	<u>1,761,249</u>	<u>1,404,764</u>

*Amount payable to KFAS as of 31 December 2025 is KD 5,782 thousand (2024: KD 5,559 thousand) and is included in other miscellaneous liabilities.

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18 RESERVES

	<i>KD 000's</i>							
	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
Balance as at 1 January 2025	528,433	269,553	261,173	17,715	(25,660)	(927,343)	(89,048)	34,823
Profit for the year	-	-	632,108	-	-	-	-	632,108
Other comprehensive income (loss)	-	-	-	-	67,354	(106,593)	(190)	(39,429)
Total comprehensive income (loss)	-	-	632,108	-	67,354	(106,593)	(190)	592,679
Zakat	-	(41,022)	(611)	-	-	-	-	(41,633)
Interim cash dividend	-	-	(172,049)	-	-	-	-	(172,049)
Transfer to reserves	63,935	63,935	(127,870)	-	-	-	-	-
Proposed issuance of bonus shares (Note 20)	-	-	(129,340)	-	-	-	-	(129,340)
Proposed cash dividends (Note 20)	-	-	(240,868)	-	-	-	-	(240,868)
Transfer of fair value reserve of equity investment at FVOCI	-	-	465	-	(465)	-	-	-
Perpetual Tier 1 Sukuk foreign currency translation adjustment	-	-	4,410	-	-	-	-	4,410
Profit payment on Perpetual Tier 1 Capital Securities & Sukuks	-	-	(18,909)	-	-	-	-	(18,909)
Other Movement on Perpetual Tier 1 Capital Securities and Sukuks	-	-	(4,580)	-	-	-	-	(4,580)
Issuance Cost of Perpetual Tier 1 Capital Securities and Sukuks	-	-	(861)	-	-	-	-	(861)
Impact of application of IAS 29	-	-	60,658	-	-	-	-	60,658
Group's share of associate adjustments	-	-	(46)	-	-	-	-	(46)
Sale of a subsidiary	-	-	(8,758)	-	(354)	(182)	8,944	(350)
Balance as at 31 December 2025	592,368	292,466	254,922	17,715	40,875	(1,034,118)	(80,294)	83,934

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18 RESERVES (continued)

	<i>KD 000's</i>							
	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
Balance as at 1 January 2024	464,864	261,995	159,923	15,028	(11,698)	(790,198)	(46,415)	53,499
Profit for the year	-	-	601,802	-	-	-	-	601,802
Other comprehensive (loss) income	-	-	-	-	(8,912)	(190,076)	1,337	(197,651)
Total comprehensive income (loss)	-	-	601,802	-	(8,912)	(190,076)	1,337	404,151
Zakat	-	(56,011)	-	-	-	-	-	(56,011)
Interim cash dividend	-	-	(159,304)	-	-	-	-	(159,304)
Transfer to reserves	63,569	63,569	(127,138)	-	-	-	-	-
Proposed issuance of bonus shares (Note 20)	-	-	(136,868)	-	-	-	-	(136,868)
Proposed cash dividends (Note 20)	-	-	(191,165)	-	-	-	-	(191,165)
Transfer of fair value reserve of equity investment at FVOCI	-	-	6,608	-	(6,608)	-	-	-
Perpetual Tier 1 Sukuk foreign currency translation adjustment	-	-	(2,122)	-	-	-	-	(2,122)
Profit payment on Perpetual Tier 1 Capital Securities & Sukuks	-	-	(22,625)	-	-	-	-	(22,625)
Impact of application of IAS 29	-	-	136,877	-	-	-	-	136,877
Profit on sale of treasury shares	-	-	-	2,687	-	-	-	2,687
Change in ownership of subsidiary without loss of control	-	-	-	-	1,558	52,931	(39,442)	15,047
Acquisition of non-controlling interest	-	-	-	-	-	-	(4,528)	(4,528)
Group's share of associate adjustments	-	-	(4,815)	-	-	-	-	(4,815)
Balance as at 31 December 2024	528,433	269,553	261,173	17,715	(25,660)	(927,343)	(89,048)	34,823

18 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 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 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 822,159 thousand (2024: KD 822,159 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 19). The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the issued share capital.

Other reserves

Other reserves include cashflow hedge reserve, pension fund reserve and changes in ownership interest without loss of control.

19 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

The ordinary general assembly of the Bank's shareholders held on 16 March 2025 approved to distribute bonus shares of 8% (2023: 9%) of the issued and fully paid share capital, and final cash dividends of 12 fils per share (2023: 10 fils per share) to the Bank's shareholders, in addition to the interim cash dividend of 10 fils per share (2023: 10 fils per share) which was paid during the year ended 31 December 2024. (Note 20)

The Extra-ordinary general assembly of the Bank's shareholders held on 16 March 2025 also approved to increase the authorised share capital to be comprised of 18,477,123,275 shares (31 December 2024: 17,108,447,477) shares of 100 fils each.

The authorized, issued, and fully paid share capital as at 31 December 2025 comprise of 18,477,123,275 shares (31 December 2024: 17,108,447,477) shares of 100 fils each.

The Board of Directors approved distribution of an interim cash dividend of 10 fils per share on the outstanding shares as of 30 June 2025 (30 June 2024: 10 fils per share), which was paid during the year.

Share capital

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Authorised, issued and fully paid in cash and bonus shares:		
18,477,123,275 (2024: 17,108,447,477) shares of 100 fils each	<u>1,847,712</u>	<u>1,710,844</u>

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19 SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES (continued)

The movement in ordinary shares in issue during the year was as follows:

	2025	2024
Number of shares in issue as at 1 January	17,108,447,477	14,764,456,572
Bonus shares issued	1,368,675,798	1,412,624,103
New shares issued in consideration for the merger	-	931,366,802
Number of shares in issue at 31 December	18,477,123,275	17,108,447,477

Share premium

The share premium balance is not available for distribution.

Treasury shares and treasury share reserve.

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

	2025	2024
Number of treasury shares	1,272,242,490	1,178,002,307
Treasury shares as a percentage of total shares in issue	6.9%	6.9%
Cost of treasury shares (KD thousand)	822,159	822,159
Market value of treasury shares (KD thousand)	1,030,516	878,790

The balance in the treasury share reserve account is not available for distribution.

The average market price of the Bank's shares for the year ended 31 December 2025 was 776 fils (2024: 742 fils) per share.

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

The Board of Directors of the Bank has proposed a cash dividend of 14% for the year ended 31 December 2025 (2024: 12%) and issuance of bonus shares of 7% (2024: 8%) of the paid up share capital as follows:

	2025		2024	
	14 fils	<i>Total</i> <i>KD 000's</i>	12 fils	<i>Total</i> <i>KD 000's</i>
Proposed cash dividends (per share)	14 fils	240,868	12 fils	191,165
Proposed issuance of bonus shares (per 100 shares)	7 shares	129,340	8 shares	136,868

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed cash dividends and proposed issued of bonus shares are shown separately within equity.

The Board of Directors approved distribution of interim cash dividend of 10 fils per share on the outstanding shares as of 30 June 2025, which was paid during the current period.

The Board of Directors of the Bank has proposed Directors' fees of KD 1,460 thousand (2024: KD 1,317 thousand), (Note 24) which is within the amount permissible under local regulations and subject to the approval of the annual general assembly of the shareholders of the Bank.

21 PERPETUAL TIER 1 CAPITAL SECURITIES AND SUKUKS

	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Perpetual Tier-1 Sukuk issued by the Bank	641,257	385,441
Perpetual Tier I Capital securities issued by KFH Bahrain Former Ahli United Bank B.S.C.(C) (Bahrain)"	-	118,618
	641,257	504,059

On 30 June 2021, the Bank through a Sharia's compliant Sukuk arrangement issued Perpetual Tier 1 Sukuk amounting to USD 750 million. The Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Perpetual Tier 1 Sukuk is listed on the London Stock Exchange and callable by the Bank after five-year period ending June 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. The net proceeds of the Perpetual Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Perpetual Tier 1 Sukuk bears an expected profit rate of 3.6% per annum to be paid semi-annually in accordance with the terms of the issue. Transaction costs incurred on the issue of the Perpetual Tier 1 Sukuk is accounted as a deduction from equity.

During the year ended 31 December 2021, AUB Kuwait completed a US\$ 600 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk issue that bears a profit rate of 3.875% per annum, which are eligible to be classified under equity. These are subordinated, unsecured and carry a periodic distribution amount, payable semi-annually in arrears, is callable after five years period of issuance until the first call date ending June 2026 or any profit distribution date thereafter subject to certain redemption conditions, including prior CBK approval. The securities are listed on the Irish Stock Exchange and NASDAQ Dubai.

On 22 September 2023, an Extraordinary General Meeting ("EGM") of the Sukuk holders approved changing the obligor ('Mudareb') name from AUB Kuwait to the Parent Company which has been disclosed on NASDAQ, Dubai and Euronext stock exchanges. The Parent Company has taken over as obligor of the perpetual Tier 1 Sukuk, post obtaining relevant approvals and completion of the merger.

On 20 November 2025, the Bank through a Sharia's compliant Sukuk arrangement issued five-year USD 850 million Mudaraba Additional Tier 1 Capital sukuk which is listed on the London Stock Exchange. The Sukuk bears an expected profit rate of 6.25%. The Parent company is the obligor of the perpetual Tier 1 Sukuk.

22 CONTINGENCIES AND CAPITAL COMMITMENTS

At the financial position date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
Acceptances and letters of credit	686,950	423,040
Letter of guarantees	2,726,990	2,453,868
Contingencies	3,413,940	2,876,908
	1,572,082	893,211

23 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (“Islamic derivative financial instruments”) and other derivative instruments to mitigate foreign currency and profit rate risk. The Islamic currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency through series of transactions to buy a specified Shari'a compliant commodity at an agreed price on the relevant date in future based on Wa'ad (promise) structure.

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose. Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses profit rate swaps and forward rate agreements to hedge against the profit rate risk arising from specifically identified, or a portfolio of, fixed profit rate investments and financing receivables. The Group also uses profit rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as derivatives held for hedging purposes.

Hedging of profit rate risk is also carried out by monitoring the duration of assets and liabilities and entering into profit rate swaps to hedge net profit rate exposures.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

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23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	<i>KD 000's</i>		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2025			
<i>Derivatives held for trading</i>			
Profit rate swaps	12,450	11,923	447,906
Forward contracts	9,412	4,724	1,761,370
Currency swaps	137,521	34,123	2,173,951
Others	4	2,269	334,224
<i>Derivatives held as fair value hedges</i>			
Profit rate swaps	63,516	56,730	5,014,003
Currency swaps	3,679	3,613	708,565
<i>Derivatives held as cash flow hedges</i>			
Forward contracts	4,169	1,693	1,225,192
	<u>230,751</u>	<u>115,075</u>	<u>11,665,211</u>
			<i>KD 000's</i>
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
31 December 2024			
<i>Derivatives held for trading</i>			
Profit rate swaps	21,624	16,788	580,260
Forward contracts	13,313	7,123	1,957,368
Others	19	19	616
<i>Derivatives held as fair value hedges</i>			
Profit rate swaps	135,840	22,662	4,150,456
Forward contracts	7,260	1,362	75,655
Currency swaps	28,221	18,792	2,445,038
Others	-	725	188,675
<i>Derivatives held as cash flow hedges</i>			
Forward contracts	783	1,902	344,241
	<u>207,060</u>	<u>69,373</u>	<u>9,742,309</u>

In respect of derivative instruments including currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the gross and net cash flows:

	<i>KD 000's</i>			
	<i>Notional amount</i>	<i>Within 3 months</i>	<i>3 to 12 months</i>	<i>More than 12 months</i>
31 December 2025				
Cash inflows	11,665,211	6,419,570	2,202,089	3,043,552
Cash outflows	11,268,807	6,026,089	2,198,151	3,044,567
Net cash flows	<u>396,404</u>	<u>393,481</u>	<u>3,938</u>	<u>(1,015)</u>
31 December 2024				
Cash inflows	9,742,309	4,727,148	1,765,875	3,249,286
Cash outflows	9,542,227	4,560,769	1,728,093	3,253,365
Net cash flows	<u>200,082</u>	<u>166,379</u>	<u>37,782</u>	<u>(4,079)</u>

24 RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, directors and executive employees, officers of the Bank, their immediate relatives and companies of which they are the principal owners in addition to associates and joint ventures of the group) are depositors and financing facilities, customers of the Group, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

Transactions with related parties included in the consolidated statement of income are as follows:

	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Board members and executive officers</i>	<i>Other related party</i>	<i>KD 000's</i>	
					<i>Total</i>	
					<i>2025</i>	<i>2024</i>
Financing income	-	-	16	-	16	2,844
Fee and commission income	-	450	-	-	450	464
Finance costs and distribution to depositors	60,015	102	87	22	60,226	65,622

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

	<i>Major shareholders</i>	<i>Associates and joint ventures</i>	<i>Board members and executive officers</i>	<i>Other related party</i>	<i>KD 000's</i>	
					<i>Total</i>	
					<i>2025</i>	<i>2024</i>
Financing receivables and Due from banks	-	480	335	7	822	39,743
Due to banks and financial institutions	1,893,083	5,501	-	-	1,898,584	1,428,661
Depositors' accounts	-	2,081	14,278	4,770	21,129	97,969
Contingencies and commitments	1,903	8,785	1	-	10,689	16,047

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

	<i>The number of board members or executive officers</i>				<i>KD 000's</i>	
	<i>The number of board members or executive officers</i>		<i>The number of related parties (Relatives of board members or executive officers)</i>		<i>2025</i>	<i>2024</i>
	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>		
Board Members						
Finance facilities	3	4	3	4	9	83
Depositors' accounts	10	9	38	39	12,962	12,341
Collateral against financing facilities	1	1	-	1	1	12
Executive officers						
Finance facilities	10	8	2	7	333	416
Depositors' accounts	13	13	21	27	6,086	3,188
Collateral against financing facilities	2	2	-	1	689	803

24 RELATED PARTY TRANSACTIONS (continued)

Salaries, allowances and bonuses of key management personnel, termination benefits of key management personnel and remuneration of board members of the Bank are as follows:

	<i>KD 000's</i>	
	<i>Total</i>	
	<i>2025</i>	<i>2024</i>
Salaries, allowances and bonuses of key management personnel	4,210	5,219
Termination and long-term benefits of key management personnel	1,129	684

Remuneration to directors of the Bank amounting to KD 1,460 thousand (2024: KD 1,317 thousand). The board of director's remuneration is subject to the approval of the Annual General Assembly (Note 20). The increase in the Board of Directors' remuneration pertains to the independent members, while the remuneration of the remaining members has been maintained as it was in the previous year.

25 SEGMENTAL ANALYSIS***Primary segment information***

For management purposes, the Group is organized into four major business segments. The principal activities and services under these segments are as follows:

Treasury:	Liquidity management, murabaha investments, investment in debt securities, exchange of deposits with banks and financial institutions and international banking relationships.
Retail and Private Banking:	Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals
Corporate Banking:	Providing a range of banking services and investment products to corporates, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.
Investment:	Managing direct equity and real estate investments, non-banking Group entities, associates and joint ventures.

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
31 December 2025					
Total assets	17,334,269	7,983,975	13,449,936	3,991,632	42,759,812
Total liabilities	13,932,263	15,135,121	5,738,228	1,109,331	35,914,943
Operating income	163,187	659,097	780,804	230,238	1,833,326
Profit for the year before Net monetary loss	123,707	267,529	410,087	54,305	855,628
Net monetary loss					(135,373)
Profit for the year					720,255

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25 SEGMENTAL ANALYSIS (continued)

	<i>KD 000's</i>				
<i>31 December 2024</i>	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
Total assets	13,628,152	7,510,060	11,654,918	3,910,296	36,703,426
Total liabilities	10,229,016	14,626,728	4,639,097	790,685	30,285,526
Operating income	155,930	564,395	730,494	241,343	1,692,162
Profit for the year before net monetary loss	111,908	234,413	430,109	20,799	797,229
Net monetary loss					(155,322)
Profit for the year					641,907

Secondary segment information

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

	<i>KD 000's</i>			
	<i>Assets</i>		<i>Contingencies and commitments</i>	
	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>
Geographical areas:				
Middle East	27,886,620	24,587,150	1,540,059	1,480,001
Europe	12,906,379	10,024,064	3,312,448	2,167,142
Others	1,966,813	2,092,212	133,515	122,976
	<u>42,759,812</u>	<u>36,703,426</u>	<u>4,986,022</u>	<u>3,770,119</u>

	<i>KD 000's</i>					
	<i>Local</i>		<i>International</i>		<i>Total</i>	
	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>	<i>2025</i>	<i>2024</i>
Operating income	592,079	487,429	1,241,247	1,204,733	1,833,326	1,692,162
Profit for the year	264,051	198,944	456,204	442,963	720,255	641,907

26 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.

26 RISK MANAGEMENT (continued)

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 Top Management, the Board Risk Committee and the Board of Directors. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the Bank's risk appetite.

Risk mitigation

As part of its overall risk management, the Group could utilize sharia-compliant hedging instruments to manage exposures and emerging risks resulting from yield movements, foreign currencies changes and other market risks. Moreover, the Group actively uses collateral coverage 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. and, establishing control over certain credit concentration risks. Credit mitigation techniques are used by the Bank to manage concentration risk both at 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.

26.1 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for single counterparty. industry concentrations, and by monitoring exposures related to such limits.

The Group is applying Early Warning Signals "EWS" approach to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by using credit risk rating model, which assigns each counterparty a risk rating. Risk ratings are subject to regular review. The EWS allows the Group to assess the potential loss as a result of the risks to which is exposed to and take proactive corrective actions.

Assessment of expected credit losses

Definition of default and cure

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- ▶ the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as releasing security (if any is held);
- ▶ the customer is past due more than 90 days on any material credit obligation to the Group; or
- ▶ customer is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- ▶ breaches of covenants
- ▶ customer having past due liabilities to public creditors or employees
- ▶ customer is deceased

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

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, supplemented by qualitative management assessments to ensure that the risk classification reflects technical expert opinion on industry and economic trends.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take into account of all aspects of perceived risk. The Group uses various internal credit-rating engine. The tools provide the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and derived in accordance with the Group's rating policy. To ensure ratings accurately reflect real-time credit quality, the Group incorporates qualitative expert overlays. This process allows management to adjust model-calculated ratings based on specific counterparty nuances and forward-looking risks that quantitative models may not immediately capture. The attributable risk ratings are assessed and updated regularly.

The Group uses PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. The through the cycle ("TTC") PDs are generated from internal credit ratings, or from external credit rating by recognised rating agencies for externally rated portfolios. The Group converts the TTC PD to a point in time ("PIT") PD term structures using appropriate models and techniques. The Group assesses the PD for its retail portfolio through application scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility.

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The Group employs statistical models to incorporate macro-economic factors impact on ECL. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. Management regularly reviews these methodologies and exercises technical judgment to apply rating overrides when necessitated by a dynamic economy and rapid industry updates. This ensures the Group's credit risk assessment remains a proactive and forward-looking reflection of the current environment.

Actual results will differ as this does not consider the migration of exposures or incorporate changes that would occur in the portfolio due to risk mitigation actions and other factors.

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.

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26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

Maximum exposure to credit risk without taking account of any collateral (continued)

	Notes	KD 000' s	
		2025	2024
Balances with banks and financial institutions	8	4,771,177	3,494,995
Due from banks	9	3,446,833	2,227,173
Financing receivables	10	22,762,941	20,003,497
Investment in debt securities	11	7,611,339	6,901,584
Trade and other receivables		858,133	673,579
Total		39,450,423	33,300,828
Contingencies	22	3,413,940	2,876,908
Capital commitments and others	22	1,572,082	893,211
Total		4,986,022	3,770,119
Total credit risk exposure		44,436,445	37,070,947

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 2025 was KD 454,468 thousand (2024: KD 454,376 thousand) before taking account of any collaterals. The Group's financial assets, before taking into account any collateral held can be analysed by the following geographical regions:

	KD 000' s			
	Middle East	Europe	Others	Total
31 December 2025				
Balances with banks and financial institutions	845,736	3,409,969	515,472	4,771,177
Due from banks	2,899,417	515,356	32,060	3,446,833
Financing receivables	16,217,351	6,124,951	420,639	22,762,941
Investment in debt securities	4,817,236	1,887,167	906,936	7,611,339
Trade and other receivables	397,471	414,880	45,782	858,133
	25,177,211	12,352,323	1,920,889	39,450,423
31 December 2024				
Balances with banks and financial institutions	581,210	2,414,886	498,899	3,494,995
Due from banks	1,582,877	594,994	49,302	2,227,173
Financing receivables	14,804,865	4,675,464	523,168	20,003,497
Investment in debt securities	4,268,093	1,654,052	979,439	6,901,584
Trade and other receivables	400,867	260,668	12,044	673,579
	21,637,912	9,600,064	2,062,852	33,300,828

26 RISK MANAGEMENT (continued)**26.1 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:

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Trading and manufacturing	9,301,324	8,939,776
Banks and financial institutions	14,603,747	11,162,510
Construction and real estate	5,865,095	5,362,619
Others	9,680,257	7,835,923
	<u>39,450,423</u>	<u>33,300,828</u>

Credit quality per class of financial assets

Credit exposures classified as 'High grade' are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard grade' comprise all other facilities whose payment performance is fully compliant with contractual conditions, and which are not 'impaired'.

Details of credit quality for financing receivables is disclosed in Note 10 and for investment in debt securities is disclosed in Note 11. Balances with banks and financial institutions, due from banks and trade and other receivables are classified as High grade.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Group's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

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.

The fair value of collateral that the Group holds relating to past due or impaired finance facilities as at 31 December 2025 was KD 486,211 thousand (2024: KD 471,438 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee and real estate assets.

Country risk

Country risk is the risk that incidents within a country could have an adverse effect on the Group directly in impairing the value of the Group or indirectly through an obligor's inability to meet its obligations to the Group. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non-market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

26.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base while manages assets and monitors future cash flows within the regulatory and internal liquidity limits, on daily basis. Moreover, the Group monitors and assess the impact of the existing and new operations' expected cash flows and ensures the availability of high quality liquid assets, which could be used to secure additional funding, when required.

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26 RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK (continued)

The maturity profile of assets and liabilities at 31 December 2024 is as follows:

	<i>KD 000's</i>			
	<i>Up to 3 months</i>	<i>3 to 12 months</i>	<i>After one year</i>	<i>Total</i>
<i>Assets</i>				
Cash and balances with banks and financial institutions	3,575,531	2,371	117,422	3,695,324
Due from banks	1,881,788	345,385	-	2,227,173
Financing receivables	6,586,081	3,993,721	8,489,871	19,069,673
Investment in debt securities	482,248	572,093	5,810,513	6,864,854
Investments	-	32,781	208,837	241,618
Investment in associates and joint ventures	-	37,691	346,228	383,919
Trading and Investment properties	-	90,437	367,766	458,203
Other assets	427,393	229,974	401,652	1,059,019
Goodwill and intangible assets	-	-	2,328,003	2,328,003
Property and equipment	2,099	-	373,541	375,640
	<u>12,955,140</u>	<u>5,304,453</u>	<u>18,443,833</u>	<u>36,703,426</u>
<i>Liabilities</i>				
Due to banks	2,412,617	1,257,663	1,973,416	5,643,696
Due to financial institutions	2,674,162	288,675	67,648	3,030,485
Sukuk payables and term financing	10,044	15,784	960,811	986,639
Depositors' accounts	12,235,879	2,803,335	4,180,728	19,219,942
Other liabilities	320,152	271,501	813,111	1,404,764
	<u>17,652,854</u>	<u>4,636,958</u>	<u>7,995,714</u>	<u>30,285,526</u>

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

	<i>KD 000's</i>			
	<i>Up to 3 months</i>	<i>3 to 12 months</i>	<i>Over 1 year</i>	<i>Total</i>
2025				
Contingencies (Note 22)	2,345,620	741,103	327,217	3,413,940
Capital commitments and others (Note 22)	7,353	88,074	1,476,655	1,572,082
Total	<u>2,352,973</u>	<u>829,177</u>	<u>1,803,872</u>	<u>4,986,022</u>
<i>KD 000's</i>				
2024				
Contingencies (Note 22)	2,123,201	516,864	236,843	2,876,908
Capital commitments and others (Note 22)	45,875	84,041	763,295	893,211
Total	<u>2,169,076</u>	<u>600,905</u>	<u>1,000,138</u>	<u>3,770,119</u>

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

26 RISK MANAGEMENT (continued)**26.3 MARKET RISK**

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate due to change in market prices. These risks are classified into three main areas as follows:

Profit rate risk

The Group's assets and liabilities generate cash flows, and their fair values are sensitive to fluctuations in profit rates. The Group manages the risk from these exposures by proactively adjusting its strategies based on various market profit rate scenarios to optimize returns for shareholders and depositors. Further, the Group measures and manages the profit rate risk by setting limits on the sensitivity of assets and liabilities repricing gaps. These sensitivity limits are reviewed periodically, and hedging strategies are employed to ensure that profit rate risks remain within the Group's Risk Appetite as approved by the Bank's Board of Directors.

Profit rate sensitivity

Profit rate sensitivity measures the effect of assumed changes in profit rates on the net income for one year, based on the profit-bearing financial assets and financial liabilities held at the year end. This includes the effect of Sharia-compliant hedging instruments but excludes undrawn financing commitments.

Sensitivity to profit rate movements is assessed on a symmetric basis, as financial instruments that could cause non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in profit rate, with all other variables held constant, would impact the Group's income as follows:

<i>Currency</i>	<i>Movement in Basis points</i>	<i>KD 000's</i>	
		<i>31 December 2025</i>	<i>31 December 2024</i>
		<i>Effect on profit</i>	<i>Effect on profit</i>
KWD	+25	(4,277)	(1,963)
USD	+25	930	1,040
TRY	+25	1,368	597

Currency risk

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2025 and 31 December 2024 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.

<i>Currency</i>	<i>31 December 2025</i>		<i>31 December 2024</i>	
	<i>Change in currency rate %</i>	<i>Effect on profit</i>	<i>Change in currency rate %</i>	<i>Effect on profit</i>
USD	+1	175	+1	2,135
BHD	+1	184	+1	91
TRY	+1	(7)	+1	(1,009)

26 RISK MANAGEMENT (continued)**26.3 MARKET RISK (continued)****Price risk**

This is the risk arising from the fluctuation in the market value of investments in equity, Sukuks and debt securities, or other investments.

The effect on fair value reserve (as a result of a change in the fair value of equity investments at FVOCI on 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

	2025		2024	
	<i>Change in equity price</i> %	<i>Effect on fair value reserve</i>	<i>Change in equity price</i> %	<i>Effect on fair value reserve</i>
Market indices				
Boursa Kuwait	+1	359	+1	212

Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems or from external events. Operational risk events are categorized in accordance with Basel committee guidelines into the following classifications:

- ▶ Internal fraud
- ▶ External fraud
- ▶ Employment practices and workspace safety
- ▶ Damage to physical assets
- ▶ Business disruption and system failures
- ▶ Clients, products and business practices
- ▶ Execution, delivery and process management

While it is not feasible to eliminate all operational risks, the Group effectively manages these risks by implementing the three lines of defence approach within a robust control framework.

Operational Risk Management is responsible for establishing the risk management framework, setting policies approved by the Board of Directors, and defining procedures. It provides the necessary tools to enable the business and support units (the first line) to effectively manage their risks. Operational Risk Management offers oversight and review of the operational risk elements handled by the first line. Furthermore, it supports by raising awareness, assisting with risk assessments, recommending controls, and monitoring and reporting risks to management.

Operational Risk Management aligns with CBK guidelines and best practices for managing and monitoring operational risks

27 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that compliance with regulatory capital requirements, maintain sufficient buffers for business growth, and uphold strong credit ratings and healthy capital ratios. These measures support the Group's business operations and 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:

31 December 2025

27 CAPITAL MANAGEMENT (continued)

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Capital adequacy		
Risk Weighted Assets	23,121,066	21,203,579
Capital required	3,468,160	3,180,537
Capital available		
Tier 1 capital	4,165,450	3,826,197
Tier 2 capital	414,590	391,923
Total capital	4,580,040	4,218,120
Tier 1 capital adequacy ratio	18.02%	18.05%
Total capital adequacy ratio	19.81%	19.89%

The Group's financial leverage ratio for the year ended 31 December 2025 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

	<i>KD 000's</i>	
	<u>2025</u>	<u>2024</u>
Tier 1 capital	4,165,450	3,826,197
Total exposure	51,993,700	43,970,332
Financial leverage ratio	8.01%	8.70%

28 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2025 amounted to KD 4,714,241 thousand (2024: KD 3,204,687 thousand).

Fees and commission income include fees of KD 11,772 thousand (2024: KD 9,734 thousand) arising from trust and fiduciary activities.

29 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2025

29 FAIR VALUES (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2025.

	<i>KD 000's</i>			
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at FVTPL	-	15,791	-	15,791
Equities at FVTPL	30,004	110,306	19,170	159,480
Equities at FVOCI	43,017	12,939	60,203	116,159
Debt securities at FVTPL (Note 11)	232,856	-	-	232,856
Debt securities at FVOCI (Note 11)	4,748,739	62,153	1,148	4,812,040
<i>Derivative financial assets:</i>				
Forward contracts	-	13,581	-	13,581
Profit rate swaps	-	75,966	-	75,966
Currency swaps	-	141,200	-	141,200
Others	-	4	-	4
	<u>5,054,616</u>	<u>431,940</u>	<u>80,521</u>	<u>5,567,077</u>

	<i>KD 000's</i>			
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	6,417	-	6,417
Profit rate swaps	-	68,653	-	68,653
Currency swaps	-	37,736	-	37,736
Others	-	2,269	-	2,269
	<u>-</u>	<u>115,075</u>	<u>-</u>	<u>115,075</u>

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2024.

	<i>KD 000's</i>			
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at FVTPL	-	15,247	-	15,247
Equities at FVTPL	27,757	76,751	18,421	122,929
Equities at FVOCI	33,526	14,055	55,861	103,442
Debt securities at FVTPL (Note 11)	171,057	-	-	171,057
Debt securities at FVOCI (Note 11)	4,095,697	124,241	6,287	4,226,225
<i>Derivative financial assets:</i>				
Forward contracts	-	21,356	-	21,356
Profit rate swaps	-	157,464	-	157,464
Currency swaps	-	28,221	-	28,221
Others	-	19	-	19
	<u>4,328,037</u>	<u>437,354</u>	<u>80,569</u>	<u>4,845,960</u>

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31 December 2025

29 FAIR VALUES (continued)

Financial liabilities measured at fair value:				<i>KD 000's</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	10,387	-	10,387
Profit rate swaps	-	39,450	-	39,450
Currency swaps	-	18,792	-	18,792
Others	-	744	-	744
	-	69,373	-	69,373

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted debt securities of KD 1,148 thousand (2024: KD 6,287 thousand) and unquoted equity investments of KD 79,373 thousand (2024: KD 74,282 thousand). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Instruments disclosed in Note 23 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.

Trading and 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 2025, there were no transfers between Level 1 and Level 2 fair value measurements.

The following table below shows a reconciliation of the opening and the closing amount of Level 3 financial assets measured at fair value:

	<i>KD 000's</i>	
	<i>2025</i>	<i>2024</i>
As at 1 January	80,569	116,487
Re-measurement	(4,222)	2,776
Purchase (disposal), net	4,174	(38,694)
As at 31 December	80,521	80,569

30 HYPERINFLATION ACCOUNTING

The subsidiary Kuwait Turkish Participation Bank (KTPB) has banking operations in Turkey. The Turkish economy has been assessed as a hyperinflationary economy based on cumulative inflation rates over the previous three years, in April 2022. The Group determined the Consumer Price Index ("CPI") provided by the Turkish State Institute of Statistics to be the appropriate general price index to be considered in the application of IAS 29, *Financial Reporting in Hyperinflationary Economies* on the subsidiary's financial statements. The level and movement of the price index during the current and previous reporting period is as below:

30 HYPERINFLATION ACCOUNTING (continued)

<i>Reporting period</i>	<i>Index</i>	<i>Conversion factor</i>
31 December 2025	3482.96	1.311
31 December 2024	2657.23	1.471