بيت التمويل الكويتي
Kuwait Finance House

Annual Report

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

2020

بسم الله الرحمن الرحيم

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

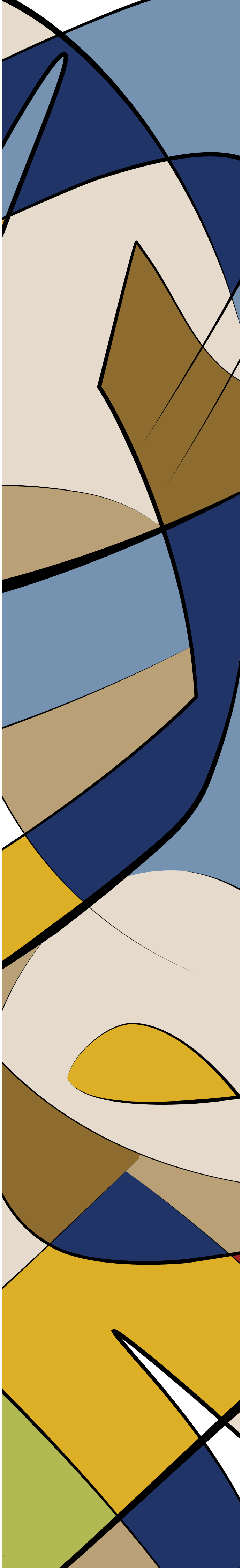
O ye who Believe, Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

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

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

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

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



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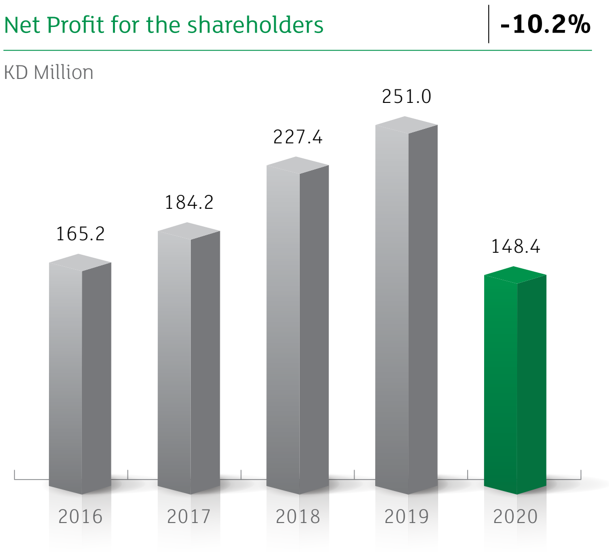
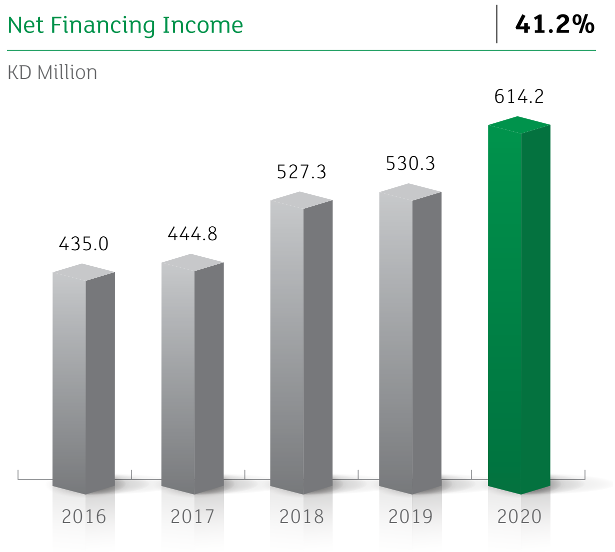
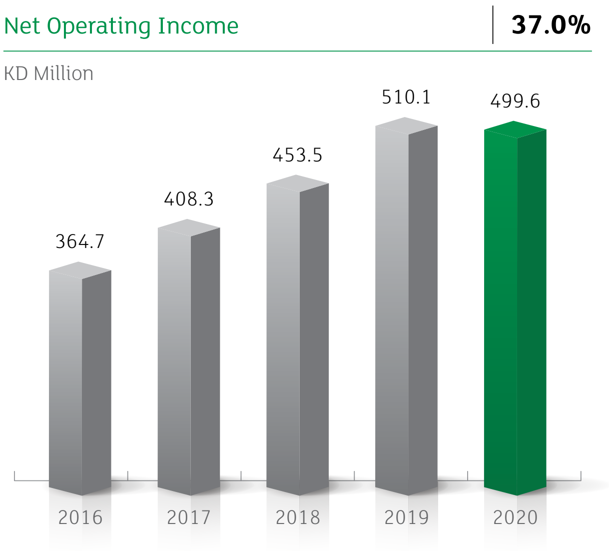
Kuwait Finance House (KFH)

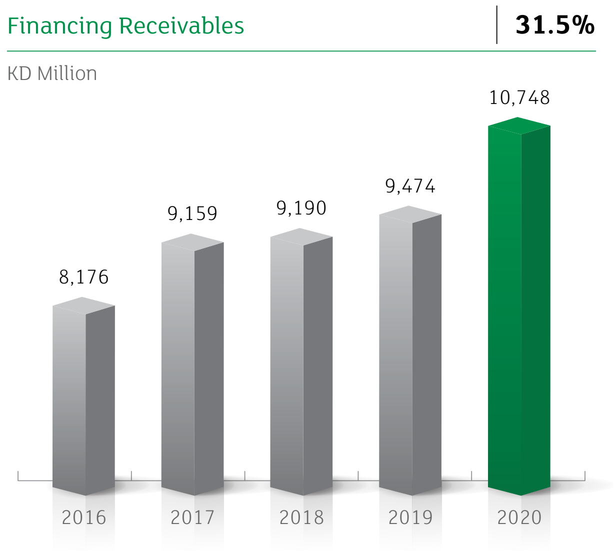
Content

Financial Indicators





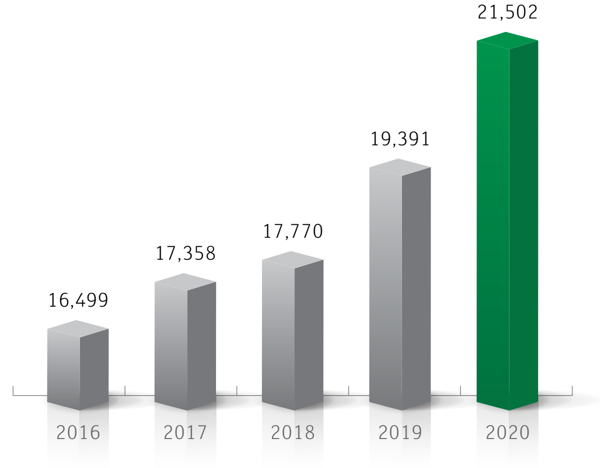




* Growth Ratio reflects the change in 2020 statements compared to 2016

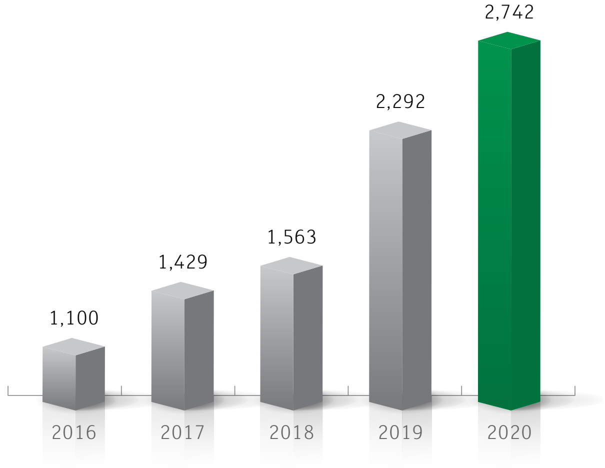
Total Assests | **30.3%**

KD Million



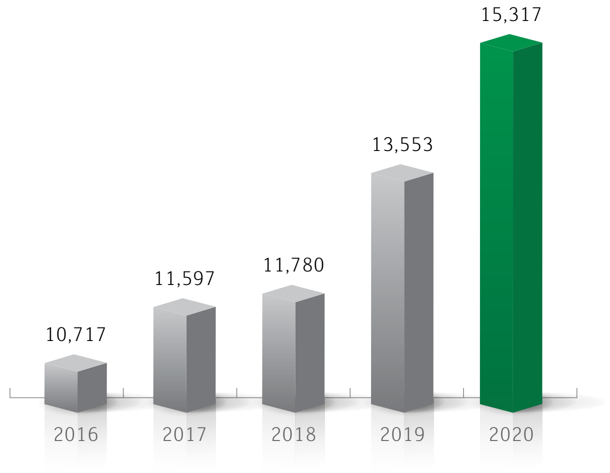
Investment in sukuk | **149.4%**

KD Million



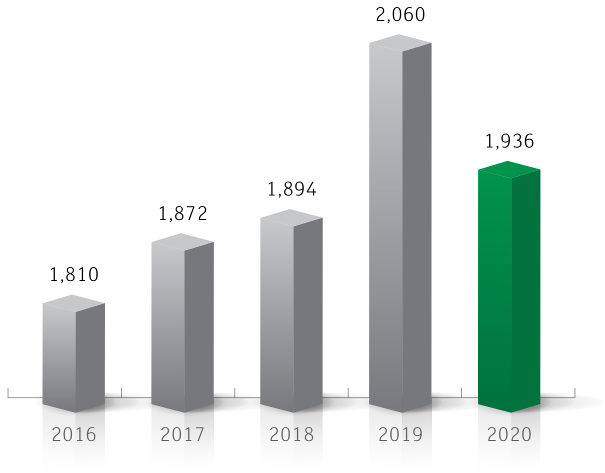
Depositors' Accounts | **42.9%**

KD Million



Shareholders' Equity | **6.9%**

KD Million

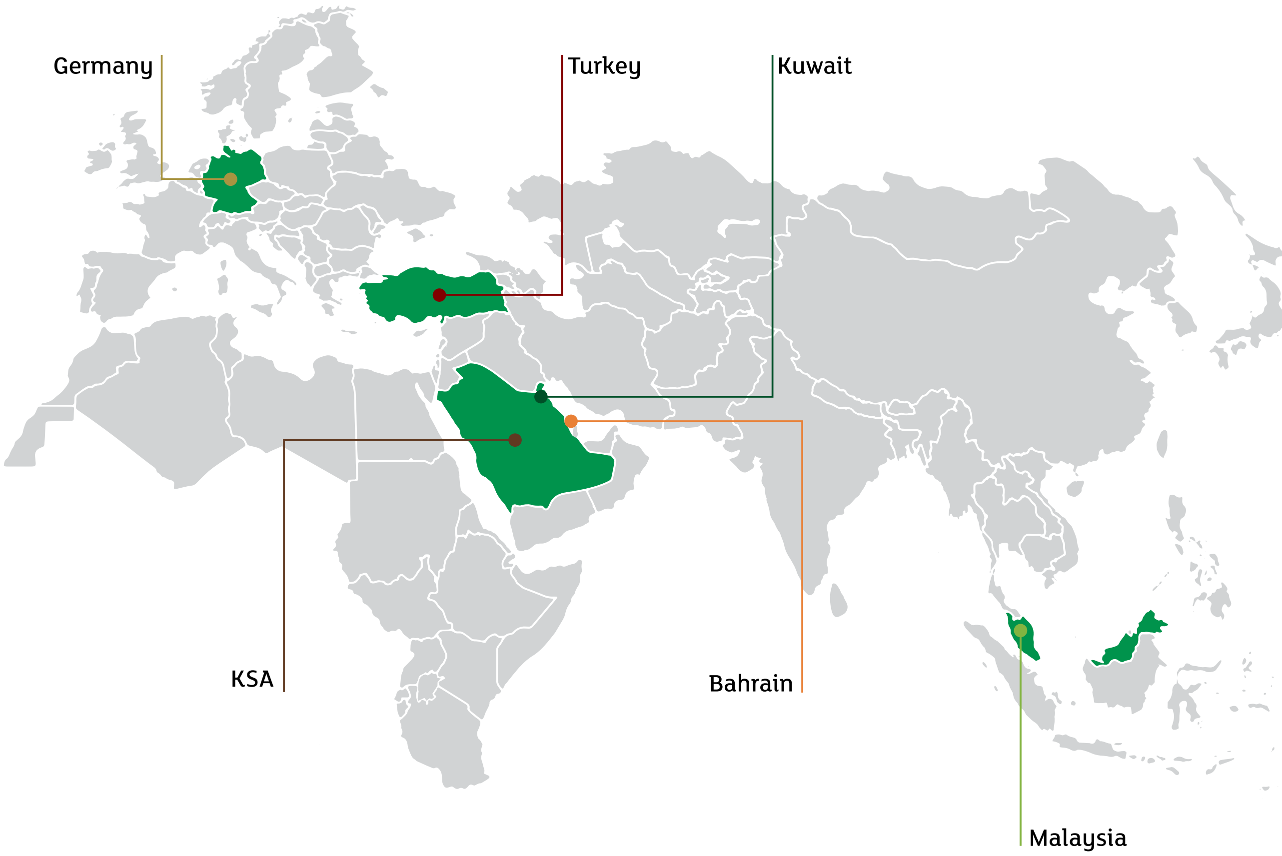


* Growth Ratio reflects the change in 2020 statements compared to 2016

KFH Group Overview

Global Integrated Operations

Leading the Islamic finance industry, KFH Group offers a wide range of Islamic products and services across several regions, with 516 branches, 1,558 ATMs and 15,000 employees.



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

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

Vision

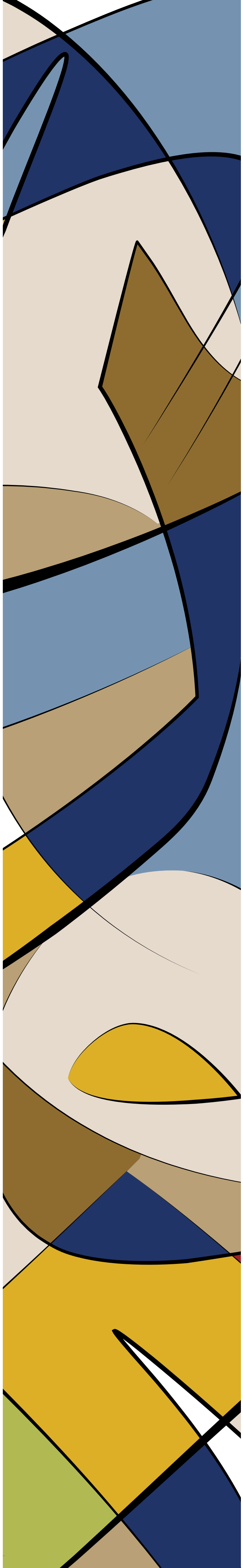
To lead the international development of Islamic financial services and become the most trusted and sustainably most profitable Shari'a- compliant bank in the world

Mission

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

Values

Leadership and Innovation
Partnership and Accountability Compliance with Islamic Shari'a Principles



Chairman's Message

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his Family and Companions.

Esteemed Shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh…

On behalf of myself and my fellow colleagues, members of the Board of Directors of Kuwait Finance House "KFH", I would like to present to you KFH Group Annual Report for the year 2020.

During the year 2020, the world has undergone severe and unprecedented conditions, facing two unusual challenges: The first was the COVID-19 Pandemic which has caused a worldwide health catastrophe, volume and impact wise. The second challenge comprised the economic recession resulting from the major lockdown imposed on economic activities, thus causing a severe and a major impact on the lives of millions of people worldwide.

Once the threat and the impact of the virus have become evident and clear in early March 2020, KFH has immediately taken necessary procedures to protect the health of its employees who, in their turn, worked relentlessly to secure the comfort of our customers and the society where we operate.

KFH has maintained its continuous presence as a front liner, playing a fundamental role in the lives of those whom we serve by providing support and advice to our customers. KFH was the main contributor to the Government Effort Support Fund which was announced by the Central Bank of Kuwait (CBK). KFH played a vital role as a trusted financial institution in retrieving stability following this major economic catastrophe. The sudden spread of the pandemic has led to the rise of unprecedented challenges for the economy and society. KFH has successfully and professionally observed and implemented all instructions issued by the government and regulatory authorities and assumed its responsibilities as a leading Islamic bank in a proactive manner. We have endeavored to encounter these unusual challenges with great persistence. We have provided liquidity to markets and customers, postponed installments for retail and corporate customers for a 6 months period as per CBK and Kuwait Banking Association instructions, set new finance lines to support companies, namely Small and Medium Sized Enterprises (SMEs) and provided support to the Kuwait Red Crescent Society and the Ministry of Interior efforts while performing their duties for the state and society.

The pandemic was a general stress test for KFH's comprehensive and proactive risk management. The activation of the well-studied and proactive procedures to deal with the crisis and emergency cases in a timely manner had a direct positive impact on KFH's management of the crisis. Several scenarios were tested consecutively pre-crisis by drawing and executing a hypothetical mechanism to encounter such crisis at various levels of the crisis' management process, thus mitigating the impact of resulting risks and ensuring business continuity in a manner that would ensure continuity of a strong asset quality and improvement in other indicators. We shall continue to enhance and reinforce our capabilities to manage credit, compliance, operational and cross-border risks.

The test has proved the prudence of the Group fintech digital strategy, thus enabling us to work during the full lockdown periods. On this occasion, we would like to praise and pay tribute to the efforts extended by the IT Department which has enabled us to work remotely from home through highly advanced systems and applications. We shall proceed actively to achieve our ambitious goals, enhance the benefits of digital services, focus on accommodating the most modern and highly sophisticated technologies in the field of internet and artificial intelligence that would enable us to avail all open applications at any time or place, in order to provide our services in a continuous, fast and secured manner.

Despite the negative impacts of the crisis, our main indicators have maintained stability and balance, thus reflecting the results of high-quality development. We have upheld the distinguished position which the Group occupies locally, regionally and globally. Total assets increased by 10.9% to exceed KD 21.5 Billion. Finance portfolio grew as at the end of 2020 by 13.4% compared to 2019. Investment Sukuks portfolio achieved a remarkable growth by 19.6%. Depositors' accounts increased to reach KD 15.3 Billion; i.e., an increase of 13.0% compared to last year.

As a result of the negative impacts of the pandemic, the uncertainty surrounding the crisis and the difficulty of foreseeing future developments, KFH has increased total credit provisions and impairments by KD 87.2 Million or 44.3% to reach KD 284.1 Million. Profit ratios were affected during the year 2020 where net profit declined to reach KD 148.4 Million for KFH shareholders, due to difficult operational environment which the pandemic has caused and the additional precautionary finance and investment provisions which KFH has made to maintain the finance quality and build strong buffers against the crisis.

The Board of Directors, Board committees and executive management continued to hold their meetings remotely by using safe and secured programs, thus expanding the circle of activities and exchange of opinions to improve and develop the Group efficiency and vision, strengthening shareholders and customers trust and applying the highest levels of prudent governance. Despite the halt imposed on aviation activity during Q2 2020, KFH sectors and Group subsidiaries continued their outstanding performance during the total and partial lockdown imposed in Kuwait. The Board has actively participated in reviewing the Bank business environment and ensured the capability of its officials to process all issues that may affect KFH's business reputation and continuity.

It was necessary to communicate with customers and listen to their concerns about financial difficulties. After 6 years of continuous dedication, the membership of KFH's former Board of Directors term has come to an end, and a new Board of Directors has been elected, including two independent members for the first time as per CBK's instructions. The new Board of Directors aims to continue its strategic vision to enhance KFH profitability, position and continue the efforts in expanding its optimal economic size by updating the acquisition studies of AUB – Bahrain which has been delayed due to the pandemic.

In 2020, we reviewed and developed the four strategy components to face the challenges of the crisis and adapt therewith. We have also focused on customers' needs, analyzed their behavior, coped with their future needs, and presented them in the best possible manner. We have endeavored to achieve distinct financial indicators to reflect positively on shareholders and depositors. Concerning digitalization, we have adopted modern technology solutions in partnership with Fintech companies to accommodate the continuing digital developments and provide innovative banking services in Kuwait and the regions where the Group operates. Information security was the third pivot in our strategy. Priority is given to encountering the cyber security threats and regulatory compliance. Innovation remains as the fourth pivot in our strategy where we achieved interconnection among our business objectives and merged them with customers' requirements. We have translated KFH strategic pivots comprising a set of goals and internal initiatives at the Group level to improve their executive capabilities.

KFH's wheel of development and innovation did not stop at this end. KFH has managed to achieve several qualitative accomplishments in customer service, continue its digitalization strategy, adopt most modern financial technology services, and deepen digital culture. KFH has launched an online account opening service for new customers without the need to visit the branch. We have also developed "Al-Nuwair" US$ Deposit together with "Al-Nuwair" KD Deposit using KFH digital platforms.

Aiming to introduce a new generation of smooth banking services, equipped with the best financial technology tools, KFH has inaugurated the new airport branch at the departures' hall and Hiteen branch with modern designs, high technology, effective services and utmost privacy. Hiteen branch comprises a special section for ladies which stands as a competitive advantage for the Bank. We have ensured to provide highly efficient and professional staff to provide the best banking services to customers. KFH has continued the expansion and spread of its smart branches "KFH Go" which has reached 9 branches located in various Kuwait governorates.

The year 2020 was the inauguration year of several projects despite the prevailing circumstances and conditions, thus contributing to the completion of the digital infrastructure construction process e.g. Jazeel Digitalization Project in Kuwait and Bahrain and E-Form Digitalization Project. We added a new dimension to provide digital facilities in SWIFT service, using most modern technologies SWIFT-GPI. These services enable KFH customers to track their funds transfer process. Also, we have applied KFH IT Technology DevOps that enable IT staff to make the necessary changes and amend the system instantly. This process is one of the main pivots that aim to complete the construction of the digitalization matrix.

In continuation of its leading role in financing mega governmental projects, KFH played a key role being the underwriter and mandated lead arranger of a syndicated financing facility amounting KD 1 Billion for Kuwait Petroleum Corporation. KFH has led and acted as a facility agent for the Islamic tranche amounting KD 400 Million. The Corporate Service Center at the Operations Sector has added corporate centers in 3 branches to supervise and monitor all services rendered to KFH corporate customers and ensure that high quality service is provided and match our interest in the corporate sector.

KFH Treasury Sector has put an exceptional and outstanding effort during the pandemic, thus providing various distinguished services to KFH local and global customers continuously during the total lockdown periods. The Treasury Sector and Financial Institutions group played an outstanding and leading role in 2020 as fully integrated central management of KFH Group. Treasury is considered as the cornerstone of the Group money market activities and the main hub for sukuk trading in the secondary market as a main market maker and an effective player. Considering the increase in government and companies demand on sukuks, the Money Market Department was active during the pandemic in providing liquidity to cover the Group demands, volume and cost wise, and invest surplus liquidity efficiently through the Group.

Financial Institutions Department at the Group Treasury Sector continued its outstanding performance, thus achieving an extraordinary and unprecedented number of deals. The Department has successfully participated in several bilateral transactions with local and international banks during the pandemic, thus exhibiting unique and exceptional performance during the difficult times, bearing in mind that the value of its deals exceeded US$ 1 Billion.

On the foreign currency side, Treasury has provided foreign currency (FC) rates to retail customers directly online. FC and precious metals transactions volume has multiplied significantly. Gold sale and buy transactions have increased by 269% in 2020 compared to last year.

KFH Group continues to maintain its leading position as a trusted arranger of Sukuk worldwide. KFH subsidiary "KFH Capital" has led arranged in 2020 more than US$ 4.5 Billion sukuk deals for governments and banks. KFH Capital played as a syndicate placement manager and the issue manager of the sukuks of the following entities; Islamic Corporation for the Development of Private Sector (US$ 600 Million), Dubai Islamic Bank (US$ 1 Billion), Boubyan Bank (US$ 750 Million) Abu Dhabi First Bank (US$ 500 Million) after obtaining all regulatory approvals last year. In the field of asset management and in an unprecedented accomplishment, the Company has succeeded in listing REIT Real estate Fund, first of its kind, in Boursa Kuwait in 2020, thus adding new tools to activate the Stock Exchange.

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

Depositors' Profit

Account Type	2020	2019
"Khumasiya" Investment Deposit	1.700%	3.120%
"Mustamera" Investment Deposit	1.450%	2.620%
"Sidra" Investment Deposit	1.100%	2.075%
Dima Investment Deposit (12 months)	1.275%	2.475%
Dima Investment Deposit (6 months)	1.150%	2.150%
Long Term Investment Plans	1.225%	2.100%
Investment Saving Account	0.200%	0.800%

We received during the year more than 10 distinguished banking awards in 2020, including, the World Best Islamic Institution from EMEA Finance, Safest Islamic Bank in the GCC from Global Finance, Best Domestic Bank in Kuwait by Asiamoney and Bank of the Year Kuwait 2020 award from The Banker.

KFH's share has been listed in the MSCI Index for emerging markets, the third global index that made sure to list KFH therein after FTSE Russell Index and S&P Dow Jones Index for emerging markets, along with upgrading Boursa Kuwait in both indices. KFH enjoys high creditworthiness worldwide year after year. Fitch Ratings agency has affirmed KFH Long-Term Issuer Default Rating at "A+" with a stable outlook, while Moody's has downgraded the Long-Term Deposits rating to "A2" with a stable outlook. This action comes after the downgrading of the sovereign rating of Kuwait to "A1" with a stable outlook.

It is important to firstly recognize the extremely difficult year that the entire world has gone through in 2020, but I can say with pride that the unprecedented times have shown clearly how capable and keen KFH team members are in continuing to provide excellent customer service for our clients. To foster that environment for our Human Capital, Group Human Resources have taken the lead in transforming the work environment through fully implementing a complete set of protocols designed to provide a safe and healthy environment for our clients and KFH team members.

During 2020 we have increased our focus on our Nationalization agenda where we continue to maintain a healthy Kuwaitization ratio and demonstrate our role in the Kuwaiti economy where KFH continues to be amongst the largest employers of Kuwaitis in the Private Sector. In addition to that, KFH Kuwait has ensured that employee morale is improved during these times by rolling out industry leading practices designed to ensure our Human Capital is treated fairly and properly thus allowing KFH to continue being the employer of choice.

Going through these extraordinary times did not stop Group Human Resources from achieving its strategic initiatives where we have continued supporting the organization by working with business areas in streamlining internal processes to make remote working possible and hybrid attendance models practical to ensure we continue to contribute to KFH's overall business objectives.

Employee Wellness continued to be front and center in our Human Resources workflow where we have launched the second version of our employee wellness program which has been received enthusiastically from our employees. The program has been tailored to help our Human Capital achieve their wellness goals through interacting and using a personal coach to guide and push them. With that, we expect to have a positive effect from the program on our work environment and corporate wellness.

Looking back at 2020, we are grateful for all the hard work and courage that our KFH family members have demonstrated this year and look forward to having this upward trajectory in performance to continue in the years to come.

In an initiative, reiterating CBK commitment to maintain financial stability, control governance support and Sharia' compliance in Islamic banks and financial institutions, CBK has announced the formation of the Higher Sharia' Control Committee in September 2020. KFH Sharia' Department has fulfilled all CBK requirements and all department employees have obtained the Sharia Auditor Certificate as per the Central Bank of Kuwait requirements. The Group Internal Sharia' Audit Department has conducted sharia audit procedures on all KFH sectors and departments as per the approved plan for the year 2020.

The pandemic is not over yet. We are still in the middle of the crisis. However, we are fully confident of KFH's capability to absorb the crisis considering our strong financial position which we have built over the years. The flexibility of our business model and our strategy that aims to achieve growth and distinction have also contributed to this success. On this occasion, I would like to avail this opportunity to extend my sincere thanks to our shareholders and customers for their continuous support. We have the confidence, by the grace of Allah, to achieve rewarding returns for shareholders and depositors. We also avail this opportunity to thank all Group employees and the members of the Fatwa & Sharia Supervisory Board for their intensified continuous effort and constructive work.

We will not forget the tragic and sad incident which Kuwait witnessed at the end of Q3 represented in the demise of His Highness, Former Amir, Sheikh/ Sabah Al-Ahmed Al-Jaber Al-Sabah (May Allah Have Mercy On his Soul). His death was a tragic loss for the Kuwaiti people, regional and international communities. The smooth transfer of powers has enhanced investors trust and confidence in the Kuwaiti market, where His Highness Sheikh/ Nawaf Al-Ahmed Al-Jaber Al-Sabah (May Allah Safeguard) had the accession to the throne of Kuwait while His Highness Sheikh/ Mishal Al-Ahmed Al-Jaber Al-Sabah (May Allah Safeguard) was named as the Crown Prince. We pray to Allah Almighty to lead our leaders to the right path and bless their efforts to achieve prosperity and growth for our beloved country Kuwait.

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

May Allah grant us success

Hamad Abdulmohsen Al-Marzouq
Chairman

Board of Directors

Mr. Hamad Abdul Mohsen Al Marzouq

Chairman since 2014

Chairman of Board Executive Committee
and Chairman of Board Governance Committee

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

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

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

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

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

Mr. Abdul Aziz Yacoub Alnafisi

Vice Chairman since 2014

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

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

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

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

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

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

Mr. Noorur Rahman Abid - Independend Board Member

Board Member since 2014

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

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

Mr. Abid was appointed as Assurance Leader for Ernst & Young Middle East and North Africa in 1999, and has nearly 40 years of extensive experience within the profession.

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

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

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

Mr. Motlaq Mubarak Al-Sanei

Board Member representing Kuwait Investment Authority since 2017

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

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

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

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

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

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

Mr. Salah Abdulaziz Al-Muraikhi

Board Member representing Kuwait Investment Authority since 2018

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

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

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

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

Mr. Mohammed Nasser Al Fouzan

Board Member since September 2020

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

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

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

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

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

Mr. Khaled Salem Al Nisf

Board Member since 2014

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

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

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

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

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

Ms. Hanan Yousif Ali Yousif

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

Member of Board Governance Committee and Member of Board Risk Committee

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

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

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

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

Mr. Fahad Ali AlGhanim

Board Member since 2014

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

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

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

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

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

Mr. Muad Saud Al Osaimi

Board Member since 2014

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

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

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

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

Mr. Hamad Abdullateef Al Barjas

Board Member representating Public Authority for Minors Affairs (PAMA) since September 2020

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

Mr. Al Barjas received his Bachelor's Degree in Civil Engineering from the College of Engineering and Petroleum at Kuwait University in 1993.

Mr. Al Barjas is a Board Member at Al Durra Company since 2019, and the Deputy General Manager of Minors Affairs since 2018.

Mr. Al Barjas previously held several executive positions including the Deputy General Manager for the Administrative and Financial Affairs in the Public Authority for Minors Affairs from 2017 until 2018 and Board Member at REAM Real Estate Company from 2007 Until 2015.

Mr. Ahmed Meshari Al Faris - Independend Board Member

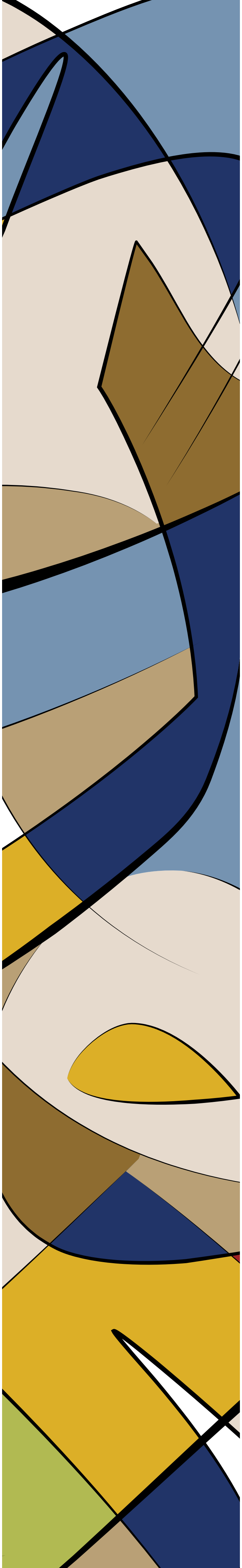
Board Member since September 2020

Chairman of Board Risk Committee and Member of Board Governance Committee

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

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

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



Fatwa and Shari'a Supervisory Board's Report

The Annual Report of Fatwa and Shari'a Supervisory Board 2020

Kuwait Finance House

To the respected KFH shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh…

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

We have reviewed and endorsed the policies, products, services and the activities that KFH had carried out in 2020. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwas, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held 30 meetings during the year 2020, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Research and Advisory Department conducted its review on contracts, agreements and policies and procedures as per Fatwa and Shari'a Supervisory Board's resolutions in addition to the Group Internal Shari'a Audit conducted audit exercises on randomly selected samples of all operations and transactions of KFH with the shareholders, investors, clients and others in accordance with the Annual Shari'a Audit plan for all the Bank's departments and subsidiaries. The Shari'a Board has also received the periodic reports that the Group Internal Shari'a Audit Department has prepared on the Shari'a audit process and operations, site visits and compliance status of the process and implementation of the fatwa and resolutions issued by the Fatwa and Shari'a Supervisory Board.

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

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

First: the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2020 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

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

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

Fourth: all income that are not in line with the resolutions of KFH Fatwa and Shari'a Supervisory Board have been cleansed and channeled to charitable purposes.

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

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

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

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

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

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

Date: 14 Jumada Al-Awwal 1442H
Corresponding: 29 December 2020

Fatwa & Shari'a Supervisory Board

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

Chairman of Fatwa & Shari'a Supervisory Board

Dr. Al-Tabtaba'e received his PhD in 1996, and his Masters in 1993 from the Supreme Jurisdiction Institute at Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia. He received his Bachelor's Degree in 1988 in Islamic Jurisprudence from Al-Imam Mohammad Ibn Saud Islamic University in Riyadh, Kingdom of Saudi Arabia.

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

Dr. Al-Tabtaba'e chairs the Fatwa Board of the Ministry of Awqaf & Islamic Affairs of State of Kuwait. During his professional career he held numerous prominent roles as he held the position of Chairman of the Supreme Committee for working on applying Islamic Shari'a Law, and Member of the Board of Trustees of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Dr. Al-Tabtaba'e was the former Dean of Shari'a and Islamic Studies College at Kuwait University, Deputy Manager of Kuwait University and a Teaching Faculty Member.

Sheikh Professor Dr. Mubarak Jaza Al-Harbi

Member of Fatwa & Shari'a Supervisory Board

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

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

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

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

Sheikh Dr. Anwar Shuaib Abdulsalam

Member of Fatwa & Shari'a Supervisory Board

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

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

Dr. Al-Abdulsalam is a member of the Fatwa and Shari'a Supervisory Board of Kuveyt Turk Participation Bank and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

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

Sheikh Dr. Khaled Shuja' Al-Otaibi

Member of Fatwa & Shari'a Supervisory Board

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

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

Dr. Al-Otaibi is a Teaching Faculty Member at the Islamic Jurisprudence and Usul Al-Fiqh Department at Shari'a and Islamic Studies College at Kuwait University. He is the Head of the Shari'a Supervisory Board at Kuwait Zakat House and the General Advisor for Kuwait Hajj Delegation and a member of Fatwa & Shari'a Supervisory Boards at various Islamic Financial Institutions and Organizations.

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

Sheikh Dr. Esam Abdulrahim Al-Ghareeb

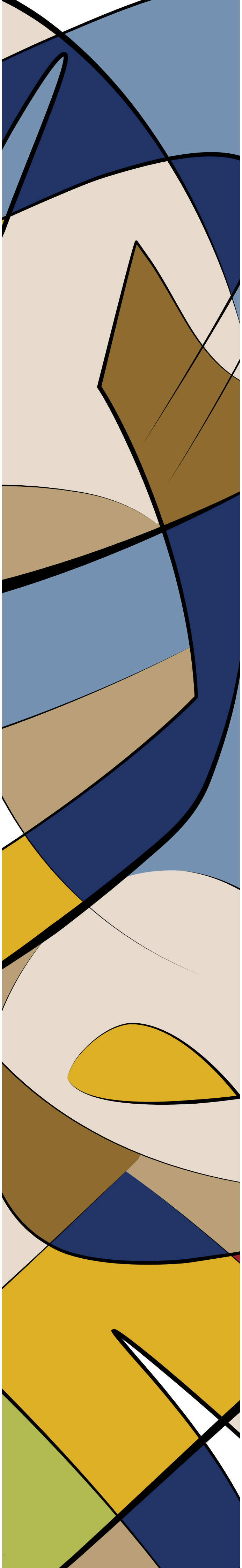
Member of Fatwa & Shari'a Supervisory Board

Dr. Al-Ghareeb received his PhD in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 2000. He received his Master's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Birmingham University in the U.K. in 1997. Dr. Ghareeb received his Bachelor's Degree in Islamic Jurisprudence and Usul Al-Fiqh from Kuwait University in 1988.

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

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

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



Economic Report 2020

First: Global Economy Development

The COVID 19 pandemic continued its global spread, infecting more than 83.4 Million people as at the end of December 2020 and taking the lives of 1.8 Million. The grand lockdown on markets and activities around the world has led to major negative economic impacts and a significant recession during the first half of 2020. However, hope will always be there. Swab tests have increased, treatments are effective, and tests have led to the endorsement of certain vaccines. Recent information reveal that most economies have started to recover faster than expected after the reopening of markets and overpassing the total lockdown period.

Perhaps, the right way to start is to identify the nature of the situation which COVID19 has created economy wise and take a deep look into it. On the practical aspect, central banks worldwide have agreed that the banking sector should be well prepared for the future and cope with the challenges which world economy may impose. The crisis has changed all equations and created new banking needs which did not exist pre-crisis. The pandemic has almost changed everything usual, starting with fundamentals and ending with challenges. The quick major and unprecedented response at the financial, monetary policy and regulatory procedures level has minimized the impacts of the crisis, retained income available for families, protected corporate cash inflows and ensured availability of credit.

The crisis has expressed itself in several cases and problems. Recession has prevailed in most of the world economies. This crisis has taken us back to the grand recession during the period 1929 – 1933. It is true that the current crisis characteristics, reasons, results and horizons as well as the capabilities and means of overcoming it differ from the great recession crisis, yet they both have resemblance in regard to the impacts and severity thereof on the economic, social and political aspects as well as the difficulties of encountering the crisis. The cause of the crisis has resulted from the spread of the virus, yet the major lockdown on markets has created a clear case of recession which has prevailed all economies, increased unemployment, drawn world's attention to climate change problem, caused a decline in oil prices and confusion in exchange rates, caused a significant decline in the size of world trade and capital inflows, increased trade war between USA and China, Canada and Mexico, increased the power of China and emerging markets, increased competition worldwide and increased the problem of foreign debts.

Accordingly, world economy growth ratios are expected to decline in 2020 by 4.4%, while the Middle East and Central Asia are expected to witness a decline by 4.1% in growth ratios. Considering these expectations, governments worldwide have provided a huge financial support to indemnify individuals and companies through rescue plans and expanded monetary policy to support the national economy.

Markets have witnessed severe turbulences at the beginning of the crisis. Most stock exchanges worldwide have fallen at that time. However, as precautionary measures were eased, and life began going back to normal, global equity markets indices have increased variably by end of 2020. US Dow Jones Index increased by 6.6% and Shanghai Index 11.9% on an annual basis. Equity markets performance varied in the GCC region as Saudi Market Index "Tadawul" increased by 4.4% while Dubai index and Kuwait Main Index declined by 8.9% and 7.3% respectively whilst EGX30 Index declined by 22.2% on annual basis.

Gold witnessed an unprecedented increase, closing at US$ 1,894 at the end of 2020, recording a major annual increase by 24.8%. Digital currency prices including Bitcoin, increased in the middle of the crisis to US$ 20,000 followed by another major increase in December to reach US$ 29,000 as at the end of the year, i.e., an increase by 203% on annual basis.

These developments shall have significant impacts on the public debt level where total global debt is expected to increase and reach US$ 275 Trillion i.e. a record level as a percentage of the global GDP reaching 355% as at the end of 2020. The size of public debt in Arab countries increased as well during the year 2020. Foreign debts to be settled during 2021 is expected to reach US$ 45 Billion which are mostly sovereign debts. Meanwhile, Arab countries have presented finance packages during the pandemic approximating US$ 235 Billion to support the health sector and other affected sectors e.g. tourism, aviation, small and medium projects, labor aids and supporting unemployment which has increased dramatically during the pandemic.

The global economy revived strongly in Q3 as expected. Several countries were able to reduce infection rate as shown in the virus graphic curve, ease social distancing regulations, resume activities in certain economic sectors especially that demand has accumulated during the lockdown period. Revival is also associated with the huge government aids to support companies and family income. However, it is still too early to regain normal status. In the Euro zone, the GDP remained less by 8.3% during Q3 compared to pre-crisis level. Growth in the USA declined by 4.3% which is similar to the decline witnessed in the peak recession period 2008 – 2009.

There is high demand on commodities. However, services have suffered low ratios during the recession period due to the social distancing procedures. China has benefitted from the increase in demand during the crisis and was able to strengthen its economy. The global economy is expected to grow at slower pace during the next few months as several countries are facing a significant increase in the number of people infected with COVID19.

Two main factors shall determine the performance of the US economy during the next few months, the control of the pandemic and the size of the stimulus program in the new budget. Health condition has deteriorated during the last few weeks of the year. However, as the distribution of vaccines has started, there doesn't seem to be any plans to enforce the lockdown procedures which were applied in the past. Nonetheless, we are still seeing lockdown procedures being enforced in several countries e.g. USA and the Euro zone as a new variant of the virus has been discovered. This indicates that the return of the virus in a variant form shall affect the economy. Speaking about the coming year, we can say that the economic revival power shall depend mainly on the economic policy of the new leadership in USA which may minimize the volume of any possible motivation package.

Amidst precautionary procedures and government plans adopted in several countries to face the COVID19 pandemic, most economies have retreated worldwide including GCC countries. According to IMF estimations, GCC GDP has declined by 6% while this decline reached 8% in Saudi Arabia. Improved oil prices lately have contributed to the improvement in the economic growth decline.

Economic expectations trajectory is currently uncertain. This situation is expected to continue until the vaccine is provided and distributed on a large scale. Specifically speaking, the increase in infected cases could lead to the return of precautionary procedures and lockdown on commercial activities in a noticeable manner as we have witnessed lately at the end of the year. This process could lead to another recession crisis. Other risks impacting economic outlook include the tensed commercial relations between USA and China, decline in financial policy support to the increasing deficit in Budget and other expected geopolitical events.

Second: Kuwait Economy

Kuwait economy has witnessed a historical deflation in the first half of 2020 as a result of the precautionary procedures adopted to encounter and contain the spread of COVID19 pandemic, and sharp drop in oil prices which is the main source of economy. The re-opening of business, remarkable increase in oil prices and government income support arrangements have led to the partial revival of the economy. Consumer spending and real estate markets have benefited from the postponement of local banks installments for a period of 6 months and the government and the private sector to pay salaries during the lockdown periods in addition to the significantly low interest rates. However, the permanent closure of certain companies, the increased caution adopted by consumers and business owners and the failure to move to the fifth stage of normal economic activity and the vaccine results are all still considered as uncertain issues.

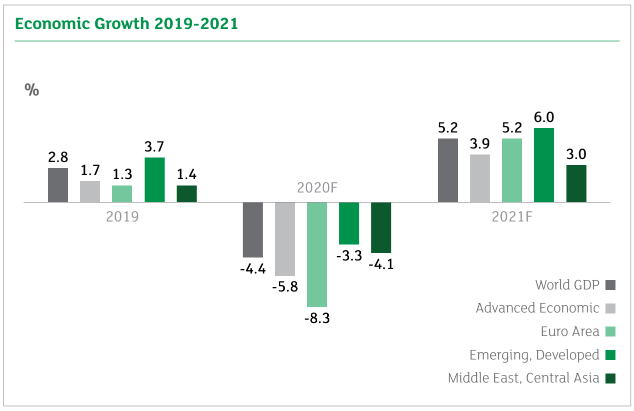
Virus infections indicate that the economy shall not regain its pre-virus status till the first half of 2021 at least. Local GDP is expected to deflate by 8.1% in 2020 while it is expected to increase by 0.6% in 2021 if the virus is contained. The low inflation ratio of 2.6% as at the end of December 2020 as per the latest information issued by CBK should encourage the continuation of the expansionary monetary policy to support the expansion of economy for several years.

The Central Bank of Kuwait has maintained the stability of the Kuwaiti Dinar during the pandemic. The Kuwaiti Dinar is expected to strengthen modestly in 2021 as a result of the increase in oil prices and the retreating search for the US$ as a haven considering the recovery of the world economy. Credit balances increased to reach KD 39.8 Billion in December 2020 i.e. an increase by 3.5% on an annual basis. Personal facilities form43.4% of credit i.e. an increase by 4.9%. The share of real estate and constructions sectors reached 27.9% of credit facilities, thus exceeding KD 11.1 Billion driven by an annual growth of 2.0%.

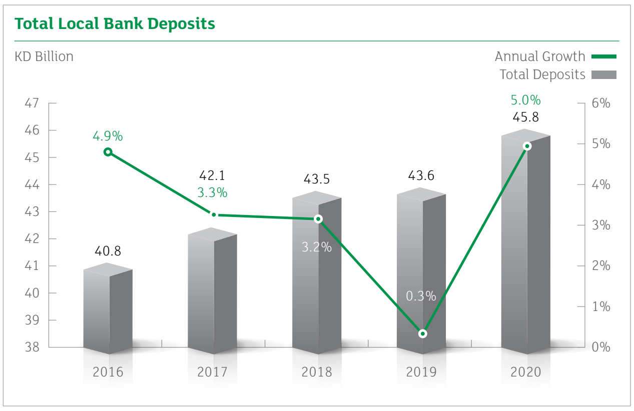
Several factors are inducing us to have a positive future outlook for Kuwait following the pandemic which has burdened the economy despite the revival of markets simultaneously with the smooth transfer of power in Kuwait. Meanwhile, Boursa Kuwait succeeded in joining the MSCI Index for Emerging Markets as this step was postponed from June till November 2020 due to the imposed lockdown. The oil market witnessed positive developments with the beginning of the second half of the year compared to the low levels witnessed for the first time during the first and second quarters. Oil prices witnessed an improvement as Kuwait oil price reached US$ 50/ Barrel as at the end of December 2020. However, the price is still lower by 26% on an annual basis. West Texas oil recorded US$ 48.4 and Brent crude recorded US$ 51.7 i.e. a decline by 20.9% and 21.7% respectively compared to the closure in 2019.

Kuwait government seeks to identify the sources to finance the expected deficit, diversify sources of income, issue public debt and The Sukuks law and permit borrowing from the banking sector.

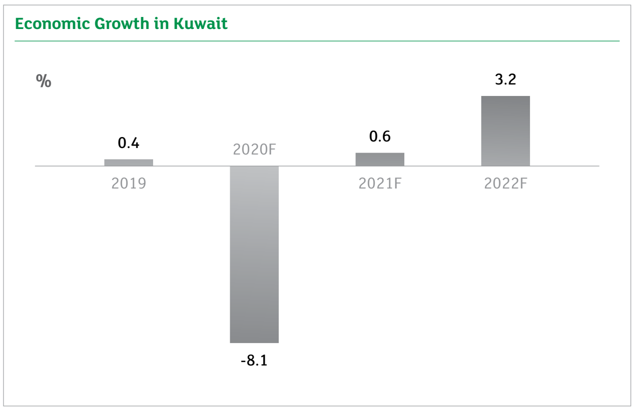
The discount rate remained at its lowest level at 1.5% without any change since the latest CBK report in Q1 2020 according to the finance rules and regulations to motivate economic activities, namely those affected during the lockdown period. CBK resolution has coincided with the decline in the Federal Reserve interest rates to 0.0% - 0.25% at the start of the crisis.



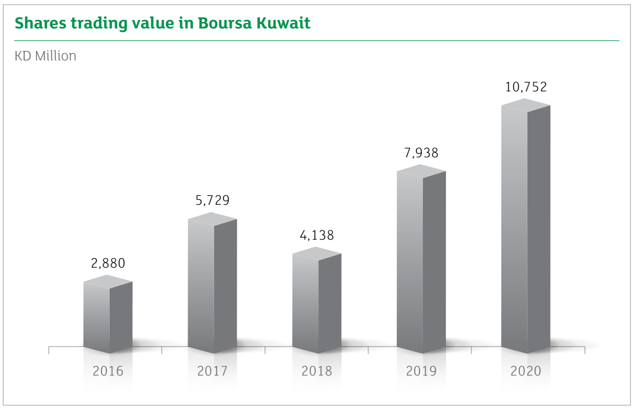
Source: International Monetary Fund, October 2020, KFH



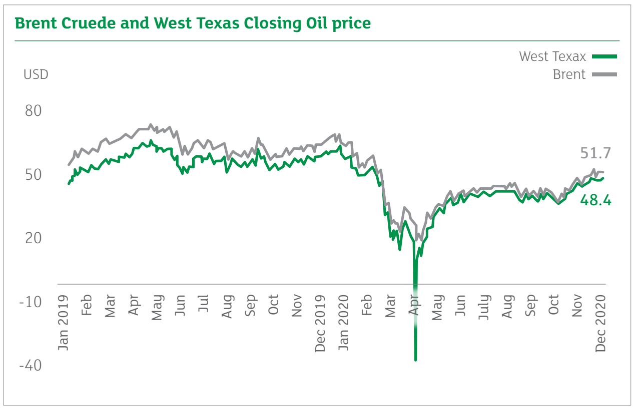
Source: Central Bank of Kuwait, KFH



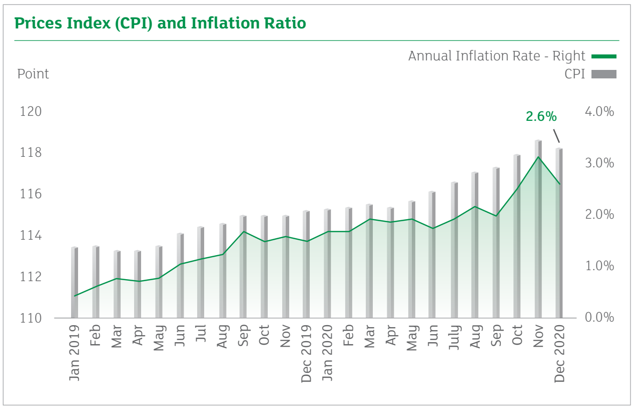
Source: International Monetary Fund, October 2020, KFH



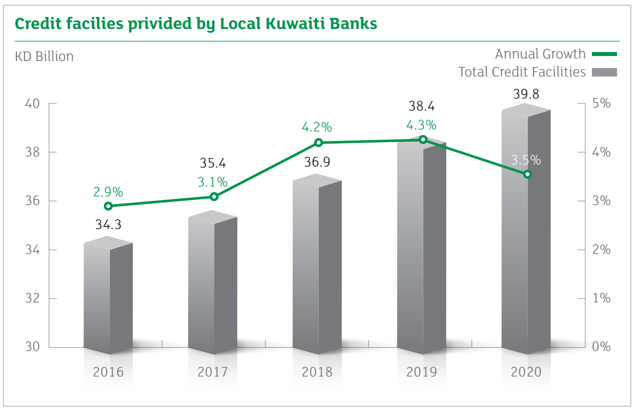
Source: Boursa Kuwait, KFH



Source: REFINTIV, KFH



Source: Central Statistical Bureau, Kuwait, KFH



Group CEO Message

Key Achievements for the Year

The year 2020 comprised most exceptional and unusual conditions due to COVID19 pandemic which has exhausted the world economy and caused a major transformation to online platforms which have enabled us to work, study, shop and pay remotely. A new economic model was born, that does not resemble any other form we have experienced earlier. The world is facing a new era of a tremendous change.

For more than 40 years, KFH has experienced magnificent changes. Despite the negative impacts resulting from the crisis, challenges which we have encountered e.g. the spread of COVID19 pandemic and business challenges in light of the lock down periods, yet we have managed to fulfill all our customers' needs successfully during that period. KFH has exhibited unique operational flexibility during all pandemic stages, thus exploiting all our capabilities and various IT channels to enhance effective cooperation between employees and customers e.g. call center, digital branches, and traditional or interactive ATMs, using an effective appointment system (SKIPLINO) to visit branches. All social distancing and precautionary medical steps have been applied to preserve the health of our employees and customers.

KFH has actively responded to the instructions of the Ministry of Health and applied their guidelines during the pandemic e.g., glass shields, social distancing floor signs in branches and sanitization protocols. All KFH branches were open all over Kuwait with the beginning of July. KFH has worked closely with government authorities, Central Bank of Kuwait (CBK) and Kuwait Banking Association. KFH supported all rescue plans and support programs to mitigate the financial difficulties caused by the pandemic, i.e., postponement of installments, injecting liquidity and providing finance facilities designed to assist retail and corporate customers to bear pressures and regain financial wellness.

On the other hand, KFH has managed to realize a net profit of KD 148.4 Million for shareholders during the year 2020, as net finance income increased by 15.8% while operating income declined by 2.3% compared to last year. The Group efforts have succeeded in optimizing costs as operating expenses declined by 2.7% compared to last year. Other indicators have also recorded a remarkable performance where total assets and finance portfolio increased by 10.9% and 13.4% respectively compared to last year.

KFH has allocated KD 284 Million provisions for credit and impairment losses, i.e., an annual increase approximating 44.3% including precautionary provisions, as a hedging step to encounter any possible pandemic impacts. Customers deposits approximated KD 15.3 Billion as the group succeeded in attracting deposits approximating KD 1.8 Billion during the year 2020 i.e., an increase by 13.0% compared to its volume as at the end of 2019. These results indicate clearly that KFH indicators have not been affected by the negative impacts imposed by the COVID19 pandemic on economic sectors including the Kuwait banking sector.

We have controlled and optimized total expenses reasonably although we incurred additional costs as a result of the pandemic e.g. providing risk allowance to the front line employees, sanitization and personal protection equipment to ensure the safety of our employees and customers, postponement of payments and installments for 6 months, waiving any penalties imposed on affected persons and continuation of corporate banking services namely those connected to the supply of basic commodities and needs. Some of the costs were also lower due to the spread of the pandemic e.g. decline in the costs of official business trips and business development. Our investments were considered as a priority in IT development including cyber security and data privacy. We shall continue to focus thoroughly on increasing efficiency and better management of our costs in the future.

Diversification and Risk Management

Today, KFH stands as the largest Islamic bank in Kuwait with fully diversified services e.g. deposits, profitability, and No. of branches. It also stands as the second largest and reputable Islamic bank in the GCC zone. Our presence in Germany, Saudi Arabia, Turkey, Malaysia and Bahrain has covered more than 516 branches and 1,558 ATMs. KFH enjoys a leading global position with an outstanding performance which caused KFH to be listed in the Premier Market at Boursa Kuwait. The year 2020 witnessed the listing of Boursa Kuwait in the MSCI Index for Emerging Markets. KFH share was one of the 7 securities listed in the index. This listing comes after the listing of KFH in the S&P Dow Jones Index for Emerging Markets in 2019 and the FTSE Russell for Emerging Markets in September 2018. Transformation and innovation have remained as part of our identity for more than 4 decades. Now and more than ever, we need to continue our strong performance and maintain our highly admired and impressive leadership position.

We are aware that there is a lot to be done to honor our promise to our shareholders and customers. The group risk department has made a remarkable contribution, through prospective thinking and pre-set contingency plans, to bypass the pandemic successfully. The risk sector has reviewed the 2020 plan since the beginning of pandemic to switch from risk management to protection from risk in a swift and flexible manner. Several tests were conducted right from the beginning of the pandemic, thus establishing a reference point in an uncertain and ambiguous environment. We have maintained continuous and uninterrupted communications with the Central Bank of Kuwait and all regulatory authorities to face the pandemic challenges and provide appropriate solutions. We have also conducted a comprehensive review of the risk ratio at the group level and coordinated the swift and immediate application of appropriate solutions based on recent variations. In addition, we conducted a close monitoring to encounter the rising FC and market risks, namely in Turkey.

Transformation to Digital Banking

In 2020, and for the first time ever, our customers were given the facility to open bank accounts online including all KD deposits e.g. Mudarabah or Wakala deposits. We have launched “Baiti Online” service to manage the accounts of customers children (Under 15) through KFH website as well as KFH mobile application and e-signature facility in cooperation with the Public Authority for Civil Information through Hawiyati Application. KFH customers will be able to benefit from our several digital services in the future without the need to visit branches. We have also launched new operational lease services in two new packages i.e. golden and platinum to offer our best services to customers.

Customers have performed, through KFH Online, 139.6 Million transactions during the period Jan. – Dec. 2020 through 50.9 Million access to this service. Development efforts have resulted in attracting 103.5 Thousand new users and 49.9 Thousand with full access privilege to KFH Online services. Accordingly, E-services have increased daily transaction limits to KD 20,000 considering the users increasing demand in this service.

Our digital services have increased the number of accounts on the e-service by 24% compared to January, opening time deposits have increased by 169% and cheque deposit transactions through E-service have increased by 38%. KFH Pay service in December, has reached 3 times its size in January as 709.7 thousand banking transfers were performed in favor of other banks’ customers till December i.e. an increase by 35% compared to January. Banking card activation requests increased by 46% while applications to obtain new banking cards increased by 23% compared to January along with an 9% increase in reloading transactions in these card accounts. Considering these difficult conditions and our feeling of responsibility towards our society, our applications have contributed to the increase in the transfer transactions to charity societies and committees by 6% for the same period.

Swift transactions increased by 35% and transfers made by parents to their children’ accounts increased significantly, which indicates increased trust in KFH's secured e-banking applications. Due to the limited investment opportunities, transfers to KFH Capital for investment purposes in the bourse increased remarkably by 144% and applications to open gold account online had increased by 66% along with an increase in the volume of purchasing gold by 136% and its sales volume increased by 18%. Also, applications to obtain online finance increased by 84%.

Digital Banking Indicators

Digital Banking in 2020

139.6
Million
Transactions through KFHOnline

103.5
Thousand
New Users

50.9
Million
Login to KFHOnline

11.1
Million
KFH Pay Transactions

Significant Growth in E-Banking

46%
Growth in Banking Cards Activation

38%
Growth in Cheque Deposits

169%
Growth in Opening Time Deposits

84%
Growth in Finance Requests

Despite the total and partial lockdown procedures, our services continued to flow through our branches during the year. Our investment continued in automation, aiming to transform our business to digital systems. We are more efficient in management due to the unification of standards. Due to the uncertainty which has befallen all activities this year, the branches department has responded instantly and worked remotely by using IT platforms to communicate with the management team.

Business has been taken to new horizons of perfection e.g. wealth management section provides valuable banking services to the private banking customers. Asset management services benefit from the products such as management of money and foreign exchange, precious metals, investment funds, Sukuks and other financial securities. Many other opportunities are also available to fulfill ambitions, serve our customers, increase income, and build distinguished competitive advantages. Management continued to provide highly advanced services to the private banking customers during the pandemic while ensuring the implementation of all health regulations.

KFH has implemented a new banking experience by supporting 28 thousand new families planning to build the life time house at Mutlaa area, by providing finance and consultation to our valuable customers through Istisnaa facility which is only provided by KFH. This contract is based on three parties KFH, customer and the contractor. KFH finances the construction according to completion stages, thus giving the related parties the trust and confidence to honor their obligations towards the contractor who shall get his remunerations in an orderly manner. KFH controls and follows up the construction process till final completion in a timely manner by cooperating with more than 20 architectural engineering offices to support the design stage, provide construction materials, air-conditioning, elevators, furniture and decoration, at lowest prices to increase demand on our products for the youth category. KFH aims to play this role to best serve all family categories and Kuwait society.

Motivating Growth and Development

As a leading Islamic financial institution, we are determined to serve our customers and achieve the best for them. We have a pressing need to motivate early execution and accelerate our transformation process. We have strong and flexible business model that matches our digital aspirations, achieves distinguished income and more capital adequacy to enhance growth. We are in a strong position concerning business. We are focusing thoroughly on proceeding with confidence to improve our performance and achieve our goals as we invest time and capital in various aspects of our business as follows:

IT based Digital Culture

We have invested thoroughly in technology and internal digital system through simple but highly significant goals i.e., increase flexibility and security, enhance operational efficiency, and provide higher value to our customers. We strongly believe that our digital policy and the open applications and platforms methodology represent our strong competitive advantages, especially through our IT sector which was the life nerve of KFH during the pandemic. IT showed outstanding distinction, flexibility and innovation, thus reflecting positively on all business sector and taking our services to a new higher level. Thanks to our heroes who worked relentlessly during the crisis and achieved magnificent results despite the dangers they have encountered.

Our strategic plan aims to establish a huge new data center as one of the most significant steps that would carry Information Technology to new horizons of digital capabilities i.e. reaching a 100% system availability by using Active/Active system which works continuously without any interruption, and ensuring flexibility of business using the private cloud option that enables our systems to work and operate anywhere while ensuring speed of business and recovery from any disasters as well as the optimization of cost by using technologies for KFH group and subsidiaries.

The year 2020 witnessed the completion of several projects despite the difficult operating conditions. This has contributed to the completion of the digital infrastructure e.g. Jazeel Digitalization project in Kuwait and Bahrain, e-model digitalization project and swift digitalization. We have also launched KFH IT DevOps which is another digitalization process that enables IT staff to make necessary changes instantly. It is one of the main pivots for completing the structure of the digitalization process in KFH.

Information technology support services were evidently present during the pandemic and lock down periods as they worked 24/7 non-stop. IT service has provided all operational environments with their needs of technology, carried forward all required files and monthly closures, provided timely data for users from various department in KFH, executed all new requirements based on the instructions of regulatory and official authorities during the said period, provided more than 700 personal laptops with all special programs and applications to help employees work remotely and provided all social media communication means to ensure proper convening of meetings remotely. IT support has enabled the call center staff to receive from their homes customer's calls and had continued to provide IT support to all KFH sectors during the full and temporary lockdown periods.

Enhancing Operational Models

Operations sector works on the automation of all our comprehensive operations, thus improving quality, minimizing cost, increasing productivity and enhancing operational discipline and quality of operational performance. We have conducted structural changes to improve control and accountability in our operations by employing an innovative digital strategy.

We use digitalization, automated learning, and artificial intelligence to increase operational efficiency, reinforce customer’s experience and cope with other FinTech companies and other financial institutions to accelerate our progress. In the year 2020 and despite the COVID19 pandemic and the lockdown procedures, KFH operations sector has launched and participated in several transformation projects which adopt the FinTech concept e.g. online cheque deposit systems which are considered as leading systems for technological channels to enable customers to check and deposit cheques through their smart phones. This process has led to a significant improvement in the quality of service provided to the customers while using the innovative clearance platform. This initiative will cover the main payment functions e.g. the automatic clearing room, the protection of the release of wages, salaries, centralized bills payments and the payments through smart phones and digital currency.

Group operations department has added a new dimension in providing digital techniques such as SWIFT through the most modern technique SWIFT-GPI which enables KFH customers to track and follow up money transfer right from the beginning till the amount is received by the beneficiary through internet channels and smart phones.

Our investments have allowed us to upgrade data centers and infrastructure, improve performance, and establish a more flexible basic system. We are in the process of upgrading several applications by using highly advanced technologies to benefit from this new environment. We have used artificial intelligence to develop and process our back office operations in a swift and timely manner, thus giving the best experience to the customer with low cost and high efficiency. We believe that these investments in technology and the merge between the unique customer experience and the digital back office operations shall be the source of competitive distinction.

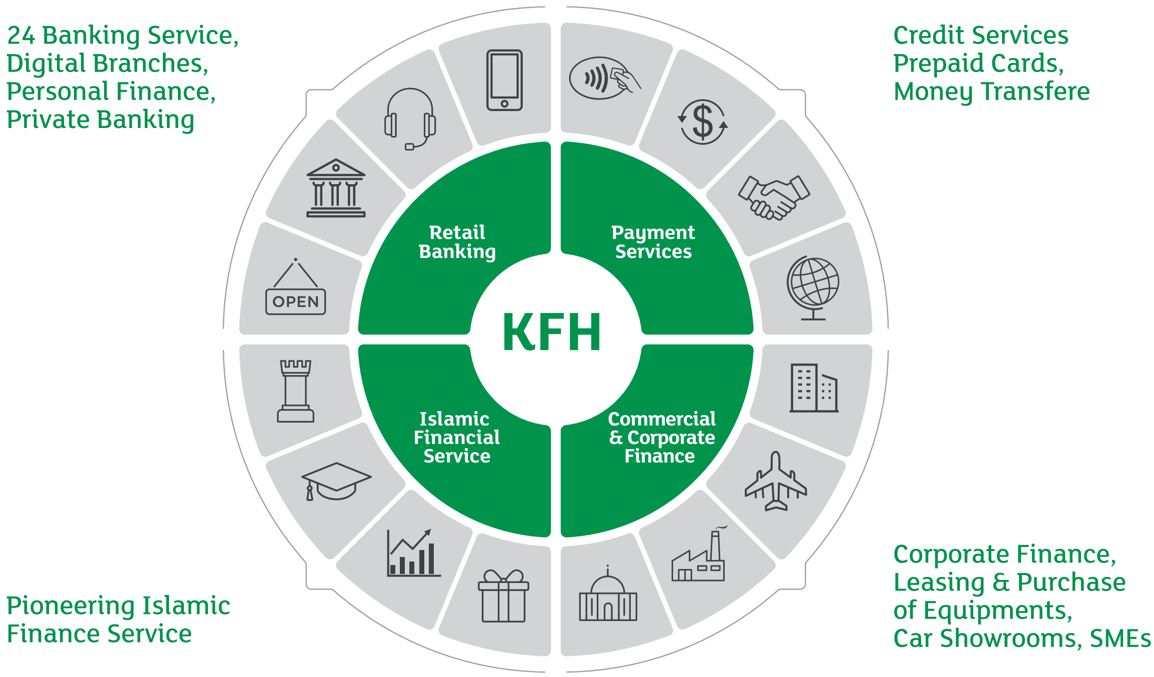
Collaterals management during and pre-pandemic is considered as one of our outstanding advantages and distinction. We focused in 2020 on enabling market players to register their collaterals more efficiently and achieve finance and operational efficiencies. Our new collaterals platform is intended to largely enhance our ability to attract new subscribers, support all types of new collaterals and increase speed through the platform which we have launched earlier in coordination with Group Corporate Banking. This step aims to activate a strong system to establish and manage collaterals. We have managed to automate collaterals in various systems (real-estate, shares, cash, funds …etc.) based on a new sharia compliant credit limit and a new finance facility swiftly with less effort and no errors. Meanwhile, the new platform shall enable us to extract plenty of smart reports and provide information in advance to the concerned employees to conduct immediate intervention and accurate follow up.

The management has developed the real estate appraisal department by expanding its control and supervision on the accredited real estate appraisal offices, reviewing appraisals accurately, setting standards for the evaluation and development of such offices. This process aims to achieve fair and honest appraisal of real estate assets whether for KFH or customers, improve mechanisms and procedures to complete transactions swiftly and accurately, provide reliable real estate reports highlighting prices and follow up market developments, namely studies determining the impacts of the pandemic on the economic sector and ensure its stability in coordination with regulatory authorities, CBK, decision makers and related parties.

Centralization stands as an operational model that enables KFH to unify all operations at the group level, add a new dimension to quality control, and improve the fields of training and support. KFH has managed to complete several central initiatives in 2020 by shifting operational tasks from business and adapting them with the special operations platform. Accordingly, all ATM renewal operations and money market transaction processing operations have been consolidated in a joint service center. Operations sector has started to facilitate and process finance transactions and issuance of centralized liability certificates to KFH group banks abroad. We are working on improving and unifying finance channel tools to add a new dimension to the vital operational distinction.

A clear and comprehensive strategy focusing on Big Data Management

Open and neutral partnership models of our operations aim to increase flexibility, quality, transparency and efficiency which our customers seek, as per a clear strategy. Also, it enables us to develop and enhance group products, improve customer service to be the leading Islamic bank in banking industry, expand our creditworthiness, lead growth across main geographies, business sectors and customers. We aim to increase our presence and impact in the banking industry by interconnecting and bonding the group banks. We continue to strengthen our presence in international and main markets as we have long term investments in the Middle East and other regions of the world. We manage banks in Bahrain, Saudi Arabia and Turkey and have been working for more than 40 years. Our investments in Asia have expanded via KFH Malaysia while our branch in Germany is remarkably growing fast.



The strategy sector has exhibited an outstanding and remarkable performance during the pandemic through accurate follow up of all the Group activities and sectors. Strategy sector has provided the executive management with daily and weekly economic reports highlighting economy enhancement plans by using mega databases and the group subscriptions in the largest and most famous global data and research centers. Reports aimed to determine the impact of the pandemic on various business sectors and markets and focus on the strategic value of information and how to manage and protect them. Strategy sector has conducted a thorough review and an accelerated development of the strategic trajectory of the Group and determined its priority projects considering the pandemic in coordination with other Group sectors and parties. The sector has managed to convene regular meetings with analysts and investors remotely despite the difficult conditions encountered, provided accurate information to investors and maintained all positive ratings of KFH in coordination with international rating agencies. The social media follow up process was one of our success stories.

Treasury Sector – we continue to expand our capabilities locally and globally

We are very proud of the services and technical solutions rendered by the Treasury & Financial Institutions Sector which helped KFH Group to adapt with the variable and changing economic environment in 2020 due to the COVID 19 Pandemic. Treasury sector has developed tremendous digital services to manage various operations, thus improving liquidity management efficiency, cost optimization, increased rates of return, finance diversification and rendered continuous and uninterrupted services. We have, through local and international partnerships during 2020, worked with leading banks, financial institutions and governments worldwide to magnify the value of KFH and the institutions it deals with, thus aiming to enhance and reinforce mutual finance and credit channels.

The Financial Institutions Department at the Treasury sector continued its outstanding and remarkable functions as the size and number of deals reached an unprecedented level. The Department has participated successfully in several bilateral transactions with international and local banks during the pandemic, thus representing a unique and outstanding performance during the crisis. The value of concluded deals approximated US$ 1 Billion. The department participated in facilitating a syndicated commercial Murabaha deal amounting US$ 300 Million and arranged Murabaha finance with one of the major international banks to diversify the Group finance sources and improve liquidity. Also, the department has, through its branch in Germany KT Bank AG, expanded Euro clearing services (Vostro) covering 15 countries worldwide including China.

During the COVID-19 pandemic, several new and unprecedented challenges emerged on the local and international levels. These challenges comprise provision of liquidity and maintaining the deposits level in the banking sector. However, the liquidity management has coped with the event, managed, provided liquidity, and achieved remarkable levels of profit and regulatory compliance. The management has maintained the group growth trend and carried it to new horizons.

FC activities at the treasury sector were enhanced on a larger scale by providing FC rates directly to retail customers online. Customers can deal and receive competitive FC rates in the FC market. Sharia compliant FC Promise buy and sell products continued to attract more customers to achieve hedging against FC fluctuation risks. The management has developed the corporate FC trading platform (KFH Global) which has improved the difference between transaction execution time and the real time, thus attracting more customers to its services.

FC and Precious metals transaction volumes increased compared to 2019, thus making an added value to the bank profitability. This was achieved through the remarkable increase in the number of customers by 48% because of the increase in high-tech digital services and products along with the prices of multiple channels live broadcast supported by high-tech solutions.

Considering our endeavor to achieve the group integration, we would say that the performance of Kuwait Turk treasury department was highly efficient and effective during the year. The department has managed to diversify treasury products by adding sukuks to the application TradePlus which is a new sharia compliant platform providing investment funds, Borsa Istanbul shares, foreign currency, precious metals, all in one application.

Investment Through KFH Capital

KFH owns a market share in main Sukuk products through a package of diverse. We operate strongly in main markets with an increasing demand on Sukuk products. KFH Group has maintained its leading position as a trusted arranger of Sukuks by governments and companies worldwide. Our Investment arm “KFH Capital” has led arranged more than US$ 4.5 Billion of sukuks for governments and banks, namely, KFH Capital acting as syndicate placement manager and the sukuk offering manager of the Islamic Corporation for the Development of the Private Sector (ICD). KFH Capital also acted as a Global Coordinator, JLM & Bookrunner of Warba Bank's KD 150 Million sukuk which was the first Kuwaiti Dinar denominated sukuk in the market. In addition, it has also led arranged Sukuk for Sharjah Islamic Bank and Kuveyt Turk Katilim A.S.

Our investment performance as per a well-studied sharia compliant strategy of several asset categories inspires us to focus on new fields through our diverse products. After getting regulatory approvals last year, KFH Capital successfully listed first REIT fund on Boursa Kuwait in September of this year. Earlier, the fund had raised KD 23.6 million with record participation. It provides opportunity to invest in income-generating real estate in Kuwait and distributes no less than 90% of net collected income after deducting the expenses and provisions. The listing has provided the unit holders with more flexibility and liquidity, exit option via trading (buy and sell) opportunities as well as healthy returns through monthly distributions and has enhanced KFH Capital`s position as the most sought after investment destination in Kuwait.

Furthermore, KFH Capital catered to more than 2,000 new online trade clients and acquired "Market Maker" licence from the Capital Market Authority"CMA" this year. We believe that our multiple products model shall place us in a leading position in the future. We provide new products to serve several fields where increasing demand is noticed, including fixed income, environment, social and governance investment and using multiple assets solutions, and investment funds. We are fully aware that we have a lot to do, especially in the field of franchise which is facing a fluctuating wind.

Development of our leading capabilities

We have noticed a demand in finance by the business sector and companies following the long-term lockdown periods despite the negative impacts of the pandemic. Our finance sector has worked closely with corporates to postpone installments and provide credit to companies, namely, small and medium enterprises, thus enabling them to stand strong against the pandemic. KFH has played as the lead arranger of a syndicated finance deal in favor of Kuwait Petroleum Corporation, amounting KD 1 Billion. KFH has led the Islamic tranche of KD 400 Million and acted as the facility agent for Islamic banks. The corporate service center at the operations sector has added new centers for companies in 3 branches to supervise all services rendered to KFH corporate customers in such branches and to ensure that high quality services are rendered as expected by the corporate sector at KFH.

Human Resources

Group Human Resources demonstrated its leadership during these unprecedented times by taking lead in numerous initiatives needed to ensure we continue providing customer service excellence for our clients. Group Human Resources lead the effort to assure our Human Capital of the safety of our work environment through introducing conclusive protocols designed to foster a safe and healthy environment for our clients and employees. Above that, policies have been rolled out to allow for certain jobs to work remotely in line with directives from Health Authorities to maintain physical distancing.

In addition, new learning platforms have been utilized to ensure we equip our talent with the latest toolkits and frameworks required for them to achieve their job requirements. Our investment in development of our HiPos and Successors remained at 29% of our entire training spend, clearly making sure our future talent is being prepared.

Human Resources Development

Building on the diversity and inclusiveness, KFH continued to push for the additional participation of ladies within the manpower where we have recently promoted GM IT from within as the first woman as part of our executive leadership. Thanks to that and additional focus on filling jobs with talented ladies, we are gaining traction in increasing the representation of ladies within KFH workforce.

KFH continued during these times on its corporate commitments to support and foster nationals where the drive to push Kuwaitis to fill Middle Management positions has continued. In regards to the Executive Leadership, Kuwaitis now make up 67% thanks to the continued focus on promoting from within KFH talent. With all what we went through, KFH continued its responsibility in acquiring fresh talent from the market where we have recruited 176 Kuwaitis during the past year.

The Engagement of our employees during this year was key as all Human Capital have gone through a period of uncertainty. With that in mind, our Employee Engagement Score has also increased by 4% where KFH has taken this opportunity to increase the level of communications to keep our staff abreast of all change happening in addition to ensuring we proactively communicate in areas where the data has shown that staff need extra assurances.

To help our employees reset their wellness goals upon relaxing of COVID19 measures, we have worked with an industry leading partner to launch the second version of our wellness program. This program takes a different approach where tailoring the fitness program to the users' needs is the key feature. We have continued driving our KFH family members to participate in the Program where we do believe that this will have a positive effect on their work life balance.

With 2021 ahead of us, we have learned a lot of good practices from 2020 which we will surely embed and institutionalize in the way we work as an organization. With the Grace of Allah, this will enable us to further attract and develop our talent in the future.

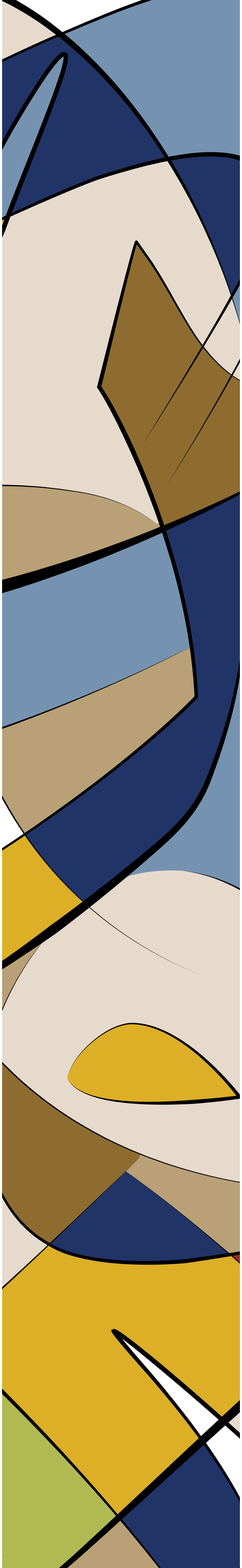
Our Remarkable Performance

We are experiencing a very exciting journey that would determine KFH trajectory for coming years. We were never more optimistic as we are today as to what KFH could achieve and the value that we could render. There are obstacles and challenges, but we must go on with more determination to ensure our continuity as a fully trusted leading bank by our customers and the global financial system.

Finally, I am extremely honored to be part of this group. I am proud of the performance of nearly 15,000 employees in our group worldwide and the support they render to our customers. I would like to thank them and thank our board of directors, members of Sharia board and my colleagues in the executive management for their commitment to build a stronger bank for our customers, shareholders and regulatory authorities. As we enter 2021, I feel optimistic and excited about what the future carries for KFH.

May Allah Grant us Success,,,,,

Abdulwahab Issa Al-Rushood
Acting Group Chief Executive Officer



Financial Performance
of the year 2020

Despite the negative effects of the COVID 19 pandemic, KFH financial indicators have proved the durability of the bank's financial position and solidity of its creditworthiness. The negative results of the pandemic comprise the decline in profit for the year 2020, decline in investment income and net operating income due to the difficult operational environment resulting from the economic conditions, allocation of further precautionary provisions to encounter any future impacts of the pandemic and maintaining assets quality and capital adequacy.

KD 148.4 Million net profit attributable to shareholders

Net Profit Attributable to Shareholders for the year 2020 reached KD 148.4 Million i.e. a decline by 40.9% compared to 2019. Earnings per share reached 19.52 Fils. The decline in profit came basically on the back of the decline in investment income and the increase in provisions including the precautionary provisions made to encounter any possible impacts of the COVID19 pandemic considering the prevailing uncertain conditions on the regional and global levels.

15.8% Growth in Net Financing Income

As a result of the continued efforts of the Group Management to focus on core business activities and sustainable profit, Net Financing Income in KFH Group increased to reach KD 614.2 Million i.e. an increase of 15.8% compared to 2019.

Decline in Total Operating Expenses

KFH has succeeded in optimizing expenses. Total operating expenses declined to reach KD 296.0 Million i.e. a decline by 2.7% or KD 8.2 Million compared to 2019.

Improved Total Operating Cost/ Total Operating Income Ratio

Total operating cost/ total operating income ratio continue to improve for the sixth year respectively. It declined to 37.2% for the year 2020 compared to 37.4% for 2019, while it exceeded 51% as at end of 2014.

44.3% Increase in Charged Provisions in 2020 for KFH Group

Total provisions and impairment increased at the Group level to reach KD 284.1 Million i.e. an increase by KD 87.2 Million or 44.3% compared to 2019. The increase in finance receivables provisions and investment provisions is driven mainly by the negative impacts of the COVID 19 pandemic in addition to the hedging provisions taken to encounter the possible impacts of the pandemic.

10.9% Growth in Group Assets

KFH Group Assets exceeded KD 21.5 Billion i.e. an increase by 10.9% compared to 2019.

13.4% Growth in Finance Portfolio

KFH Financing receivables exceeded KD 10.7 Billion i.e. an increase by 13.4% or KD 1.3 Billion compared to 2019. The finance portfolio represents 50% of total assets and commands 70.2% of deposits volume. KFH finance portfolio has contributed to the injection of adequate liquidity to economic sectors and corporates which have suffered the negative impacts of the COVID 19 pandemic. Also, it has contributed to the stability of economic activities despite the lock down procedures imposed during the year.

19.6% Growth in Islamic Sukuk

The Group Investment in sukuk increased by 19.6%, reaching KWD 2.7 Billion. Investment in sovereign sukuk represents the major part of investment in sukuk. Investment in Sukuk represents 12.8% of KFH Group total assets.

13.0% Growth in Depositors' Accounts

KFH Group positive performance indicators continue to attract a solid and strong customer base, as evidenced from the high indicators of deposits growth in 2020. Customers deposits increased to reach more than KD 15.3 Billion i.e. an increase approximating KD 1.8 Billion or 13.0% compared to the end of 2019, this has resulted mainly from the group banking operations, thus reflecting the distinction achieved in investment and digitalization and depositors trust in KFH Group.

Return On Assets and Shareholders' Equity

Return on average Shareholders' equity reached 7.6% as at the end of 2020 compared to 13.0% in 2019, while return on average assets reached 0.90% as at end of 2020.

Capital Adequacy Ratio reached 17.53% for the year of 2020, i.e. higher than the Central Bank of Kuwait required ratio.

Shareholders' Equity

The Bank Shareholders' Equity reached KWD 1.9 Billion as at the end of 2020 i.e. a decline by 6% compared to 2019.

Proposed Dividends to Shareholders of the Bank

The Banks' board of directors proposed the distribution of cash dividends to shareholders by 10% for the year ended 31st December 2020 (20%: 2019), and issued bonus shares 10% from the issued and paid up capital (10%: 2019). This distribution is recommended considering the distributed returns on investment deposits and saving accounts. This distribution is conditioned to the ordinary general assembly approval and fulfillment of official and legal procedures.

Proposed directors' remuneration of KD 608 thousand for the year ended 31 December 2020 (KD 942 thousand in 2019) is considered within the limit permissible as per local regulations, subject to ordinary general assembly approval.

Summary of Significant Financial Results			KD Million
	2020	2019	2018
Net profit attributable to shareholders of the bank	148.4	251.0	227.4
Earnings Per Share "Fils"	19.52	33.12	30.04
Net Financing income	614.2	530.3	527.3
Net operating income	499.6	510.1	453.5
Total Assets	21,502	19,391	17,770
Financing Receivables	10,748	9,474	9,190
Investment in Sukuk	2,742	2,292	1,563
Depositors' accounts	15,317	13,553	11,780
Equity attributable to the shareholders of the bank	1,936	2,060	1,894


122.3354
108.365
100.665

Executive Management

Mr. Abdulwahab Issa Al-Rushood

Acting Group Chief Executive Officer

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

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

Mr. Al-Rushood possesses a vast banking experience, spanning more than 31 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including General Manager - Kuwait Treasury from 2013 until 2015. In addition, he was promoted to various leadership positions within the Treasury Department from 2002 until 2013.

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

Mr. Shadi Ahmad Zahran

Group Chief Financial Officer

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

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

Mr. Zahran is currently the Group Chief Financial Officer at Kuwait Finance House since 2014. In addition, Mr. Zahran is the Vice Chairman of KFH Capital Investment Company and Board Member at Kuwait Finance House – Bahrain and Board Member at Kuveyt Turk Participation Bank in Turkey.

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

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

Mr. Fahad Khaled Al-Mukhaizeem

Group Chief Strategy Officer

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

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

Mr. Al-Mukhaizeem possesses a vast banking experience, spanning more than 19 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group General Manager - Strategy & Corporate Affairs from 2013 until 2015. Mr. Al-Mukhaizeem previously held several executive positions within Retail Banking and other Areas at Kuwait Finance House.

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

Mr. Waleed Khaled Mandani

Group Chief Retail and Private Banking Officer

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

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

Mr. Mandani possesses a vast investment and banking experience, spanning more than 28 years. During his professional career, he held numerous prominent leadership roles positions including Group General Manager Private Banking at Kuwait Finance House from 2015 until 2016 and Director of Wealth Management at BNP Paribas in Kuwait from 2005 until 2014 where he has represented the bank at Kuwait Banking Association. In addition, Mr. Mandani served as Senior Manager - Private Banking at Ahli United Bank Kuwait from 2001 until 2005.

Mr. Ahmed Soud AlKharji

Group Chief Corporate Banking Officer

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

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

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

Mr. Srood Ahmed Sherif

Group Chief Information Officer

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

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

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

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

Mr. Frederick Jacobus Carstens

Group Chief Human Resources Officer

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

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

Mr. Carstens brings with him around 30 years of Human Resources experience and 20 years of Banking experience and he has been working in the region since 2006, where he previously held several executive positions including Deputy Head of Human Resources at Commercial Bank of Dubai from 2014 until 2016 and Assistant General Manager of Human Resources Group at National Bank of Kuwait from 2008 until 2014.

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

Mr. Abdullah Mohammed Abu Alhous

Group Chief Operations Officer

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

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

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

Mr. Gehad Mohamed El-Bendary

Group Chief Risk Officer

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

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

Mr. El-Bendary is currently the Group Chief Risk Officer at Kuwait Finance House since 2018. Mr. El-Bendary has over 21 years experience in Risk Management, Auditing and Internal Control Systems in Financial Institutions.

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

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

Mr. Wissam Sami El-Kari

Group Chief Internal Auditor

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

Mr. El-Kari holds many specialized professional certificates including Certified Information Systems Auditor (CISA) from the U.S in 2020, Certified Anti-Money Laundering Specialist (CAMS) from the U.S in 2020, Financial Risk Manager (FRM) from the U.S. in 2012, Certified Fraud Examiner (CFE) from the U.S. in 2008, Certified Internal Auditor (CIA) from the U.S. in 2001 and Certified Management Accountant (CMA) from the U.S. in 2001.

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

Mr. El-Kari possesses a vast experience, spanning more than 21 years and a solid experience in assessing Internal Controls, Risk Management, and Governance Processes. During his professional career, he held numerous prominent leadership roles where he has been Heading the Group Internal Audit Department at Kuwait Finance House since 2012. In addition, Mr. El-Kari served as Assistant General Manager Internal Audit, Banking Operations at Burgan Bank in Kuwait from 2005 until 2012.

Dr. Khaled Mohammed AL-Jumah

Group General Manager Legal

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

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

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

Mr. Ahmad Eissa Al-Sumait

General Manager Treasury Kuwait

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

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

Mr. Al-Sumait possesses a vast banking experience, spanning more than 20 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Executive Manager Money Market and Senior Manager Money Market. In addition, he was promoted to various leadership positions within the Treasury Department from 2006 until 2015.

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

Mr. Abdulla Abdulmohsen Al-Mejhem

General Manager Private Banking

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

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

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

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

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

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

Mr. Khaled Yousif Al-Shamlan

General Manager Corporate Banking Kuwait

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

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

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

Mr. Al-Shamlan possesses a vast banking experience, spanning more than 22 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Deputy General Manager Individual Financing from 2016 until 2017, Deputy General Manager Corporate Real Estate Financing from 2015 until 2016, Executive Manager Corporate Real Estate Financing in 2014 and Executive Manager Credit Analysis in 2013.

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

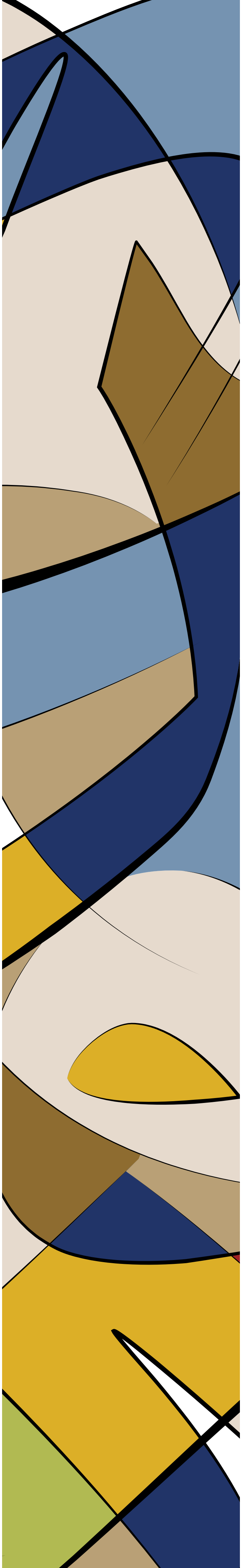
Ms. Lamya Barrak Altabtebai

Group General Manager Information Technology - Deputy GCIO

Ms. Altabtebai received her Master's Degree in Computer Engineering from the University of Southern California in the United States of America in 1993. She received her Bachelor's Degree in Computer Engineering from Kuwait University in 1989.

Ms. Altabtebai is the Group General Manager and Deputy Group Chief Information Officer since 2020. Ms. Altabtebai held various positions in her professional career, she was the Group Deputy General Manager IT Planning and Architecture at Kuwait Finance House from 2016 until 2020. In addition, she was the Deputy General Manager - Corporate Support at Kuwait International Bank from 2003 until 2015, and she was the General Manager - IT and Operations Group in Burgan Bank from 1998 until 2003.

Moreover, Ms. Altabtebai has won several awards including the Best Senior Level Technology Executive award at the Women in Technology Awards in Dubai in 2014, the first place in the Arabian Computer News Award for the Top 10 IT Managers in the Middle East from Dubai in 2011 and she was awarded as one of the Top 10 CIO Middle East in 2009.



Corporate Governance Report

Introduction:

Considering the growing interest in governance, which has become one of the main requirements for banks and shareholding companies, KFH board of directors was keen on adopting a government-based banking system through the continuous development process which KFH conducts on governance framework.

KFH Board of Directors exploits all potentials to adopt governance and transparency standards according to the best global practices through the review and development of policies and procedures applied to ensure full compliance with the instructions of the regulatory authorities on governance. KFH fully meets its corporate governance obligations and implements all mandatory requirements issued by CBK. KFH implements all governance rules and regulations at Kuwaiti Banks and Sharia Control governance instructions at Kuwaiti Islamic banks. KFH Board of Directors is always keen on spreading governance awareness at all administrative levels. KFH Board seeks to go beyond regulatory authorities' instructions to achieve leadership in governance. KFH business runs smoothly and safely and copes with the fast developments which the world is witnessing in the fielding of banking industry.

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

Governance Committee has played a leading role, in 2020, in executing CBK updates on governance rules and regulations at Kuwaiti banks, issued September 2019, to cope with the best global practices and the local laws issued recently.

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

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

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

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

Highlights on the Governance applications in KFH during 2020:

Despite the difficulties faced by the world during 2020 in light of the Corona pandemic and its direct impact on the economy and companies, the solid foundations established by KFH's Board of Directors through adopting an effective governance framework have effectively contributed to the risk management resulting from the pandemic, and the quick measures to continue the business and provide services to customers without interruption and in coordination with regulatory authorities.

In KFH, we adopt a model that has three lines of defense:

First line: the business units which contains risks.

Second line: Risk management function and Regulatory Compliance functions which observe the bank compliance with regulatory laws and instructions, both functions are independent of the first line of defense.

Third Line: The internal audit function, which is independent of the first and second lines of defense.

This led to flexibility in conducting business and meeting regulatory requirements, as well as carry through the vision of the KFH Board of Directors in achieving its strategic objectives for the benefit of its shareholders.

Most important components of KFH governance framework:

1- Board of Directors:

KFH General Assembly has elected a new board of directors to lead KFH for the next three years, two independent members have joined the board of directors to enhance decisions and implement the governance instructions of the Central Bank of Kuwait, which reinforces the principle of independence and KFH's vision of applying the best international practices in governance, disclosure and transparency.

2-Governance at KFH Group levels

KFH Group is committed to comply with the group's corporate governance policy that is transparent and credible in accordance with the highest international standards and best practices. The Board Governance Committee is keen to review the group’s performance periodically as well as review and update the policies and procedures that regulates the group’s business to ensure that they meet the needs of the group and to serve them in order to achieve its strategic goals and ensure the existence of mechanisms that facilitate communication between the group companies, in addition to the existence of means to monitor governance implementation at the group level.

3- Disclosure and Transparency:

In KFH we adopt a clear framework that strengthens the principle of disclosure and transparency and ensures fairness and equality in a timely arrival of information to stakeholders, as required by the regulatory authorities as well as international best practices.

4- Enhancing the Code of Business Conduct:

In KFH we rely on the highest standards of adherence to the Code of Business conduct, starting from the members of the board of directors to all employees of KFH. Therefore, the board of directors are keen to strengthen the framework of the code of business conduct through strict policies and procedures to ensure that KFH enjoys integrity and credibility, the Board of Directors annually reviews the policies and procedures regulating the framework for Professional behavior, which consists of the following:

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

The Board of Directors review and sign the commitment to these policies, as well as the employees of KFH on an annual basis for review and signing the policies, in KFH we are keen to spread the culture of adherence to ethical standards through training programs and awareness publications periodically with the support of the Fatwa and Sharia Supervisory Board.

5-Taking care of KFH Employees:

In KFH we do believe that the human capital is the basis of our success, so we are keen to create a positive working environment for our employees, and to ensure the development of our human capital as well as attract the best talents, we invest in training and development through our partnership with the best service providers in the world and provide the best Training programs for our employees.

Despite the impact of the pandemic on the training sector, the measures that we have taken in KFH and the rapid transition in providing programs and training courses using modern technology have contributed to the continuation of our business, as 2560 employees received training programs and courses at a rate of 34,083 training hours, with an average of 13.3 hours per employee, as we are contracted with world-class training service providers such as - INSEAD - IMD - LinkedIn - IQUAD Learning Solution - Thomson Reuter - Harvard Business School, the Training Department evaluates the effectiveness of the programs periodically, and to ensure the effectiveness of the training programs, we assesses the employees' need for training courses, each according to its field, competence and experience Through the provision of specialized programs that cover the bank’s business as a whole, and leadership programs to develop KFH human capital according to the approved succession plans to qualify future leaders.

KFH provides opportunities for employees to continue their studies by providing scholarships to study masters degree on an annual basis, KFH also cares for newly graduated employees through their participation in the training program called (Forsa) in which we train them and refine their skills to prepare them to be the future leaders of KFH, the program includes practical training in the bank as well as intensive training courses inside and outside the State of Kuwait.

At KFH, we involve our employees in developing and improving the work environment by conducting an annual survey at the Group level to catch their opinions, hear their ideas, comments, and evaluate them for KFH's business, under the slogan (Together we make the difference).

We are proud in KFH that women constitute 28.75% of our total workforce during 2020, with an emphasis on our endeavor to increase this percentage by attracting talents and competencies that are compatible with KFH strategic vision.

6- Social Responsibility:

In KFH we know the importance of contributing to the support of society and contributing to its stability, we have supported the efforts of the State of Kuwait in the year 2020 to confront the Corona pandemic, where we provided 10 million Kuwaiti dinars in supporting the government it in its efforts to combat the pandemic. We have also contributed to support various community actions by supporting health, educational, cultural and sports initiatives, as shown in the following table:

Contribution to Support Various Community Actions

“values are in Kuwaiti Dinar”

Contributions to the fight against the Corona pandemic	Social, and humanitarian contributions and donations	The share paid to the Kuwait Foundation for the advancement of sciences	The paid share of the national labor support program	The share paid to the Institute of Banking Studies	Contributions made to cooperative societies
10,000,000	3,224,805	2,449,643	6,468,918	455,410	17,500

7- Enviroment Protection:

KFH pays special attention to many institutions that are interested in setting policies for allocating shares of their investments in the areas of development and the environment. After the United Nations and many international organizations and financial indicators on global stock exchanges have adopted the concept of sustainability on one hand and ethical commitment on the other hand, it is expected that Islamic banks, and KFH in the fore front will assume its position due to its ethical role, a legitimate governance framework, and an unlimited commitment to the foundations and perspectives of the ethical values in its contracts and transactions And the relationship with stakeholders. Including positively reflecting on the societies in which Islamic finance operates.

KFH has provided social responsibility products that serve the requirements of the future, and by issuing green sukuk in financing projects that benefit the environment and society and attracting investment institutions interested in Islamic instruments. KFH has recently participated in the green sukuks issued by Indonisian Government.

KFH also played a major role through the contribution to the project of using waste recycling, as well as financing several projects to preserve the environment, including the environmental fuel project that was recently launched in Kuwait.

8- Shareholders and Stakeholders Rights:

At KFH, we guarantee the protection for the rights of shareholders and stakeholders by implementing policies and procedures that ensure fair treatment of all shareholders, including those in the minority. KFH has a unit to follow up shareholder affairs and a unit to follow up on investor affairs that work continuously to serve KFH shareholders and investors, KFH shareholders enjoy equal rights without discrimination. They have the right to attend meetings of the general assembly (regular and extraordinary) and vote on its clauses, and they have the right to choose the members of the board of directors, as well as the right to obtain profits and the right to obtain information and data related to the bank activities and all other rights due to them according to what is stated in the articles of association and in accordance with Laws and regulations from regulatory authorities.

Governance requirements shall be highlighted in the annual report:

Ownership Shares: as 31/12/2020

Authority	Ownership Form	Country	Ownership Ratio
Kuwait Investment Authority	Direct	Kuwait	24.079%
Public Authority for Minor Affairs	Direct	Kuwait	10.484%
General Foundation of Awqaf	Direct	Kuwait	7.296%
Public Institution for Social Securities	Indirect	Kuwait	5.54%

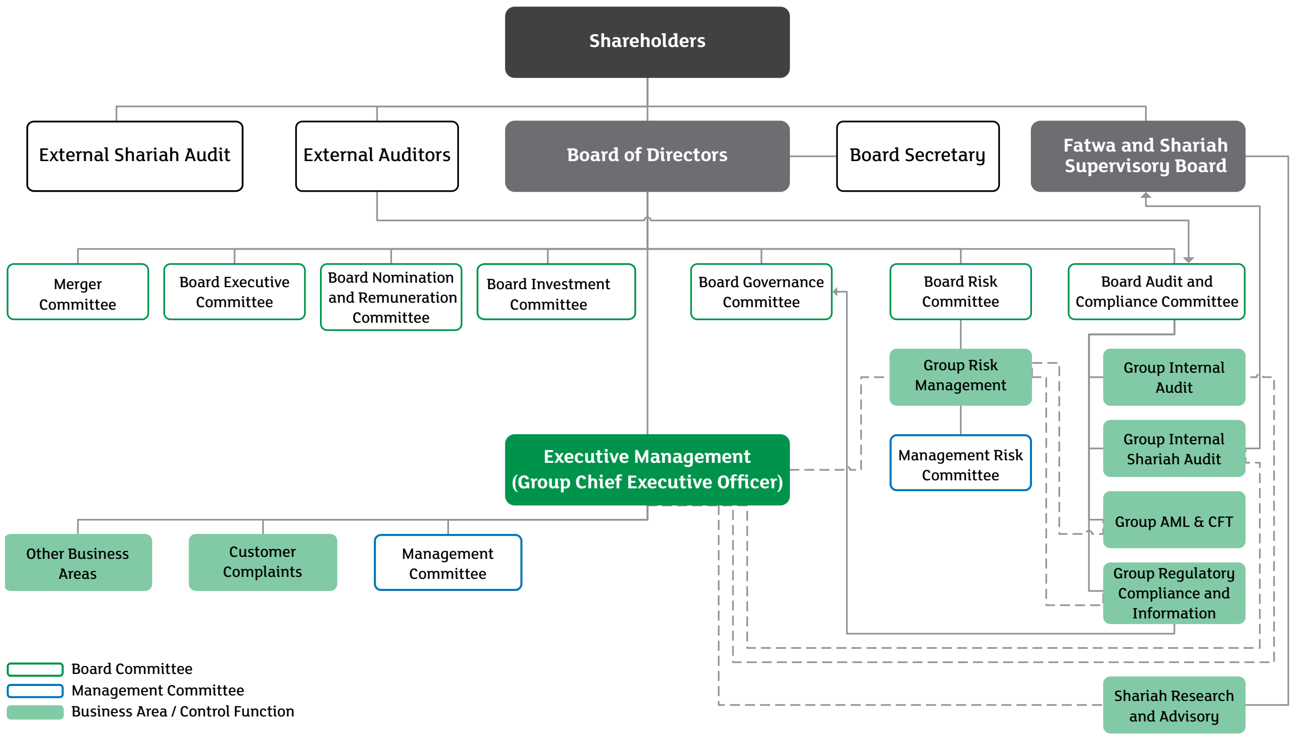
Board Members' Duties and Responsibilities

1- General Responsibilities of the Board of Directors

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

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

Governance Structure



2- Board Structure

Pursuant to KFH Articles of Association, the Board of Directors shall comprise 12 members including not less than 4 fully independent members and not less than half the number of the board members. As an exception, the number of the independent members may not be less than 2 members effective 30/6/2020 and not less than 4 members effective 30/6/2022, elected by the General Assembly through a secret ballot. Nominations were opened for membership in the Board on 15th Sep. 2020. The General Assembly elected the board members. Accordingly, a new Board was formed in the 15th session 2020/2022. The Board office term is three years renewable and a member may be re-elected for another term. The current Board of Directors consists of Chairman, Vice Chairman and 10 board members, including 2 independent members, who duly represent the quorum required for forming the Board Committees in accordance with sound governance principles set by the Central Bank of Kuwait.

2-1 Chairman's Role

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

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

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

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

4- Organizing Board Activities

The Board of directors held (22) meetings during 2020 within the former 14th session and the current 15thth session elected as per the board resolution dated 15th April 2020 as it was not possible to elect a new board of directors due to the COVID 19 pandemic. The general assembly held its meeting in 15th September 2020. The meeting resulting in the election of a new board of directors. The board members held (14) meetings in 2019. A meeting is called for whenever the need arises. The number of meetings held exceeded regulatory requirements concerning corporate governance, which shall not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted during board meetings are binding and considered as an integral part of KFH records.

The Board adopted in 2020 a number of resolutions recorded in (103) minutes of board meetings issued by passing in 2020 while the committees made (21) minutes of resolutions by passing during 2020.

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

5- Board Meetings

List of board members names and number of meetings during 2020

Dates & number of meetings / Board Members	Meeting dates during 2020																						Attendace %
	9 Jan.	10 Feb.	9 Mar.	12 Apr.	4 Mat	8 Jun.	25 Jun.	9 Jul.	27 Jul.	12 Aug.	7 Sep.	13 Sep.	15 Sep.	21 Sep.	8 Oct.	15 Oct.	21 Oct.	2 Nov.	29 Nov.	7 Dec.	17 Dec.	28 Dec.	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	
Mr. Hamad Abdul Mohsen Al Marzouq Chairman	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Abdul Aziz Yacoub Alnafisi Vice Chairman	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Ms. Hanan Yousif Ali Yousif	√	√	√	X	X	√	√	√	√	√	√	√	√	√	√	√	√	√	X	√	√	√	86
Mr. Fahad Ali AlGhanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Noorur Rahman Abid	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Barrak Ali Alsheatan [2]	√	√	No longer a board member																				100
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100
Mr. Hamad Abdullateef Al Barjas	They were not board members												√	√	√	√	√	√	√	√	√	√	100
Mr. Mohammed Nasser Al Fouzan [2, 3]													√	√	√	√	√	√	√	√	√	√	100
Mr. Ahmed Meshari Al Faris [3]													√	√	√	√	√	√	√	√	√	√	100

√ Attended   X Absent

1. Beginning of the 15th session 2020 – 2022 of meeting No. 5 held on 4th May 2020
2. The member Mr. Mr. Barrak Ali Al-Sheatan has been replaced by Mr. Hamad Abdullateef Al Barjas representative of Public Authority for Minor's Affairs (PAMA) on 14th September 2020.
3. Joined the Board of Directors based on the general assembly elections dated 15th September 2020.

6- Board Committees

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

The Board Committees include the following:

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

		Board Committees					
Board of Directors		Executive	Audit and Compliance	Nominations and Remuneration	Risk	Governance	Investment
The Chairman	Mr. Hamad Abdul Mohsen Al Marzouq Chairman	●				●	
Vice Chairman	Mr. Abdul Aziz Yacoub Al Nafisi Vice Chairman	●		●			
Board Members	Mr. Fahad Ali AlGhanim	●	●				●
	Mr. Muad Saud Al Osaimi	●			●		●
	Mr. Khaled Salem Al Nisf	●			●		●
	Mr. Noorur Rahman Abid		●	●			
	Ms. Hanan Yousif Ali Yousif				●	●	
	Mr. Barrak Ali AlSheatan [1]		●	●		●	
	Mr. Hamad Abdullateef Al Barjas [1]		●	●		●	
	Mr. Salah Abdulaziz Al-muraikih		●			●	●
	Mr. Motlaq Mubarak Al-Sanei	●		●	●		
	Mr. Mohammed Nasser Al Fouzan		●				●
	Mr. Ahmed Meshari Al Faris				●	●	

1. P.S. The member Mr. Mr. Barrak Ali Al-Sheetan has been replaced by Mr. Hamad Abdullateef Al Barjas representative of Public Authority for Minor's Affairs (PAMA)

6-1 Audit and Compliance Committee

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

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

In 2020, the Committee held (5) meetings. The committee issued (4) resolutions by circulation, to carry out its duties and functions.

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

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

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

A schedule of the names of Board Members in Audit and Compliance and the number of meetings held in 2020

Meeting dates during 2020						
Dates & number of meetings / Board Members	8 Jan.	3 May	8 Jul.	7 Oct.	6 Dec.	Attendace %
	1	2	3	4	5	
Mr. Noorur Rahman Abid (Head of Committee)	√	√	√	√	√	100
Mr. Fahad Ali AlGhanim	√	√	√	√	X	80
Mr. Barrak Ali Alsheatan [2]	√	No longer a board member				100
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	100
Mr. Mohammed Nasser Al Fouzan [2]	Are not members at the board		√	√	√	100
Mr. Hamad Abdullateef Al Barjas			√	√	√	100

√ Attended X Absent

1. Beginning of the 15th session 2020 - 2022 of meeting No. (2) held on 3rd May 2020.
2. P.S. The member Mr. Mr. Barrak Ali Al-Sheatan has been replaced by Mr. Hamad Abdullateef Al Barjas representative of Public Authority for Minor's Affairs (PAMA) at 14 September 2020.

6.2 Nomination and Remuneration Committee

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

The Committee shall hold its meetings whenever needed but not less than twice a year. The Committee held (8) meetings during 2020 to conduct its duties and functions. The committee issued (5) minutes by passing to perform its functions and duties.

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

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

Names of the Nomination and Remuneration Committee Members and number of meetings held in 2020

Meeting dates during 2020									
Dates & number of meetings / Board Members	5 Jan.	29 Jan.	9 Feb.	8 Jul.	6 Aug.	7 Oct.	19 Nov.	6 Dec.	Attendace %
	1	2	3	4	5	6	7	8	
Mr. Noorur Rahman Abid (Head of Committee)	√	√	√	√	√	√	√	√	100
Mr. Abdul Aziz Yacoub Alnafisi	√	√	√	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	√	√	√	100
Mr. Barrak Ali Alsheatan [2]	√	√	√	No longer a board member					100
Mr. Hamad Abdullateef Al Barjas [2]	Was not a member					√	√	√	100

√ Attended X Absent

1. Beginning of the 15th session 2020 – 2022 of meeting No. (8) held on 4th May 2020
2. P.S. The member Mr. Mr. Barrak Ali Al-Sheatan has been replaced by Mr. Hamad Abdullateef Al Barjas representative of Public Authority for Minor's Affairs (PAMA) at 14 September 2020.

6-3 Risk Committee

The key role of the Risk Committee is to assist the Board of directors in meeting its obligations in terms of overall supervision on the current risk conditions, risk strategy and the bank's appetite towards credit, banking, real estate and investment activities risks as well as all related policies and procedures. The committee shall comprise minimum 5 members and shall be chaired by one of the independent members.

The Committee held (5) meetings in 2020, and issued (3) minutes of a decision by circulation, to perform its duties and functions.

The Committee performs several duties and responsibilities as follows:

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

Names of Board Members in the Risk Committee and the number of meetings held in 2020

Meeting dates during 2020						
Dates & number of meetings / Board Members	3 Feb.	15 Apr.	20 Jul.	16 Sep.	25 Oct.	Attendace %
	1	2	3	4	5	
Mr. Ahmed Meshari Al Faris (Head of Committee) [2]	Was not a member board			√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	100
Mr. Motlaq Mubarak Al-Sanei	√	√	√	√	√	100
Ms. Hanan Yousif Ali Yousif	√	√	√	√	√	100

√ Attended X Absent

1. Beginning of the 15th session 2020 – 2022 of Meeting No. (2) held on 15th April 2020
2. P.S. The Head of Risk Committee Mr. Khaled Salem Al Nisf has been replaced by Mr. Ahmed Meshari Al Faris at 9th Board Meeting dated 15 September 2020.

6-4 Governance Committee

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

The Board Governance Committee comprises five Board members including two independent members. The committee may be chaired by the chairman.

The Committee holds its meetings whenever required provided that the number of meetings shall not be less than two meetings per year. The Committee held (3) meetings in 2020, and issued (2) minutes by passing to perform its duties and functions.

The Governance Committee duties include the following:

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

Names of Board Members in the Governance Committee and the number of meetings held in 2020

Meeting dates during 2020				
Dates & number of meetings / Board Members	23 Apr.	1 Sep.	26 Nov.	Attendace %
	1	2	3	
Mr. Hamad Abdul Mohsen Al Marzouq (Head of the Committee)	√	√	√	100
Ms. Hanan Yousif Ali Yousif	√	√	√	100
Mr. Hamad Abdullateef Al Barjas [2]	Are not board members		√	100
Mr. Ahmed Meshari Al Faris [3]			√	100
Mr. Salah Abdulaziz Al-Muraikhi [4]	Was not a member in this committee		√	100

√ Attended X Absent

1. Beginning of the 15th session 2020 – 2022 of meeting No. (2) held on 15th April 2020.
2. P.S. The member Mr. Mr. Barrak Ali Al-Sheatan has been replaced by Mr. Hamad Abdullateef Al Barjas representative of Public Authority for Minor's Affairs (PAMA) at 14 September 2020.
3. Has joined the Governance Board Committee based on an article of the Board of Director dated 15 September 2020.
4. Has joined the Governance Board Committee based on an article of the Board of Director dated 21 October 2020.

6-5 Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling its obligations regarding investment and banking activities according to the authorities delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may assist the Board in performing its duties and responsibilities. The Board shall appoint Committee members who shall not be less than six members.

The Committee held (9) meetings in 2020. The executive committee issued (7) minutes of meeting by passing to perform its duties and functions.

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

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

Names of Executive Committee Members and Number of Meetings held in 2020

Meeting dates during 2020										
Dates & number of meetings / Board Members	29 Jan.	19 Feb.	17 Jun.	1 Jul.	22 Jul.	28 Oct.	11 Nov.	9 Dec.	20 Dec.	Attendace %
	1	2	3	4	5	6	7	8	9	
Mr. Hamad Abdul Mohsen Al Marzouq (Head of the Committee)	√	√	√	√	√	√	√	√	√	100
Mr. Abdul Aziz Yacoub Alnafisi	√	√	√	√	√	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	√	√	√	√	√	100
Mr. Fahad Ali AlGhanim	√	√	√	√	√	√	√	√	√	100
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	√	√	√	√	√	100

√ Attended X Absent

1. Beginning of the 15th session 2020 – 2022 of Meeting No. (3) held on 17th June 2020.

6-6 Investment Committee

The main objective of the investment committee is to assist the board in setting up and laying the general principles of investment, supervise the bank's investment activities and its subsidiaries activities as per the authorities assigned by the board to this committee, and verify compliance with investment objectives of the bank. Investment committee comprises (5) members.

The committee held (4) meetings during 2020.

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

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

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

Names of Investment Committee members and number of meetings held in 2020

Meeting dates during 2020					
Dates & number of meetings / Board Members	29 Jan.	15 Apr.	27 Jul.	12 Oct.	Attendace %
	1	2	3	4	
Mr. Fahad Ali AlGhanim (Head of the Committee)	√	√	√	√	100
Mr. Khaled Salem Al Nisf	√	√	√	√	100
Mr. Muad Saud Al Osaimi	√	√	√	√	100
Mr. Salah Abdulaziz Al-Muraikhi	√	√	√	√	100
Mr. Mohammed Nasser Al Fouzan[2]	Was not a member board			√	100

√ Attended   X Absent

1. Beginning of the 15th session 2020 – 2022 of meeting No. (2) held on 15th April 2020.
2. Has joined the Investment Board Committee based on an article of the Board of Director dated 15 September 2020.

Fatwa & Shari'a Supervisory Board
during 2020

The general assembly of KFH has appointed the honorable members of the Fatwa & Sharia Supervisory committee for the year 2020. The committee consists of (5) members. The committee issues Sharia opinions and decisions and ensures KFH compliance with Sharia regulations. The committee held (30) meetings during the year 2020.

Names of the members of the Fatwa and Sharia committee and No. of meetings held during 2020

Meeting dates during 2020		
Board Members	Attendance Frequency	Attendance %
Sheikh/ Professor Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e Chairman of Fatwa & Shari'a Supervisory Board	30	100
Sheikh/ Dr. Anwar Shuaib AL-Abdulsalam	29	96.7
Sheikh/ Professor Dr. Mubarak Jeza Al-Harbi	29	96.7
Sheikh/ Dr. Esam Abdulrahim Al-Ghareeb	30	100
Sheikh/ Dr. Khaled Shujaa' Al-Otaibi	26	86.7

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

Financing Facilities: KD 158,219.

Credit Cards: KD 1,454.

Date: 25 Jumada Al awwal 1442 H
Corresponding to: 10 January 2021

External Shari'a Audit Report
for the year 2020

Messrs. Kuwait Finance House (KFH) shareholders

After greetings,

We would like to present you The External Sharia'a Audit office report for the financial year ended 31 December 2020

The external sharia'a audit office responsibility

Based on our agreement of association, the external sharia'a audit office is responsible for monitoring and auditing all transactions and operations to ensure that the Bank officials is carrying out these operations in accordance with the Islamic Shariah provisions and pursuant to Sharia'a Supervisory Board's decisions and opinions.

Kuwait Finance House (KFH) responsibility

The Bank is responsible for achieving compliance with the Islamic Shariah provisions in accordance with Sharia'a Supervisory Board's decisions and opinions and providing all the information necessary to conduct an external sharia'a audit for all transactions.

The external sharia'a audit procedures and results

We have reviewed the minutes of the meetings and reports of the Sharia'a Supervisory board and also reviewed the internal sharia'a audit management plan and the sharia'a approvals for the policies and procedures and their amendments across all bank departments.

We have also reviewed investments, contracts, banking and commercial transactions, their products and stages of completion, and have ensured that the the bank carry officials is carrying out these operations in accordance with the Sharia'a Supervisory Board's decisions and opinions.

The on-site visits and its results

We have contacted with the Bank's executive departments through (6) direct and visual meetings, telephone, video conferences, and by email, due to the country's current circumstances and the health requirements of the COVID-19 epidemic, the results of these meetings have been recorded.

The final independent opinion of the External Sharia'a Audit

We believe that our audits we carried out for the bank transactions for the period 01/01/2020 to 31/12/2020 provide an appropriate basis for our independent opinion. In the light of the clarifications and assurances we have received in order to obtain all the information, explanations and declarations that we consider necessary to provide us with sufficient evidence to give reasonable assurance that KFH bank's executive management has not violated the provisions of the Islamic Shariah and has complied with the decisions and opinions of the Sharia'a Supervisory Board. In light of the above, the External Sharia'a Audit office concluded that the Bank had complied with the Islamic Shariah provisions in accordance with Sharia'a Supervisory Board's decisions and opinions.

Dr. Abdulaziz Khalaf Jarallah
External Shari'a Auditor

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board acknowledges the value of strong internal control systems to the effectiveness and efficiency of operations, quality of internal and external reporting, compliance with the applicable laws and regulations and to KFH Group's overall governance. The Board has established an organization structure that sets clearly the lines of authorities. Senior Management is responsible for establishing and operating the internal control systems to manage the risks of not achieving KFH Group's objectives. The internal control systems can only provide reasonable but not absolute assurance against the risk of material loss.

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

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

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

The Board believes that the internal control systems adopted and operating during the year ended 31 December 2020 are adequate to provide reasonable assurance regarding the achievement of KFH Group's objectives.

External Auditor Report about internal Controlling Systems

Kuwait Finance House K.S.C.P,
P.O. Box: 24989, Safat 13110,
Kuwait
29 September, 2020
Board of Directors,

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 17 February 2020, we have examined the accounting and other records and internal control systems of Kuwait Finance House K.S.C.P. for the year ended 31 December 2019.

We covered the following processes of the Bank:

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

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

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2020 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning anti money laundering and combating financing of terrorism and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph.

The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

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

With the exception of the matters set out in the accompaying report, and having regard to the nature and volumes of the bank's operations, during the year ended 31 December 2019, and the materiality and risk trating or our findings, we report that:

a) The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 14 January 2020,

b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2019, and

c) The actions taken by the Bank to address the findings referred in the report are satisfactory.

Yours faithfully,

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

Remuneration Report

Remuneration Policy

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

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

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

Remuneration Components

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

1. Basic salary
2. Benefits and allowances

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

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

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

Remuneration Disclosures as per the CBK Corporate Governance Instructions

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

First: Board of Directors Remuneration

The financial remunerations cost of the Board of Directors are disclosed in Note (27) of the Annual Financial Statements.

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

As per the CBK Corporate Governance Instructions, this section must include the total remuneration charged for the year 2020 to the 5 highest paid senior executive officers, which includes their salaries and short & long-term incentives for the year. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5.

Hence, this section includes the total remuneration cost in 2020 of the top 5 highest executives at KFH as well as 3 mandatory positions which were not part of the top 5. The total for this group (top 5 + 3) amounted to KD 2,097,822 The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

Third: Remuneration by Specific Staff Categories at Kuwait Finance House

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

The total remuneration charged for the year 2020 to this category amounted to KD 3,018,414 The remuneration package of each executive in this category included fixed and variable pay components including salaries (basic and cash / non-cash benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

2. Financial Control and Risk Staff:

The total remuneration charged for the year 2020 to this category amounted to KD 3,149,694. The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable pay components including salaries (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and end of service benefits.

3. Material Risk Takers:

The total remuneration charged for the year 2020 to this category amounted to KD 1,584,097 The category includes the top management and the Divisional Heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and end of service benefits.

Group Risk Management and Governance requirements

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

The year 2020 was characterized by an important evolution in global risk factors materialized, essentially, throughout the Covid19- outbreak, though "GRM" succeeded in the implementation of tactical prevention and strategic initiatives to safeguard the Group's capital optimization engagement and asset quality improvement. GRM took significant steps in shifting reactively and upgrading its measurement, monitoring, and reporting systems, whereby bank-wide risk management is overseen on a comprehensive and proactive basis. Risk Exposures have been monitored, analyzed and recommendations communicated to the Board of Directors ("BoD"), Board Risk Committee ("BRC") and Executive Management as well. Adopting these recommendations across the Group had produced a positive impact in maintaining the Group's Capital Adequacy and Asset Quality ratios as well as its strong liquidity position.

One of the key pillars of the mission of "GRM" is to support the continuous improvements throughout the Group by the means of executing standardized and proactive frameworks and methodologies. On that part, "GRM" frequently conducts Stress-Tests and Internal Capital Adequacy Assessments ("ICAAP") across KFH Group. GRM has also increased and enlarge the stress-tests process to cover more conservative approach in computing the ECL in light with the pandemic aftermath. Consequently, KFH Group continues to be compliant with all regulatory requirements and internally developed Capital Adequacy Key Risk Indicators (KRI).

Group Risk Management ("GRM") continued in the Group Capital Management Program, which involved internally identified initiatives to calibrate the Group's Risk Weighted Assets. Capital Adequacy Ratio (CAR) has stood at %17.53 for the year end ahead of regulatory requirements. GRM also updated the Risk Appetite Framework (RAF) and increased the monitoring frequency of KRIs across the Group.

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

In response to the pandemic the credit risk have managed to adopt the most advanced approaches to manage and measure the financial risk facing the bank and to mitigate such risks based on the best international standers and practices.

KFH ensures its strict adherence to all laws and instructions issued by the regulatory authorities, and in order to achieve this, we have in KFH an independent department that reports directly to the board's Audit and Compliance Committee, which making sure that all our products and services are carried out in accordance with the instructions of the regulatory authorities.

In 2020, the Compliance and Regulatory Information Department worked Closely with the business departments to provide advice on new products and services to KFH customers and to ensure that they obtain the approval of the regulatory authorities. In addition, the Compliance and Regulatory Information Department have ensured the progress of various KFH business in accordance with the instructions of the regulatory authorities through a plan previously prepared to examine the work of the concerned departments and provide the necessary support to them And taking some measures and procedures to protect KFH and shareholders.

The Compliance and Regulatory Information Department has also monitored the progress of KFH Group business through reports submitted by the subsidiary companies to ensure that KFH Group complies with the laws and instructions of the regulatory authorities in the various locations in which KFH operates.

KFH has a well-established Non-Financial Risk (NFR) Management Function aligned with the wider group risk management strategy and framework, reporting to the Group Chief Risk Officer (GCRO). NFR consists of Operational Risk Management, Business Continuity Management, Technology Risk Management and Cyber Security Risk Management.

NFR is responsible for overseeing the development and implementation of the non-financial risk framework across KFH, including risk identification, control validation, business resilience and management reporting. The NFR framework is aligned with industry standards and best practices.

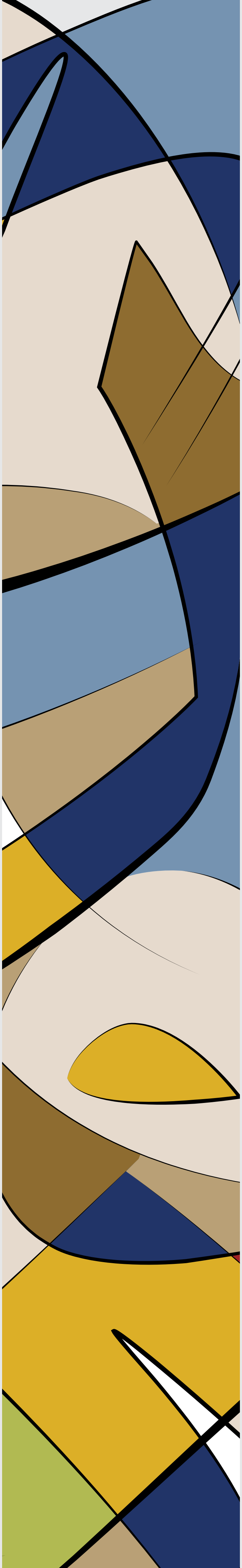
Operational Risk Management focuses on enhancing the capabilities for managing and monitoring of key risks within the group. Identifying potential areas of weakness and ensuring suitable remediation plans and controls are in place to mitigate excessive risk.

Technology Risk Management strives to optimize the effectiveness and efficiency of Information Technology services to provide the required compliance and assurance of adequacy and effectiveness of the internal control environment.

Business Continuity Management is actively involved in the development and implementation of the BCM framework, including Business recovery strategies, crisis management planning and business resilience programs to provide the ability to effectively respond to disruptive events whilst protecting the interests of the bank, its customer and shareholders.

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

Similarly, KFH has enhanced its Anti-Money Laundering/Combating the Financing of Terrorism (“AML/CFT”) Framework to ensure compliance with applicable laws and regulations.



Capital Adequacy Disclosures

Basel III

Capital Adequacy Disclousers - Basel III

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

First: Group Structure

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

1. Principal operating material subsidiaries:

1.1 **Kuwait Turkish Participation Bank:** is a 62% (2019: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis.

1.2 **Kuwait Finance House B.S.C.:** is a 100% (2019: 100%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing Sharia compliant products and banking services, management of investment accounts on profit sharing basis and corporate finance.

1.3 **Kuwait Finance House (Malaysia) Berhad:** is a 100% (2019: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.4 **Saudi Kuwaiti Finance House S.S.C. (Closed):** is a 100% (2019: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.5 **Kuwait Finance House Capital Investment Company K.S.C. (Closed)*:** is a 99.9% (2019: 99.9%) owned Investment Company. Its activities comply with Islamic Shari'a including investments, Islamic finance services, equity trading, private equity investments, real estate investments and asset management services.

1.6 **KFH Private Equity Ltd:** is a 100% (2019: 100%) owned Investment Company registered at the Cayman Islands. Its main activities comprise global private equity investments.

1.7 **KFH Real Estate Company K.S.C (Closed)*:** is a 99.9% (2019: 99.9%) owned subsidiary. The company's activities include the provision of real estate rental and development services.

1.8 **Al Enma'a Real Estate Company K.S.C.P:** is a 56% (2019: 56%) owned subsidiary. The company's main activities include real estate development investment and trading.

1.9 **Development Enterprises Holding Company K.S.C (Closed)*:** is a 99.9% (2019: 99.9%) owned subsidiary. Its main activities include infrastructure and industrial investments.

1.10 **Baitak Real Estate Investment Company S.S.C.:** is a 100% (2019: 100%) owned real estate Investment Company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.11 **International Turnkey Systems Company K.S.C. (Closed):** is a 97% (2019: 97%) owned subsidiary whose activities include hardware and software maintenance and provision of specialized technical consultancies.

1.12 **Gulf International Automobile Trading Company K.S.C. (Closed)*:** is a 99.6% (2019: 99.6%) owned subsidiary engaged in trading, import and export of used cars.

1.13 **E'amar:** is a 100% (2019: 100%) wholly owned subsidiary engaged in Islamic investments.

1.14 **Al Salam Hospital K.S.C. (Closed):** is a 76% (2019: 76%) owned subsidiary engaged in completing all activities related to the field of healthcare services.

1.15 **Muthana GCC Islamic Banks Fund:** is 88% (2019: 87%) owned subsidiary engaged in Islamic equity investment activity.

1.16 **Turkapital Holding B.S.C. (C):** is a 51% (2019: 51%) owned subsidiary conducting its activities in real estate, car leasing and insurance services.

*Effective Ownership is 100% (2019: 100%).

2. Major associates of the group:

2.1 **Sharjah Islamic Bank P.J.S.C.:** is a 18% (2019: 18%) owned bank registered in Sharjah – United Arab Emirates since 1975. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.2 **Ibdar Bank B.S.C.:** is a 35% (2019: 35%) owned bank registered in Bahrain. Its main activities include providing a variety of investment products and services including the issuance of Islamic bonds, wealth management, treasury investments and investments in various economic sectors.

2.3 **Aviation Lease and Finance Company K.S.C.P. (ALAFCO):** is a 46% (2019: 46%). Its main activities Include aircraft leasing and financing services.

Second: Regulatory Capital Structure and Balance Sheet Reconciliation

A. Regulatory Capital Structure

The bank's regulatory capital comprises the following:

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

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

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

As at 31 December 2020, Tier (1) "Core Capital" amounted KD 2,133,231 thousand (2019: 2,124,702 thousand), Tier (2) "Supplementary Capital" amounted KD 208,266 thousand (2019: 206,905 thousand).

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Regulatory Capital Components	2020	2019
CET1: Common Equity Tier 1 Capital (Before Regulatory Adjustments)	2,242,019	2,275,091
Regulatory Adjustments for CET1	136,222	205,552
Total Common Equity Tier 1 (CET1)	**2,105,797**	**2,069,539**
Additional Tier 1 Capital (AT1)	27,434	55,163
Total Tier 1 (T1=CET1+AT1)	**2,133,231**	**2,124,702**
Tier 2 Capital **(T2)**	208,266	206,905
Total Capital (TC=T1+T2)	**2,341,497**	**2,331,607**
Total Risk Weighted Assets	**13,356,763**	**13,192,800**
Capital Adequacy Ratios		
Common Equity Tier 1 (as percentage of risk-weighted assets)	15.77%	15.69%
Tier 1 (as percentage of risk-weighted assets)	15.97%	16.11%
Total capital (as percentage of risk-weighted assets)	17.53%	17.67%
Minimum capital ratio		
Common Equity Tier 1 minimum ratio	9.0%	11.5%
Tier 1 minimum ratio	10.5%	13.0%
Total capital minimum ratio	12.5%	15.0%

B. Reconciliation of Regulatory Capital:

1. Common Disclosure Template:

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

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Ser.	Common Equity Tier 1 capital: instruments and reserves	2020	2019
1	Directly issued qualifying common share capital plus related stock surplus	1,487,747	1,417,982
2	Retained earnings	173,030	193,117
3	Accumulated other comprehensive income (and other reserves)	395,473	489,351
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	0	0
5	Common share capital issued by subsidiaries and held by third parties minority interest)	109,028	104,876
6	Proposed issue of bonus shares	76,741	69,765
	Common Equity Tier 1 capital before regulatory adjustments	**2,242,019**	**2,275,091**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	150	292
9	Other intangibles (net of related tax liability)	32,240	31,037
10	Proposed Cash dividends	76,093	137,980
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
12	Cash-flow hedge reserve		
13	Shortfall of provisions to expected losses		
14	Taskeek gain on sale (as set out in para 72 of these guidelines)		
15	Gains and losses due to changes in own credit risk on fair valued liabilities		
16	Defined-benefit pension fund net assets (para 68)		
17	Investments in treasury shares (if not already netted off paid-in capital on reported balance sheet)	27,739	36,243
18	Reciprocal cross-holdings in common equity		
19	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)		
20	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)		
21	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)		
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
23	Amount exceeding the 15% threshold		
24	of which: significant investments in the common stock of financials		
25	of which: mortgage servicing rights		

26	of which: deferred tax assets arising from temporary differences		
27	National specific regulatory adjustments		
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
29	Total regulatory adjustments to Common equity Tier 1	136,222	205,552
	Common Equity Tier 1 capital (CET1)	**2,105,797**	**2,069,539**
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	27,434	55,163
35	of which: instruments issued by subsidiaries subject to phase-out		
	Additional Tier 1 capital before regulatory adjustments	**27,434**	**55,163**
	Additional Tier 1 capital: regulatory adjustments		
36	Investments in own Additional Tier 1 instruments		
37	Reciprocal cross-holdings in Additional Tier 1 instruments		
38	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
39	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
40	National specific regulatory adjustments		
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
42	Total regulatory adjustments to Additional Tier 1 capital		
	Additional Tier 1 capital (AT1)	**27,434**	**55,163**
	Tier 1 capital (T1 = CET1 + AT1)	**2,133,231**	**2,124,702**
	Tier 2 capital: instruments and provisions		
43	Directly issued qualifying Tier 2 instruments plus related stock surplus		
44	Directly issued capital instruments subject to phase-out from Tier 2		
45	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	57,029	58,849
46	of which: instruments issued by subsidiaries subject to phase-out		
47	General provisions included in Tier 2 capital	151,237	148,056
	Tier 2 capital before regulatory adjustments	**208,266**	**206,905**
	Tier 2 capital: regulatory adjustments		

48	Investments in own Tier 2 instruments		
49	Reciprocal cross-holdings in Tier 2 instruments		
50	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10%of the issued common share capital of the entity (amount above the 10% threshold)		
51	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
52	National specific regulatory adjustments		
53	Total regulatory adjustments to Tier 2 capital		
	Tier 2 capital (T2)	**208,266**	**206,905**
	Total capital (TC = T1 + T2)	**2,341,497**	**2,331,607**
	Total risk weighted assets (after applying 50% additional weighting)	**13,356,763**	**13,192,800**
	Capital ratios and buffers		
54	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.77%	15.69%
55	Tier 1 (as a percentage of risk weighted assets)	15.97%	16.11%
56	Total capital (as a percentage of risk weighted assets)	17.53%	17.67%
57	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.0%	11.5%
58	of which: capital conservation buffer requirement	-%	2.5%
59	of which: bank specific countercyclical buffer requirement		
60	of which: D-SIB buffer requirement	2.0%	2.0%
61	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.77%	8.69%
	Minimum capital ratios		
61	Common Equity Tier 1 minimum ratio	9.0%	11.5%
62	Tier 1 minimum ratio	10.5%	13.0%
63	Total capital minimum ratio	12.5%	15.0%
	Amounts below the thresholds for deduction (before risk weighting)		
65	Non-significant investments in the capital of other financials		
66	Significant investments in the common stock of financials		
67	Mortgage servicing rights (net of related tax liability)		
68	Deferred tax assets arising from temporary differences (net of related tax liability)	43,935	22,537
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	416,747	360,564
70	Cap on inclusion of provisions in Tier 2 under standardized approach	151,237	148,056
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based		

2. Reconciliation Requirements Form:

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

Step 1

For the year ended 31-12-2020: KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	2020	**2020**	
Assets			
Cash and balances with banks and financial institutions	2,490,801	2,490,801	
Due from banks	3,364,577	3,364,577	
Financing receivables	10,747,536	10,747,536	
of which General Provisions (netted above) capped for Tier 2 inclusion	151,237	151,237	A
Investment in Sukuk	2,742,100	2,742,100	
Trading properties	102,395	102,395	
Investments	192,347	192,347	
Investment in associates and joint ventures	520,784	520,784	
Investment properties	350,838	350,838	
Other Assets	728,059	728,059	
Intangible assets and goodwill	32,390	32,390	
of which: goodwill	150	150	B
of which: other intangibles	32,240	32,240	C
Property and equipment	230,487	230,487	
Total Assets	**21,502,314**	**21,502,314**	
Liabilities			
Due to banks and financial institutions	2,954,115	2,954,115	
Sukuk Payables	315,105	315,105	
Depositors' accounts	15,317,335	15,317,335	
Other liabilities	814,361	814,361	
Total Liabilities	**19,400,916**	**19,400,916**	
Equity Attributable to the shareholders of the bank			
Share Capital	767,414	767,414	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	76,741	76,741	F
Treasury shares	(27,739)	(27,739)	G
Reserves	323,199	323,199	
of which: statutory reserve	340,325	340,325	H
of which: voluntary reserve	228,893	228,893	I
of which: treasury share reserve	15,028	15,028	J
of which: fair value reserve	66,933	66,933	
of which: eligible as CET1 Capital	63,974	63,974	K
of which: eligible as depositors accounts	2,959	2,959	

of which: revaluation reserve	(305,515)	(305,515)	
of which: eligible as CET1 Capital	(242,247)	(242,247)	L
of which: eligible as depositors accounts	(63,268)	(63,268)	
of which: other reserves	(23,771)	(23,771)	
of which: eligible as CET1 Capital	(10,500)	(10,500)	M
of which: eligible as depositors accounts	(13,271)	(13,271)	
of which: Retained earnings	1,306	1,306	
of which: Modification loss on financing receivables	(95,631)	(95,631)	
of which: Retained earnings of previous years	96,937	96,937	N
Proposed Cash Dividends	76,093	76,093	O
Total Equity Attributable to the shareholders of the bank	**1,936,041**	**1,936,041**	
Non-controlling interests	165,357	165,357	
Non-controlling interests eligible as CET1 capital	109,028	109,028	P
Non-controlling interests eligible as AT1 capital	27,434	27,434	Q
Non-controlling interests eligible as Tier 2 capital	57,029	57,029	R
Total Equity	**2,101,398**	**2,101,398**	
Total Liabilities and Equity	**21,502,314**	**21,502,314**	

For the year ended 2019: KD 000's

Item	Balance sheet as in published financial statements	Under Regulatory scope of consolidation	Ref.
	2019	**2019**	
Assets			
Cash and balances with banks and financial institutions	1,910,088	1,910,088	
Due from banks	3,645,631	3,645,631	
Financing receivables	9,473,752	9,473,752	
of which General Provisions (netted above) capped for Tier 2 inclusion	148,056	148,056	A
Investment in Sukuk	2,291,953	2,291,953	
Trading properties	107,613	107,613	
Investments	195,003	195,003	
Investment in associates and joint ventures	504,343	504,343	
Investment properties	455,406	455,406	
Other Assets	546,782	546,782	
Intangible assets and goodwill	31,329	31,329	
of which: goodwill	292	292	B
of which: other intangibles	31,037	31,037	C
Property and equipment	228,958	228,958	
Total Assets	**19,390,858**	**19,390,858**	
Liabilities			
Due to banks and financial institutions	2,427,166	2,427,166	
Sukuk Payable	319,965	319,965	
Depositors' account	13,552,645	13,552,645	

Other liabilities	847,707	847,707	
Total Liabilities	**17,147,483**	**17,147,483**	
Equity Attributable to the shareholders of the bank			
Share Capital	697,649	697,649	D
Share premium	720,333	720,333	E
Proposed issue of bonus shares	69,765	69,765	F
Treasury shares	(36,243)	(36,243)	G
Reserves	470,908	470,908	
of which: statutory reserve	324,875	324,875	H
of which: voluntary reserve	310,127	310,127	I
of which: treasury share reserve	11,899	11,899	J
of which: fair value reserve	51,815	51,815	
of which: eligible as CET1 Capital	48,856	48,856	K
of which: eligible as depositors accounts	2,959	2,959	
of which: revaluation reserve	(263,569)	(263,569)	
of which: eligible as CET1 Capital	(200,301)	(200,301)	L
of which: eligible as depositors accounts	(63,268)	(63,268)	
of which: other reserves	(19,376)	(19,376)	
of which: eligible as CET1 Capital	(6,105)	(6,105)	M
of which: eligible as depositors accounts	(13,271)	(13,271)	
of which: Retained earnings	55,137	55,137	N
Proposed Cash Dividends	137,980	137,980	O
Total Equity Attributable to the shareholders of the bank	**2,060,392**	**2,060,392**	
Non-controlling interests	182,983	182,983	
Non-controlling interests eligible as CET1 capital	104,876	104,876	P
Non-controlling interests eligible as AT1 capital	55,163	55,163	Q
Non-controlling interests eligible as Tier 2 capital	58,849	58,849	R
Total Equity	**2,243,375**	**2,243,375**	
Total Liabilities and Equity	**19,390,858**	**19,390,858**	

Step 2 of Reconciliation requirements

KD 000's

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital 2020	Component of regulatory capital 2019	Source based on reference letters of the balance sheet from step 1
1	Directly issued qualifying common share capital plus related stock surplus	1,487,747	1,417,982	D + E
2	Retained earnings	173,030	193,117	N + O
3	Accumulated other comprehensive income (and other reserves)	395,473	489,351	H+I+J+K+L+M
4	Common share capital issued by subsidiaries and held by third parties (minority interest)	109,028	104,876	P
5	Proposed issue of bonus shares	76,741	69,765	F
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2,242,019**	**2,275,091**	
	Common Equity Tier 1 capital: regulatory adjustments			
7	Goodwill	(150)	(292)	B
8	Other intangible assets	(32,240)	(31,037)	C
9	Treasury shares	(27,739)	(36,243)	G
10	Proposed Cash dividends	(76,093)	(137,980)	O
11	**Total regulatory adjustments to Common Equity Tier1**	(136,222)	(205,552)	
12	**Common Equity Tier 1 capital (CET1)**	**2,105,797**	**2,069,539**	
	Additional Tier 1 capital: instruments			
13	Common share capital issued by subsidiaries and held by third parties (minority interest)	27,434	55,163	Q
14	**Total Tier 1 capital**	**2,133,231**	**2,124,702**	
	Tier 2 capital: instruments and provisions			
15	Common share capital issued by subsidiaries and held by third parties (minority interest)	57,029	58,849	R
16	General Provisions included in Tier 2 Capital	151,237	148,056	A
17	**Total Tier 2 capital**	**208,266**	**206,905**	
	Total capital	**2,341,497**	**2,331,607**	

Third: Risk Weighted Assets and Minimum Capital Requirement

a) Credit Risk

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

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

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

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

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

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

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

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

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

1- Credit Risk Capital Requirements:

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Total Exposures	Net Exposures	Risk Weighted Assets	Required Capital
1	Cash item	262,800	262,800	-	-
2	Claims on sovereigns	6,243,709	6,243,709	1,827,166	228,396
3	Claims on public sector entities	563,452	563,452	67,087	8,386
4	Claims on MDBs	37,198	37,198	7,578	947
5	Claims on banks	2,494,083	2,494,083	725,257	90,657
6	Claims on corporates	4,001,212	3,694,374	2,998,520	374,815
7	Regulatory retail exposure	4,029,117	3,855,934	2,747,653	343,457
8	Qualifying residential housing financing facilities	625,901	503,824	143,227	17,903
9	Past due exposures	384,055	333,022	172,827	21,603
10	Inventory and commodities	21,402	21,402	32,594	4,074
11	Real estate investments	1,308,584	521,281	846,796	105,850
12	Investment and financing with customers	723,996	618,453	743,812	92,977
13	Other exposures	1,614,095	1,614,095	1,520,958	190,119
	Total	**22,309,604**	**20,763,627**	**11,833,475**	**1,479,184**

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

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

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

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Total	Self-Financed	Finance form Investment Accounts
1	Cash item	262,800	173,685	89,115
2	Claims on sovereigns	6,243,709	4,126,467	2,117,242
3	Claims on public sector entities	563,452	372,385	191,067
4	Claims on MDBs	37,198	24,584	12,614
5	Claims on banks	2,494,083	1,648,339	845,744
6	Claims on corporates	4,001,212	2,644,401	1,356,811
7	Regulatory retail exposure	4,029,117	2,662,843	1,366,274
8	Qualifying residential housing financing facilities	625,901	413,658	212,243
9	Past due exposures	384,055	253,822	130,233
10	Inventory and commodities	21,402	14,145	7,257
11	Real estate investments	1,308,584	864,843	443,741
12	Investment and financing with customers	723,996	478,489	245,507
13	Other exposures	1,614,095	1,066,755	547,340
	Total	**22,309,604**	**14,744,416**	**7,565,188**

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

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

3- Net Credit Exposures Classified as Rated or Unrated (External Ratings)

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Net Credit Exposures	Rated Exposures	Unrated Exposures
1	Cash item	262,800	-	262,800
2	Claims on sovereigns	6,243,709	6,243,709	-
3	Claims on public sector entities	563,452	563,452	-
4	Claims on MDBs	37,198	37,198	-
5	Claims on banks	2,494,083	2,429,536	64,547
6	Claims on corporates	3,694,374	8,799	3,685,575
7	Regulatory retail exposure	3,855,934	-	3,855,934
8	Qualifying residential housing financing facilities	503,824	-	503,824
9	Past due exposures	333,022	-	333,022
10	Inventory and commodities	21,402	-	21,402
11	Real estate investments	521,281	-	521,281
12	Investment and financing with customers	618,453	-	618,453
13	Other exposures	1,614,095	-	1,614,095
	Total	**20,763,627**	**9,282,694**	**11,480,933**

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

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

4- Average Credit Risk Exposures, Average Self-Financed Assets and Average Assets Financed from Investment Accounts on Quarterly Basis:

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Average Credit Risk Exposure	Average Self-Financed	Average Finance form Investment Accounts
1	Cash item	345,672	223,581	122,091
2	Claims on sovereigns	5,902,675	3,843,994	2,058,681
3	Claims on public sector entities	540,253	351,185	189,068
4	Claims on MDBs	31,559	20,541	11,018
5	Claims on banks	2,333,520	1,583,496	750,024
6	Claims on corporates	4,038,487	2,766,976	1,271,511
7	Regulatory retail exposure	3,870,858	2,546,019	1,324,839
8	Qualifying residential housing financing facilities	602,731	392,046	210,685
9	Past due exposures	397,670	259,620	138,050
10	Inventory and commodities	24,137	15,659	8,478
11	Real estate investments	1,336,953	868,731	468,222
12	Investment and financing with customers	745,650	487,341	258,309
13	Other exposures	1,381,467	899,051	482,416
	Total	**21,551,632**	**14,258,240**	**7,293,392**

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

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

5- Excess Risk Concentrations

Concentration risks arise when several counterparties are engaged in similar activities in the same geographical area or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Group's performance to developments affecting a particular industry sector or geographical location. To avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified financial portfolios, thus establishing control over certain credit risk concentrations. Credit mitigation techniques are used by the Bank to manage risk concentrations at both relationship and industry levels.

a. Geographical Distributions for Credit Risk Exposure

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	88,204	-	166,140	8,456	-	262,800
2	Claims on sovereigns	3,678,370	-	2,324,972	240,367	-	6,243,709
3	Claims on public sector entities	563,452	-	-	-	-	563,452
4	Claims on MDBs	37,198	-	-	-	-	37,198
5	Claims on banks	1,607,565	166,653	501,206	24,549	194,110	2,494,083
6	Claims on corporates	1,686,134	33,567	2,114,173	162,233	5,105	4,001,212
7	Regulatory retail exposure	3,165,826	-	715,504	147,787	-	4,029,117
8	Qualifying residential housing financing facilities	161,960	-	395,873	68,068	-	625,901
9	Past due exposures	267,775	-	88,372	27,908	-	384,055
10	Inventory and commodities	21,402	-	-	-	-	21,402
11	Real estate investments	1,259,995	15,435	1,009	32,145	-	1,308,584
12	Investment and financing with customers	709,040	-	14,956	-	-	723,996
13	Other exposures	1,049,619	46,806	498,373	16,313	2,984	1,614,095
	Total	**14,296,540**	**262,461**	**6,820,578**	**727,826**	**202,199**	**22,309,604**

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

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

b. Maturities of Total Credit Risk Exposures

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	262,800	-	-	262,800
2	Claims on sovereigns	5,391,413	274,020	578,276	6,243,709
3	Claims on public sector entities	761	457,262	105,429	563,452
4	Claims on MDBs	-	11,910	25,288	37,198
5	Claims on banks	1,597,912	679,195	216,976	2,494,083
6	Claims on corporates	976,510	1,181,509	1,843,193	4,001,212
7	Regulatory retail exposure	130,543	283,228	3,615,346	4,029,117
8	Qualifying residential housing financing facilities	7,941	12,863	605,097	625,901
9	Past due exposures	-	-	384,055	384,055
10	Inventory and commodities	-	-	21,402	21,402
11	Real estate investments	7,121	2,133	1,299,330	1,308,584
12	Investment and financing with customers	212,146	284,641	227,209	723,996
13	Other exposures	21,393	10,061	1,582,641	1,614,095
	Total	**8,608,540**	**3,196,822**	**10,504,242**	**22,309,604**

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

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

c. Main Sectors of Total Credit Risk Exposures

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Manufacturing & Trade	Banks and Financial Institutions	Construction & Real estate	Government	Others	Total
1	Cash item	-	262,800	-	-	-	262,800
2	Claims on sovereigns	-	-	-	6,243,709	-	6,243,709
3	Claims on public sector entities	-	-	-	-	563,452	563,452
4	Claims on MDBs	-	37,198	-	-	-	37,198
5	Claims on banks	-	2,494,083	-	-	-	2,494,083
6	Claims on corporates	1,317,533	142,674	1,275,925	-	1,265,080	4,001,212
7	Regulatory retail exposure	285,630	1,769	113,389	-	3,628,329	4,029,117
8	Qualifying residential housing financing facilities	-	-	-	-	625,901	625,901
9	Past due exposures	42,838	38,667	260,158	-	42,392	384,055
10	Inventory and commodities	-	-	-	-	21,402	21,402
11	Real estate investments	-	-	453,555	-	855,029	1,308,584
12	Investment and financing with customers	-	28,469	679,695	-	15,832	723,996
13	Other exposures	127,123	233,241	323,621	-	930,110	1,614,095
	Total	**1,773,124**	**3,238,901**	**3,106,343**	**6,243,709**	**7,947,527**	**22,309,604**

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

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

6- Past Due and Impairment Provisions

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

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

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

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

As at 31 December 2020, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 263,153 thousand (2019: KD 211,084 thousand). A specific provision of KD 164,843 thousand (2019: KD 123,773 thousand) has been made, as detailed below:

a. Exposures Based on Standard Portfolios

For the year ended 31-12-2020: KD 000’s

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past Due
1	Claims on corporate	153,879	139,816	55,030	380,928
2	Regulatory retail exposure	5,444	15,961	18,201	122,178
3	Qualifying residential housing financing Facilities	6,569	1,409	3,188	28,906
4	Investment and financing with customers	97,261	7,657	3,030	219,581
	Total	**263,153**	**164,843**	**79,449**	**751,593**

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

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

b. Exposures Based on Geographical Distribution

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past Due
1	Middle East & North Africa	127,749	43,189	61,494	665,116
2	Europe	118,754	115,956	17,708	53,808
3	Asia	16,650	5,698	247	32,669
	Total	**263,153**	**164,843**	**79,449**	**751,593**

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

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

c. Exposures Based on Industrial Sector

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Impaired	Specific Provision	Specific Provision Write-off	Past Due
1	Manufacturing and Trade	44,272	65,454	46,774	201,332
2	Banks and financial institutions	280	4,476	14,700	561
3	Constructions & real estate	170,484	44,628	0	249,154
4	Others	48,117	50,285	17,975	300,546
	Total	**263,153**	**164,843**	**79,449**	**751,593**

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

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

d. General Provision Allocation

KD 000's

Ser.	Credit Risk Exposures	2020	2019
1	Claims on sovereigns	39	247
2	Claims on PSEs	9,123	5,106
3	Claims on banks	13,937	14,920
4	Claims on corporates	223,263	183,410
5	Regulatory retail exposures	65,596	60,837
6	Investment and financing with customers	94,182	84,852
	Total	**406,140**	**349,372**

7- Applicable Risk Mitigation Methods

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

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

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

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

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

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

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

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

a. Risk Mitigation Means of Total Credit Risk Exposures

For the year ended 31-12-2020: KD 000's

Ser.	Credit Risk Exposures	Gross Credit Exposures	Eligible Collaterals
1	Cash item	262,800	-
2	Claims on sovereigns	6,243,709	-
3	Claims on public sector entities	563,452	-
4	Claims on MDBs	37,198	-
5	Claims on banks	2,494,083	-
6	Claims on corporates	4,001,212	306,838
7	Regulatory retail exposure	4,029,117	173,183
8	Qualifying residential housing financing facilities	625,901	122,077
9	Past due exposures	384,055	51,033
10	Inventory and commodities	21,402	-
11	Real estate investments	1,308,584	787,303
12	Investment and financing with customers	723,996	105,543
13	Other exposures	1,614,095	-
	Total	**22,309,604**	**1,545,977**

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

Ser.	Credit Risk Exposures	Gross Credit Exposures	Eligible Collaterals
1	Cash item	451,420	-
2	Claims on sovereigns	5,058,229	-
3	Claims on public sector entities	495,999	-
4	Claims on MDBs	16,631	-
5	Claims on banks	2,505,551	-
6	Claims on corporates	3,730,613	298,516
7	Regulatory retail exposure	3,774,357	72,827
8	Qualifying residential housing financing facilities	493,306	124,092
9	Past due exposures	361,863	86,065
10	Inventory and commodities	29,986	-
11	Real estate investments	1,363,552	429,084
12	Investment and financing with customers	748,864	126,619
13	Other exposures	1,223,663	-
	Total	**20,254,034**	**1,137,203**

b) Market Risk

Market Risk Weighted Exposure during the financial year 2020 amounted KD 116,506 thousand (2019: KD 218,025 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 14,563 thousand (2019: KD 32,704 thousand).

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

c) Operational Risk

Operational risk weighted exposures calculated during the year 2020 amounted to KD 1,406,781 thousand (2019: KD 1,342,788 thousand) as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 175,848 thousand (2019: KD 201,418 thousand).

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

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

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

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

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

Fourth: Risk Management

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

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

Risk Strategy is formulated under three pillars:

Group capital planning and Risk weighted Assets optimization:

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

Improving Asset Quality and Risk Appetite:

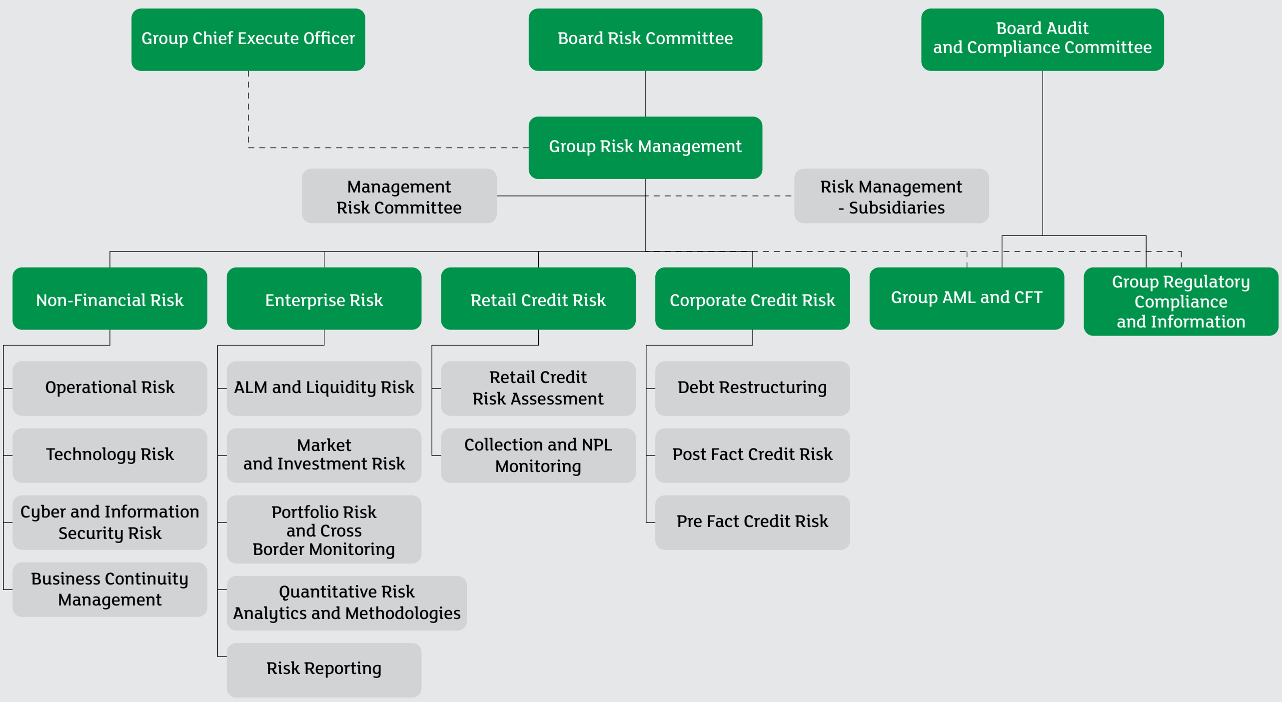
- Enhance Group Risk Appetite to support management to maintain/improve asset quality accompanied with business growth.
- Asset quality has been significantly improved as a result of enhancing financing underwriting criteria, having the right governance in line with best practices as well.

Group integration:

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

Organizational Structure

KFH has structured its organizational structure at the bank to a more effective structure to process current and future business needs and avail proper opportunities.



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

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

Risk Management by Risk Type

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

a) Credit Risk

Sources of Risk

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

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

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

Governance and Organizational Structure

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

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

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

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

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

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

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

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

Methods and Processes

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

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

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

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

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

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

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

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

b) Market Risk

Sources of Risk

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

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

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

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

Governance and Organization

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

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

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

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

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

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

Methods and Processes

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

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

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

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

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

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

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

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

c) Liquidity Risk

Sources of Risk

KFH identifies sources of liquidity risk as follows:

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

Displaced commercial risk: Risk arising from deposit holders withdrawing their money in pursuit of more attractive returns because KFH pays a return on deposits that is lower compared to the market.

Governance and Organization

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

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

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

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

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

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

Methods and Processes

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

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

LCR and NSFR are being measured regulary throughout KFH Kuwait and banking group, as per the Central Bank of Kuwait circular and guidelines to insure that KFH is at all times managing the liquidity risks, well-funded, and complied with the liquidity regulator's limits of those ratios.

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

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

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

d) Operational Risk

Sources of Risk

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

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

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

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

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

Governance and Organization

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

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

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

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

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

Methods and Processes

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

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

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

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

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

In terms of business continuity management, the bank has in place a committee monitoring the implementation of the business continuity plan. To date, a complete business impact analysis has been developed and signed off.

KFH has adopted the basic indicator approach to measuring the capital required for operational risk under Pillar 1.

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

e) Rate of Return Risk

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

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

Fifth: Information Related to Investment Accounts

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

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

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

Information on Long Term Investment Plans and Deposits

KFH provides many types of investment deposits for customers to avail large number of investment tools that help customers invest and achieve safe and secured profits. KFH offers numerous types of investment deposits with different advantages and features in terms of investment tenure, profit ratios, distribution, and currencies, whether in Kuwaiti dinar or in foreign currencies. Such deposits include: (Continuous Investment Deposit, Al-Dimah Investment Deposit, Al Nuwair Investment Deposit, Al Sedra Investment Deposit, Al Kawthar Investment Deposit, 5 Years Investment Deposit, Investment Deposit in Foreign Currencies, and long-term investment plans).

All such investment deposits can be opened to all individuals who have reached the legal age of 21 year, or by legal guardians on the behalf of the underaged individuals. These deposits can also be opened to all corporates and legal entities (committees, associations, institutions, etc…).

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

Gold Account

Out of KFH's keenness on diversification of product activities and to keep pace with the global economic changes that had been accompanied with increased global trends for the buying and selling gold bullions, KFH has launched, being the first in Kuwait to offer a service of this kind, the Gold Account which enables customers to buy, sell, withdraw, and deposit gold safely effectively and restfully. In addition, the gold that is offered by KFH is the purest at (999.9) carats.

Moreover, KFH's customers can open a gold account, buy and sell gold, and request statement of account through all KFH branches, KFH online services, KFH mobile application, or KFH Automated Teller Machines.

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

Sixth: Shari'a Controls

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Building a better working world

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

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance House K.S.C.P. (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Kuwait for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on financing receivables

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

Recognition of ECL under IFRS 9, determined in accordance with the CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date for classification of financing facilities into various stages; use of a large number of interrelated inputs and assumptions such as the financial asset's probability of default, loss given default and exposure at default, which are modelled based on macroeconomic variables, and discounted to the reporting date. Furthermore, the COVID-19 global pandemic impacted management's determination of the ECL as it required the application of unusually high level of judgment and estimation uncertainty, which may materially change the estimates in future periods.

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of investment properties

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

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

Other information included in the Group's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments; and 2/I.B.S./343/2014 dated 21 October 2014 and its amendments, respectively; the Companies Law No.1 of 2016, as amended and its executive regulations, as amended and by the Bank's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/I.B.S./ 343/2014 dated 21 October 2014 and its amendments, respectively; the Companies Law No.1 of 2016, as amended and its executive regulations, as amended or of the Bank's Memorandum of Incorporation and Articles of Association, as amended have occurred during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

BADER A. AL-ABDULJADER	BADER A. AL-WAZZAN
LICENCE NO. 207 A	LICENCE NO. 62A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNERS	AL-WAZZAN & CO.

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

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

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

HAMAD ABDOUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

ABDULWAHAB ISSA ALRUSHOOD
(ACTING GROUP CHIEF EXECUTIVE OFFICER)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

KD 000's

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2020

KD 000's

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 12 January 2021. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

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

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

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, including the recently issued CBK circulars on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:

- Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- Recognition of modification losses on financial assets arising from payment holidays to customers in response to COVID-19 to be recognized in retained earnings instead of consolidated statement of income as required by IFRS 9.

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

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement of financial assets at fair value, venture capital at fair value through profit or loss, precious metals inventory, currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts.

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

2.2 PRESENTATION OF FINANCIAL STATEMENTS

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

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

2.3 CHANGES IN ACCOUNTING POLICIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

2.3 CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

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

Amendments to IFRS 3: Definition of a Business

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

Amendments to IFRS 16: Covid-19 Related Rent Concessions

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

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

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Profit Rate Benchmark Reform (Phase 2)

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

Profit Rate Benchmark Reform (Phase 2) (continued)

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

2.5 BASIS OF CONSOLIDATION

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.5 BASIS OF CONSOLIDATION (continued)

a. Subsidiaries
Subsidiaries are all entities over which the Group has control. Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 18 for the list of material subsidiaries, their principal businesses and the Group's effective holding.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

ii) Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction.

iii) Rental income from investment properties is recognised on an accrual basis.

iv) Dividend income is recognised when the right to receive payment is established.

v) Operating lease income is recognised on a straight-line basis in accordance with the lease agreement.

vi) Gain from real estate investments includes gains from sale of investment properties and trading properties. Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

Trading properties
Trading properties are measured initially at cost. Subsequent to initial recognition, trading properties are carried at the lower of cost or net realizable value determined on an individual basis.

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments
Date of recognition
Financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market-place.

Classification on initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value. Except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at initial recognition and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities
The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)
Assessment of whether contractual cash flows are solely payments of principal and yield (SPPY test) (continued)
'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are payments of principal or amortisation of the premium/discount).

The most significant elements of profit within a basic financing arrangement are typically the consideration for the time value of money, credit risk, other basic financing risks and a profit margin. To make the SPPY assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the yield rate is set.

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

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

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

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

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

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

i. Due to banks, depositors’ accounts and Sukuk payable
These are measured at amortised cost.

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

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

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

Undrawn financing commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a financing with pre-specified terms to the customer. Similar to financial guarantee contracts, a provision is measured, if they are an onerous contract, according to the CBK guidelines.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives financial instruments and hedge accounting

i. Derivatives not designated as hedges:

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

ii. Derivatives designated as hedges:

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

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

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

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

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

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

Fair value hedges:

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

Cash flow hedges:

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

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

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Determining the stage of impairment
The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition and backstop indicators and analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information. The Group considers an exposure to have significantly increased in credit risk when there is significant deterioration in customer rating compared to rating at origination, restructured due to financial difficulties of the customers and other conditions mentioned below.
The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. The Group also consider that events explained below (and not restricted to) as indicators of significant increase in credit risk as opposed to a default.

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Expected Credit Losses (continued)

Incorporation of forward-looking information

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

Renegotiated financing receivables

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

Presentation of allowance for ECL in the statement of financial position

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

Provisions for credit losses in accordance with CBK instructions

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

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

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

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

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

▶ Buildings	up to 20 years
▶ Furniture, fixtures and equipment	3 to 5 years
▶ Motor vehicles	3 years

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

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

Leases

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

Group as a lessee

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

i. Right-of-use assets

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

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

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

ii. Lease liabilities

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (contined)
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.

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

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

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

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

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

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

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

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

Taxation

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

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

Fair value measurement

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

Fair value measurement

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

For financial assets where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm’s length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, book value multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management’s estimate of the amount at which these assets could be exchanged for cash on an arm’s length basis or a liability settled to the satisfaction of creditors.

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

Due from/to customers for contract work
Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

Share based payments
The Group operates an employees’ share purchase plan for certain eligible employees, whereby employees render services as consideration for equity instruments (equity-settled transactions).

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments (continued)
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (Reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of income represents the movement in cumulative expense recognised during the year.

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

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

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

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

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

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

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

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

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

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments (continued)

Operating lease commitments – Group as lessor

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

Classification of real estate

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

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

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

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

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

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

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill and intangible assets with indefinite useful life

The Group determines whether goodwill and intangible assets with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of investment in associates and joint ventures

The Group calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in associates or joint ventures are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Impairment of investment properties and trading properties

The Group reviews the carrying amounts of its investment and trading properties to determine whether there is an indication that those assets have suffered an impairment loss if the fair values are below than the carrying values. The Group management determines the appropriate techniques and inputs required for measuring the fair value using observable market data and as appropriate, the Group uses reputed valuers qualified to do the valuation.

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2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Impairment of financial instruments
The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
- The Group's internal credit rating model, which assigns PDs to the individual grades
- The Group's criterial for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

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

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

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

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3 INVESTMENT (LOSS) / INCOME

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

4 OTHER INCOME

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

5 PROVISIONS AND IMPAIRMENT

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

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

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

6 TAXATION

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

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

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

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

The employees' share based payments plan has no material dilutive impact on earnings per share.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 22).

8 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

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

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

9 DUE FROM BANKS

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

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

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10 FINANCING RECEIVABLES

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

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

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

KD 000's

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

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

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

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

Non-performing financing facilities
As at 31 December 2020, non-performing cash finance facilities before impairment and collateral (net of deferred profit and suspended profit) amounted to KD 263,153 thousand (2019: KD 211,084 thousand).

Total provision for ECL is accounted as per CBK regulation which require ECL to be measured at higher of the ECL computed under IFRS 9 in accordance with CBK or the provision required by CBK instructions. Total provision for credit losses recorded as per CBK instructions for utilized and unutilized cash and non-cash financing facilities as at 31 December 2020 is KD 587,121 thousand (2019: KD 488,595 thousand) which exceeds the ECL for financing receivables under IFRS 9 by KD 227,587 thousand (2019: KD 125,521 thousand).

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At 31 December 2020

11 INVESTMENT IN SUKUK

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

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

				KD 000's
2020	***Stage 1 Individual***	***Stage 2 Individual***	***Stage 3 Individual***	***Total***
High grade	**1,147,233**	**883,080**	**-**	**2,030,313**
Standard grade	**466,642**	**-**	**-**	**466,642**
Gross carrying amount	**1,613,875**	**883,080**	**-**	**2,496,955**
ECL allowance	**(10,609)**	**(37,541)**	**-**	**(48,150)**
Carrying value	**1,603,266**	**845,539**	**-**	**2,448,805**

				KD 000's
2019	*Stage 1 Individual*	*Stage 2 Individual*	*Stage 3 Individual*	*Total*
High grade	1,523,839	-	-	1,523,839
Standard grade	572,846	-	-	572,846
Gross carrying amount	2,096,685	-	-	2,096,685
ECL allowance	(19,772)	-	-	(19,772)
Carrying value	2,076,913	-	-	2,076,913

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

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

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

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At 31 December 2020

11 INVESTMENT IN SUKUK (continued)

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

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

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

12 INVESTMENTS

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

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

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13 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

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

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

Summarised consolidated statement of financial position:

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

Summarised consolidated statement of income:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

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

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

Summarised consolidated statement of financial position:

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

Summarised consolidated statement of income:

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

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15 INVESTMENT PROPERTIES

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

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

16 OTHER ASSETS

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

17 INTANGIBLE ASSETS AND GOODWILL

	KD 000's	
	2020	*2019*
Intangible assets	**32,390**	31,037
Goodwill	**-**	292
	32,390	31,329

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17 INTANGIBLE ASSETS AND GOODWILL (continued)

Movement of intangible assets is as follows:

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

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

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18 SUBSIDIARIES

18.1 Details of principal operating material subsidiaries

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

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

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18 SUBSIDIARIES (continued)

18.2 Material partly-owned subsidiary
Financial information of subsidiary that have material non-controlling interest is provided below:

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Non-controlling interest percentage*	
		2020	*2019*
Kuwait Turkish Participation Bank	Turkey	**38%**	38%

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

Summarised consolidated statement of income for the year ended:

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

Summarised consolidated statement of financial position as at:

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

Summarised consolidated statement of cash flows for year ended:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19 DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'a.

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

b) The fair values of depositors' accounts do not differ from their carrying book values.

20 OTHER LIABILITIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 RESERVES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 RESERVES (continued)

KD 000's

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2020

21 RESERVES (continued)

Statutory reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a minimum of 10% of the profit for the year before KFAS, NLST, Zakat, and board of directors' remuneration shall be transferred to the statutory reserve. The annual general assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

Voluntary reserve
In accordance with the Companies' Law, as amended, and the Bank's Memorandum of Incorporation and Articles of Association, as amended, a maximum of 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration is required to be transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' general assembly upon a recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve.

Voluntary reserve is available to be distributed to shareholders at the discretion of the Bank's Board of Directors in ways that may be deemed beneficial to the Bank, except for the amount of KD 27,739 thousand (2019: KD 36,243 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 22).

The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the issued share capital.

Share premium
The share premium balance is not available for distribution.

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

22 SHARE CAPITAL AND TREASURY SHARES

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

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

Share capital

	KD 000's	
	2020	*2019*
Issued and fully paid in cash and bonus shares:		
7,674,138,122 (2019: 6,976,489,202) shares of 100 fils each	**767,414**	697,649

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

	2020	*2019*
Number of shares in issue as at 1 January	**6,976,489,202**	6,342,262,911
Bonus shares issued	**697,648,920**	634,226,291
Number of shares in issue 31 December	**7,674,138,122**	6,976,489,202

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

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At 31 December 2020

22 SHARE CAPITAL AND TREASURY SHARES (continued)

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

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

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

The weighted average market price of the Bank's shares for the year ended 31 December 2020 was 665 fils (2019: 698 fils) per share.

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

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

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

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

The Board of Directors of the Bank has proposed Directors' fees of KD 608 thousand (2019: KD 942 thousand), (Note 27) which is within the amount permissible under local regulations and subject to the approval of the annual general assembly of the shareholders of the Bank.

24 SHARE BASED PAYMENTS

The Bank operates long-term incentive scheme plan (LTIS) approved by the Board of Directors and authorized by the Bank's extraordinary general assembly and ordinary assembly. The LTIS operate on a rolling yearly employees' share purchase plan where new plans is rolled out to eligible employees every year. Shares issued under each plan will vest at the end of three years from the allocation date subject to agreed performance conditions approved by the Board of Directors being met.

25 CONTINGENCIES AND CAPITAL COMMITMENTS

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

	KD 000's	
	2020	*2019*
Acceptances and letters of credit	**159,067**	140,041
Letter of guarantees	**1,402,288**	1,556,923
Contingencies	**1,561,355**	1,696,964

	KD 000's	
	2020	*2019*
Capital commitments and others	**306,005**	356,144

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS ("ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS")

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

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

The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose.

Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

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

			KD 000's
	Positive fair value	***Negative fair value***	***Notional amount***
31 December 2020			
Forward contracts	**4,834**	**1,277**	**395,964**
Profit rate swaps	**-**	**26,008**	**216,426**
Currency swaps	**16,150**	**46,474**	**2,281,253**
Embedded precious metals	**-**	**216**	**351,243**
	20,984	**73,975**	**3,244,886**

			KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*
31 December 2019			
Forward contracts	1,165	1,966	670,811
Profit rate swaps	-	14,402	227,378
Currency swaps	12,083	15,157	1,810,765
Embedded precious metals	-	444	231,950
	13,248	31,969	2,940,904

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

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At 31 December 2020

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

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

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

27 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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27 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

28 SEGMENTAL ANALYSIS

Primary segment information

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

Treasury: Liquidity management, murabaha investments, investment in Sukuk, exchange of deposits with banks and financial institutions and international banking relationships.

Retail and Private Banking: Consumer banking provides a diversified range of products and services to individual. Private banking provides comprehensive range of customised and innovative banking services to high net worth individuals

Corporates Banking: Providing a range of banking services and investment products to corporates, providing commodity and real estate murabaha finance, local leasing, wakala and istisna'a facilities.

Investment: Managing direct equity and real estate investments, non-banking Group entities, associates and joint ventures.

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28 SEGMENTAL ANALYSIS (continued)

					KD 000's
31 December 2020	***Treasury***	***Retail and private Banking***	***Corporate Banking***	***Investment***	***Total***
Total assets	**7,772,344**	**6,520,157**	**5,640,019**	**1,569,794**	**21,502,314**
Total liabilities	**3,692,572**	**12,270,709**	**2,980,421**	**457,214**	**19,400,916**
Operating income	**110,855**	**339,712**	**265,959**	**79,070**	**795,596**
Provisions and impairment	**(27,821)**	**(13,768)**	**(141,887)**	**(100,591)**	**(284,067)**
Profit (loss) for the year	**68,539**	**151,227**	**57,374**	**(92,918)**	**184,222**

					KD 000's
31 December 2019	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
Total assets	6,433,023	6,085,972	4,978,542	1,893,321	19,390,858
Total liabilities	2,990,037	10,836,616	2,624,440	696,390	17,147,483
Operating income	100,119	301,044	230,580	182,659	814,402
Provisions and impairment	(1,935)	(15,113)	(78,810)	(101,050)	(196,908)
Profit (loss) for the year	83,244	114,756	79,610	(15,789)	261,821

Secondary segment information

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

				KD 000's
	Assets		*Contingencies and capital commitments*	
	2020	*2019*	***2020***	*2019*
Geographical areas:				
Middle East	**13,663,791**	12,838,248	**578,862**	663,574
Europe	**6,553,652**	5,360,817	**1,248,097**	1,278,971
Other	**1,284,871**	1,191,793	**40,401**	110,563
	21,502,314	19,390,858	**1,867,360**	2,053,108

						KD 000's
	Local		*International*		*Total*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
Operating income	**336,732**	368,953	**458,864**	445,449	**795,596**	814,402
Profit for the year	**69,472**	191,671	**114,750**	70,150	**184,222**	261,821

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28 SEGMENTAL ANALYSIS (continued)

31 December 2020	*Treasury*	*Retail and private Banking*	*Corporate Banking*	*Investment*	*Total*
					KD 000's
Total assets	**7,772,344**	**6,520,157**	**5,640,019**	**1,569,794**	**21,502,314**
Total liabilities	**3,692,572**	**12,270,709**	**2,980,421**	**457,214**	**19,400,916**
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					KD 000's
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Secondary segment information

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	2020	*2019*	***2020***	*2019*
Geographical areas:				
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Europe	**6,553,652**	5,360,817	**1,248,097**	1,278,971
Other	**1,284,871**	1,191,793	**40,401**	110,563
	21,502,314	19,390,858	**1,867,360**	2,053,108

	Local		*International*		*Total*	***KD 000's***
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
Operating income	**336,732**	368,953	**458,864**	445,449	**795,596**	814,402
Profit for the year	**69,472**	191,671	**114,750**	70,150	**184,222**	261,821

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29 RISK MANAGEMENT

Risk management is an integral part of Group decision-making processes. It is implemented through a governance process that emphasizes on independent risk assessment, control and monitoring, overseen directly by the Board and senior management.

KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and market regulations and risk management best practices. KFH operates a “three lines of defence” system for managing risk.

The first line of defence recognizes that risks are raised by the business units and within their business. In KFH, all employees (credit officers, dealers, operations, etc.) are required to ensure the effective management of risks within their organizational responsibilities.

The second line of defence comprises the Risk Management Department and the Financial Control Department, which are responsible for ensuring that the risks are managed in accordance within the stated risk appetite.

The third line of defence is the independent assurance provided by the Internal Audit function. Its role is defined and overseen by the Audit Committee. The findings from the Internal Audit audits are reported to all relevant management and governance bodies. The Internal Audit function provides assurance that the overall system of control effectiveness is working as required within the risk management framework.

The risk management department is responsible for managing and monitoring risk exposures. It also, measures risk using risk models and presents reports to the Board Risk Committee and the Board of Directors. The models use probabilities based on historical experiences adjusted to reflect the current economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank’s Board of Directors are willing to accept.

Risk mitigation
As part of its overall risk management, the Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (within accepted Shari’a products) to manage exposures and emerging risks resulting from changes in yields, foreign currencies and, equity risks. The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration
In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging (Shari’a compliance) is used within the Bank to manage risk concentrations at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Group has similar risk management structures, policies and procedures as overseen by the Bank’s Board of Directors.

30 CREDIT RISK

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30 CREDIT RISK (continued)

Assessment of expected credit losses
Definition of default and cure
The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

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

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

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

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

Significant increase in credit risk
The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and PD estimation process
In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses Moody's Risk Analyst (MRA) as its internal credit-rating engine. The MRA tool provides the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group' rating policy. The attributable risk ratings are assessed and updated regularly.

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

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

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30 CREDIT RISK (continued)

Incorporation of forward-looking information
The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The Group employs statistical models to incorporate macro-economic factors impact on ECL. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown (before impairment, net of deferred and suspended profit), before the effect of mitigation through the use of master netting and collateral agreements.

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

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2020 was KD 202,565 thousand (2019: KD 240,031 thousand) before taking account of any collaterals.

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

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30 CREDIT RISK (continued)

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

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

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

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

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30 CREDIT RISK (continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets before impairment for consolidated statement of financial position lines. Credit exposures classified as 'High grade' are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard grade' comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'.

	Neither past due nor impaired			***KD 000's***
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2020				
Balances with banks and financial institutions	**2,268,412**	**-**	**-**	**2,268,412**
Due from banks	**3,364,577**	**-**	**-**	**3,364,577**
Financing receivables (Note 10)	**8,866,699**	**1,437,074**	**1,014,746**	**11,318,519**
Investment in Sukuk	**1,907,170**	**883,080**	**-**	**2,790,250**
Trade and other receivables	**239,657**	**-**	**-**	**239,657**
	16,646,515	**2,320,154**	**1,014,746**	**19,981,415**

	Neither past due nor impaired			*KD 000's*
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2019				
Balances with banks and financial institutions	1,687,769	-	-	1,687,769
Due from banks	3,645,631	-	-	3,645,631
Financing receivables (Note 10)	8,014,945	1,156,628	775,324	9,946,897
Investment in Sukuk	1,738,883	572,842	-	2,311,725
Trade and other receivables	281,752	-	-	281,752
	15,368,980	1,729,470	775,324	17,873,774

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30 CREDIT RISK (continued)

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

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

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to past due or impaired finance facilities as at 31 December 2020 was KD 482,833 thousand (2019: KD 281,072 thousand). The collateral consists of cash, securities, sukuk, letters of guarantee and real estate assets.

31 LIQUIDITY RISK

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

In addition, the Group maintains a robust liquidity buffers which consists of a mix of readily available cash, sharia compliant short-term money market instruments and a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has in place committed lines of credit that can be accessed in order to meet liquidity needs.

The overall liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors during a systemically contagion market and a specific idiosyncratic stress events impacted by the Group.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year-end are based on contractual payment arrangement and planned exit dates.

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

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31 LIQUIDITY RISK (continued)

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

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

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

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

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31 LIQUIDITY RISK (continued)

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

				KD 000's
	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
2020				
Contingencies (Note 25)	**510,993**	**323,811**	**726,551**	**1,561,355**
Capital commitments (Note 25)	**16,678**	**47,435**	**241,892**	**306,005**
Total	**527,671**	**371,246**	**968,443**	**1,867,360**

				KD 000's
	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
2019				
Contingencies (Note 25)	556,954	361,616	778,394	1,696,964
Capital commitments (Note 25)	38,091	92,808	225,245	356,144
Total	595,045	454,424	1,003,639	2,053,108

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

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

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32 MARKET RISK

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

Profit rate risk
In accordance with the provisions of Islamic Shari'a, the Group generates assets and liabilities that have cash inflows and outflows, or fair values and their profitability and performance is evaluated through the sensitivity of profit rates fluctuations. The Group manages the risk arising from these exposures to maximize profit for shareholders and depositors.

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

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2020 and 31 December 2019 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of equity investments at FVOCI).

KD 000's

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

Price risk
This is the risk arising from the fluctuation in the market value of investments in– equity Sukuk, and real estate.

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

KD 000's

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

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

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32 MARKET RISK (continued)

Operational risk
Operational risk is the risk of loss arising from systems failure, human error, processes or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Group has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk managed by the Operational Risk Management, which reviews policies, procedures, products, services and support business lines in managing and monitoring operational risks as part of overall Group-wide risk management.

Operational Risk Management of the Group is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and monitoring operational risks in Group.

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

33 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) and its amendments are shown below:

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

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33 CAPITAL MANAGEMENT (continued)

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

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

34 FIDUCIARY ASSETS

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

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

35 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2020.

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

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35 FAIR VALUES (continued)

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

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

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

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

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

Level 3 investments included unquoted Sukuk of KD 84,681 thousand (2019: KD 115,016 thousand) and unquoted equity investments of KD 100,688 thousand (2019: KD 86,783 thousand). Investment in Sukuk included in this category represent Investment in Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Investment in Sukuk are estimated using discounted cash flow method using discount rate ranging from 1.9% to 9.3% (2019: 2.1% to 7.6%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

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

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35 FAIR VALUES (continued)

Instruments disclosed in note 26 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognised market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

Investment properties have been valued based on valuations by valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date.

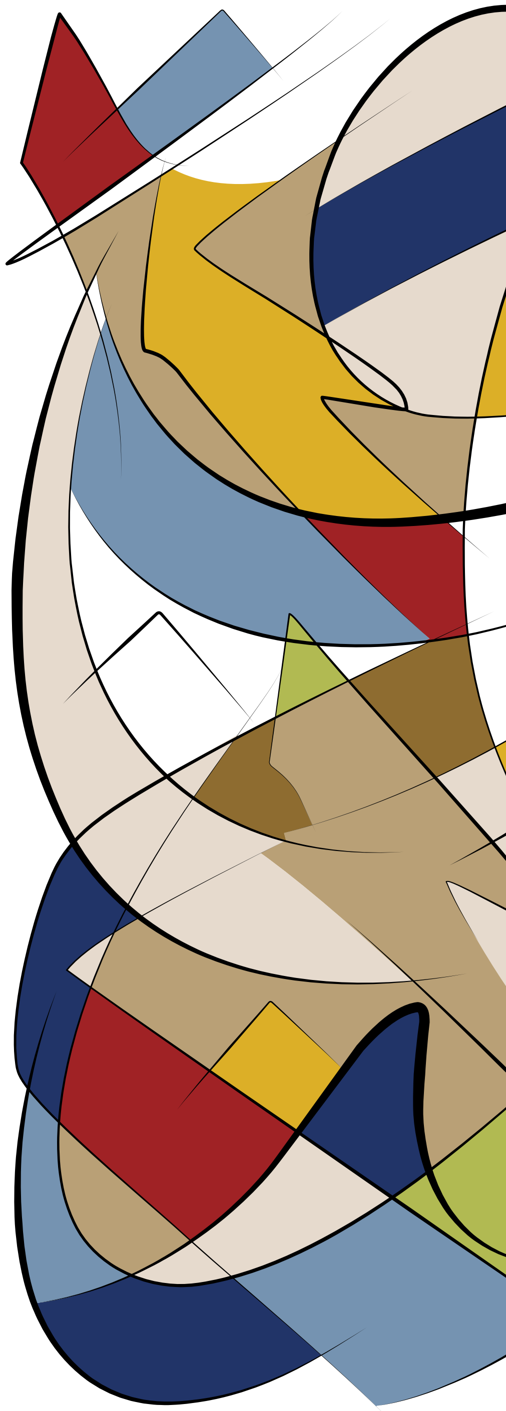
All investment properties are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

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

تم بحمد الله



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