

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

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION (UNAUDITED)**

**30 JUNE 2021**



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## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF KUWAIT FINANCE HOUSE K.S.C.P.**

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Finance House K.S.C.P. (“the Bank”) and its subsidiaries (collectively “the Group”) as at 30 June 2021 and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income, for the three-months and six-months periods then ended and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of preparation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.

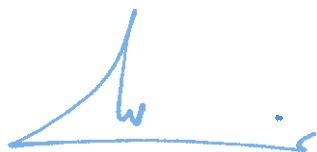
### *Report on Other Legal and Regulatory Requirements*

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the six-months period ended 30 June 2021 that might have had a material effect on the business of the Bank or on its financial position.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF KUWAIT FINANCE HOUSE K.S.C.P. (continued)**

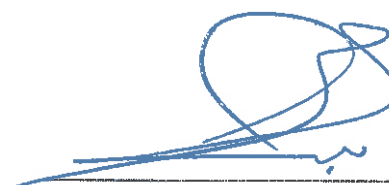
*Report on Other Legal and Regulatory Requirements (continued)*

We further report that, during the course of our review, to the best of our knowledge and belief, 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 organization of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the six-months period ended 30 June 2021 that might have had a material effect on the business of the Bank or on its financial position.



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



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

1 August 2021  
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

For the period ended 30 June 2021

	Notes	<i>KD 000's</i>			
		<i>Three months ended</i>		<i>Six months ended</i>	
		<b>30 June 2021</b>	<i>30 June 2020</i>	<b>30 June 2021</b>	<i>30 June 2020</i>
<b>INCOME</b>					
Financing income		<b>212,012</b>	219,267	<b>436,772</b>	444,890
Finance cost and estimated distribution to depositors	3	<b>(73,860)</b>	(69,358)	<b>(145,011)</b>	(149,141)
Net financing income		<b>138,152</b>	149,909	<b>291,761</b>	295,749
Investment (loss) income		<b>(1,776)</b>	10,245	<b>1,713</b>	36,206
Fees and commission income		<b>18,269</b>	14,284	<b>36,019</b>	33,155
Net gain from foreign currencies		<b>29,794</b>	18,496	<b>49,035</b>	36,662
Other operating income		<b>12,231</b>	6,683	<b>21,527</b>	17,965
<b>TOTAL OPERATING INCOME</b>		<b>196,670</b>	199,617	<b>400,055</b>	419,737
<b>OPERATING EXPENSES</b>					
Staff costs		<b>(45,992)</b>	(40,960)	<b>(93,266)</b>	(89,454)
General and administrative expenses		<b>(19,927)</b>	(18,626)	<b>(37,829)</b>	(41,006)
Depreciation and amortisation		<b>(10,372)</b>	(11,474)	<b>(20,975)</b>	(21,656)
<b>TOTAL OPERATING EXPENSES</b>		<b>(76,291)</b>	(71,060)	<b>(152,070)</b>	(152,116)
<b>NET OPERATING INCOME BEFORE PROVISIONS AND IMPAIRMENT</b>		<b>120,379</b>	128,557	<b>247,985</b>	267,621
Provisions and impairment		<b>(33,858)</b>	(111,263)	<b>(89,975)</b>	(186,194)
<b>OPERATING PROFIT FOR THE PERIOD BEFORE TAXATION</b>		<b>86,521</b>	17,294	<b>158,010</b>	81,427
Taxation	5	<b>(11,816)</b>	(3,564)	<b>(21,908)</b>	(15,097)
<b>PROFIT FOR THE PERIOD</b>		<b>74,705</b>	13,730	<b>136,102</b>	66,330
<b>Attributable to:</b>					
Shareholders of the Bank		<b>52,189</b>	12,642	<b>102,193</b>	56,917
Non-controlling interests		<b>22,516</b>	1,088	<b>33,909</b>	9,413
		<b>74,705</b>	13,730	<b>136,102</b>	66,330
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK</b>	4	<b>6.24 fils</b>	1.51 fils	<b>12.21 fils</b>	6.81 fils

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME (UNAUDITED)

For the period ended 30 June 2021

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June 2021</i>	<i>30 June 2020</i>	<i>30 June 2021</i>	<i>30 June 2020</i>
<b>Profit for the period</b>	<b>74,705</b>	13,730	<b>136,102</b>	66,330
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Revaluation gain (loss) on equity instruments at fair value through other comprehensive income	<b>8,748</b>	(530)	<b>15,259</b>	(9,484)
<i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income:</i>				
Sukuk investments at fair value through other comprehensive income:				
Net change in fair value during the period	<b>12,628</b>	93,657	<b>2,887</b>	(13,977)
Net transfer to interim condensed consolidated statement of income	<b>(16,720)</b>	54,823	<b>(29,434)</b>	60,350
Net (loss) gain on sukuk investments at fair value through other comprehensive income	<b>(4,092)</b>	148,480	<b>(26,547)</b>	46,373
Share of other comprehensive loss from associates and joint ventures	<b>(290)</b>	(1,044)	<b>(60)</b>	(1,459)
Exchange differences on translation of foreign operations	<b>(49,569)</b>	(30,499)	<b>(91,775)</b>	(38,891)
<b>Other comprehensive (loss) income for the period</b>	<b>(45,203)</b>	116,407	<b>(103,123)</b>	(3,461)
<b>Total comprehensive income for the period</b>	<b>29,502</b>	130,137	<b>32,979</b>	62,869
<b>Attributable to:</b>				
Shareholders of the Bank	<b>26,627</b>	119,375	<b>33,485</b>	49,313
Non-controlling interests	<b>2,875</b>	10,762	<b>(506)</b>	13,556
	<b>29,502</b>	130,137	<b>32,979</b>	62,869

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2021

		<i>KD 000's</i>		
		<i>(Audited)</i>		
	<i>Notes</i>	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2020</i>
<b>ASSETS</b>				
Cash and balances with banks and financial institutions	7	2,958,131	2,490,801	1,762,690
Due from banks		2,832,247	3,364,577	3,316,145
Financing receivables	8	11,086,356	10,747,536	10,123,945
Investment in Sukuk		2,746,637	2,742,100	3,422,020
Trading properties		100,089	102,395	105,694
Investments		226,249	192,347	171,318
Investment in associates and joint ventures		495,517	520,784	550,637
Investment properties		345,574	350,838	397,491
Other assets		507,112	728,059	472,087
Intangible assets		32,898	32,390	31,485
Property and equipment		215,978	230,487	228,967
<b>TOTAL ASSETS</b>		<b>21,546,788</b>	<b>21,502,314</b>	<b>20,582,479</b>
<b>LIABILITIES</b>				
Due to banks and financial institutions		2,434,873	2,954,115	2,856,179
Sukuk payables		267,871	315,105	309,564
Depositors' accounts		15,776,400	15,317,335	14,586,791
Other liabilities		805,587	814,361	790,817
<b>TOTAL LIABILITIES</b>		<b>19,284,731</b>	<b>19,400,916</b>	<b>18,543,351</b>
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK</b>				
Share capital	9	844,155	767,414	767,414
Share premium		720,333	720,333	720,333
Proposed issue of bonus shares	9	-	76,741	-
Treasury shares		(27,739)	(27,739)	(27,803)
Reserves	6	334,644	323,199	403,155
		<b>1,871,393</b>	<b>1,859,948</b>	<b>1,863,099</b>
Proposed cash dividends	9	-	76,093	-
<b>TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK</b>		<b>1,871,393</b>	<b>1,936,041</b>	<b>1,863,099</b>
Perpetual Tier 1 Sukuk	15	225,788	-	-
Non-controlling interests		164,876	165,357	176,029
<b>TOTAL EQUITY</b>		<b>2,262,057</b>	<b>2,101,398</b>	<b>2,039,128</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>21,546,788</b>	<b>21,502,314</b>	<b>20,582,479</b>

HAMAD ABDOUL MOHSEN AL-MARZOUQ  
(CHAIRMAN)

ABDULWAHAB ISSA ALRUSHOOD  
(ACTING GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

Handwritten initials/signature in blue ink.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 2021

	<i>Attributable to shareholders of the Bank</i>								<i>Perpetual Tier 1 Sukuk</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 6)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>			
Balance at 1 January 2021	<b>767,414</b>	<b>720,333</b>	<b>76,741</b>	<b>(27,739)</b>	<b>323,199</b>	<b>1,859,948</b>	<b>76,093</b>	<b>1,936,041</b>	-	<b>165,357</b>	<b>2,101,398</b>
Profit for the period	-	-	-	-	<b>102,193</b>	<b>102,193</b>	-	<b>102,193</b>	-	<b>33,909</b>	<b>136,102</b>
Other comprehensive loss	-	-	-	-	<b>(68,708)</b>	<b>(68,708)</b>	-	<b>(68,708)</b>	-	<b>(34,415)</b>	<b>(103,123)</b>
Total comprehensive income (loss)	-	-	-	-	<b>33,485</b>	<b>33,485</b>	-	<b>33,485</b>	-	<b>(506)</b>	<b>32,979</b>
Zakat	-	-	-	-	<b>(20,508)</b>	<b>(20,508)</b>	-	<b>(20,508)</b>	-	-	<b>(20,508)</b>
Issue of bonus shares (Note 9)	<b>76,741</b>	-	<b>(76,741)</b>	-	-	-	-	-	-	-	-
Cash dividends (Note 9)	-	-	-	-	-	-	<b>(76,093)</b>	<b>(76,093)</b>	-	-	<b>(76,093)</b>
Issue of Perpetual Tier 1 Sukuk (Note 15)	-	-	-	-	-	-	-	-	<b>225,788</b>	-	<b>225,788</b>
Transaction costs on issue of Perpetual Tier 1 Sukuk	-	-	-	-	<b>(535)</b>	<b>(535)</b>	-	<b>(535)</b>	-	-	<b>(535)</b>
Group's share of retained earnings adjustment relating to zakat in an associate	-	-	-	-	<b>(997)</b>	<b>(997)</b>	-	<b>(997)</b>	-	-	<b>(997)</b>
Net other changes in non-controlling interests	-	-	-	-	-	-	-	-	-	<b>25</b>	<b>25</b>
<b>Balance at 30 June 2021</b>	<b>844,155</b>	<b>720,333</b>	<b>-</b>	<b>(27,739)</b>	<b>334,644</b>	<b>1,871,393</b>	<b>-</b>	<b>1,871,393</b>	<b>225,788</b>	<b>164,876</b>	<b>2,262,057</b>

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

For the period ended 30 June 2021

	<i>Attributable to shareholders of the Bank</i>							<i>Perpetual Tier 1 Sukuk</i>	<i>Non- controlling interests</i>	<i>Total equity</i>	
	<i>Share capital</i>	<i>Share premium</i>	<i>Proposed issue of bonus shares</i>	<i>Treasury shares</i>	<i>Reserves (Note 6)</i>	<i>Subtotal</i>	<i>Proposed cash dividends</i>	<i>Subtotal</i>			
Balance 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 period	-	-	-	-	56,917	56,917	-	56,917	-	9,413	66,330
Other comprehensive (loss) income	-	-	-	-	(7,604)	(7,604)	-	(7,604)	-	4,143	(3,461)
Total comprehensive income	-	-	-	-	49,313	49,313	-	49,313	-	13,556	62,869
Zakat	-	-	-	-	(19,943)	(19,943)	-	(19,943)	-	-	(19,943)
Share based payments	-	-	-	-	754	754	-	754	-	-	754
Issue of bonus shares (Note 9)	69,765	-	(69,765)	-	-	-	-	-	-	-	-
Cash dividends (Note 9)	-	-	-	-	-	-	(137,980)	(137,980)	-	-	(137,980)
Net movement in treasury shares	-	-	-	8,440	3,091	11,531	-	11,531	-	-	11,531
Group's share of distribution on Tier 1 Sukuk of an associate	-	-	-	-	(704)	(704)	-	(704)	-	-	(704)
Acquisition of non-controlling interest	-	-	-	-	(4,633)	(4,633)	-	(4,633)	-	(11,663)	(16,296)
Modification loss on financing receivables	-	-	-	-	(95,631)	(95,631)	-	(95,631)	-	-	(95,631)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(1,975)	(1,975)
Amounts paid to non-controlling interests on capital redemption of a subsidiary	-	-	-	-	-	-	-	-	-	(6,203)	(6,203)
Net other changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(669)	(669)
Balance at 30 June 2020	<u>767,414</u>	<u>720,333</u>	<u>-</u>	<u>(27,803)</u>	<u>403,155</u>	<u>1,863,099</u>	<u>-</u>	<u>1,863,099</u>	<u>-</u>	<u>176,029</u>	<u>2,039,128</u>

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.



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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

For the period ended 30 June 2021

		<i>KD 000's</i>	
		<i>Six months ended</i>	
	<i>Notes</i>	<b>30 June 2021</b>	<b>30 June 2020</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the period		<b>136,102</b>	66,330
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		<b>20,975</b>	21,656
Provisions and impairment		<b>89,975</b>	186,194
Gain on sale of investments		<b>(8,471)</b>	(4,450)
Dividend income		<b>(1,471)</b>	(1,807)
Share of results of associates and joint ventures		<b>(2,899)</b>	2,356
Gain on sale of investment properties		<b>(6,743)</b>	(11,315)
		<b>227,468</b>	258,964
Changes in operating assets and liabilities			
<i>Decrease (increase) in operating assets:</i>			
Financing receivables and due from banks		<b>(301,975)</b>	(960,667)
Investment in Sukuks		<b>(201)</b>	(1,144,044)
Trading properties		<b>2,306</b>	1,919
Other assets		<b>220,947</b>	59,310
Statutory deposit with Central Banks		<b>(445,928)</b>	296,029
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		<b>(519,242)</b>	418,612
Depositors' accounts		<b>459,065</b>	1,034,146
Other liabilities		<b>(142,751)</b>	(206,429)
Net cash flows used in operating activities		<b>(500,311)</b>	(242,160)
<b>INVESTING ACTIVITIES</b>			
Investments, net		<b>(3,983)</b>	(3,992)
Purchase of investment properties		<b>(1,874)</b>	(1,576)
Proceeds from sale of investment properties		<b>16,457</b>	6,565
Purchase of property and equipment		<b>(9,902)</b>	(16,940)
Proceeds from sale of property and equipment		<b>3,380</b>	1,759
Intangible assets, net		<b>(508)</b>	(3,347)
Proceeds from sale/redemption of investment in associates and joint ventures		<b>2,917</b>	-
Proceed from disposal of subsidiaries		-	1,975
Dividend received		<b>5,285</b>	16,191
Net cash flows from investing activities		<b>11,772</b>	635
<b>FINANCING ACTIVITIES</b>			
Net proceeds from issue of Perpetual Tier 1 Sukuk	15	<b>225,788</b>	-
Movement in Sukuk payable		<b>(47,234)</b>	(10,401)
Net movement in treasury shares		-	11,531
Cash dividends paid		<b>(71,604)</b>	(137,980)
Zakat paid		-	(310)
Amounts paid to non-controlling interests on capital redemption of a subsidiary		-	(6,203)
Acquisition of non-controlling interests		-	(16,296)
Net cash flows from (used in) financing activities		<b>106,950</b>	(159,659)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(381,589)</b>	(401,184)
Cash and cash equivalents at 1 January	7	<b>3,351,559</b>	2,520,002
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	7	<b>2,969,970</b>	2,118,818

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)

At 30 June 2021

**1 INCORPORATION AND REGISTRATION**

The interim condensed consolidated financial information of Kuwait Finance House K.S.C.P. (“the Bank”) and subsidiaries (collectively “the Group”) for the six months period ended 30 June 2021 were authorised for issue by the Bank’s Board of Directors on 12 July 2021.

The shareholders’ annual ordinary general assembly held on 22 March 2021 approved the audited consolidated financial statements of the Group for the year ended 31 December 2020.

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. 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (“IAS”) 34: Interim Financial Reporting, except as noted below:

The annual consolidated financial statements for the year ended 31 December 2020 were prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) with the following amendments:

- ▶ Expected credit loss (“ECL”) to be measured at the higher of ECL provision on credit facilities computed under IFRS 9 – Financial Instruments (“IFRS 9”) in accordance with CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- ▶ Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular no. 2/BS/IBS/461/2020 dated 5 July 2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognised in profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognised in the interim condensed consolidated statement of income. The application of the policy will result in application of different accounting presentation for modification loss in 2020 compared to 2021.

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

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

Further, results for the six months period ended 30 June 2021, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
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**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial information of the Group.

***Profit Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free profit rate (RFR). The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating profit rate, equivalent to a movement in a market profit rate
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

These amendments had no impact on the interim condensed consolidated financial information of the Group. The Group is currently assessing the impact of the Group's transition to the new rate regimes and intends to use the practical expedients in future periods if they become applicable.

**Use of judgements and estimates**

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 implemented or 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.

**3 FINANCE COST AND ESTIMATED DISTRIBUTION TO DEPOSITORS**

The management of the Bank has estimated distribution to depositors and profit attributable to Bank's shareholders based on the results for the six months period ended 30 June 2021. The actual distribution to depositors and profit attributable to Bank's shareholders could be different from the amounts presented in the interim condensed consolidated statement of income.

The actual profit to be distributed to all parties concerned will be determined by the Board of Directors of the Bank in accordance with the Bank's Articles of Association, based on the annual audited results for the year ending 31 December 2021.

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**4 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 period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group.

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June 2021</i>	<i>30 June 2020</i>	<i>30 June 2021</i>	<i>30 June 2020</i>
<b>Basic and diluted earnings per share:</b>				
Profit for the period attributable to shareholders of the Bank (thousand KD)	<b>52,189</b>	12,642	<b>102,193</b>	56,917
Weighted average number of shares outstanding during the period (thousand shares)	<b>8,370,182</b>	8,367,890	<b>8,370,182</b>	8,359,937
Basic and diluted earnings per share attributable to the shareholders of the Bank	<b>6.24 fils</b>	1.51 fils	<b>12.21 fils</b>	6.81 fils

The weighted average number of shares outstanding for the current and comparative period have been adjusted to reflect the bonus shares issuance, approved during the period (Note 9). The employees' shares-based payments plan has no impact on earnings per share.

**5 TAXATION**

	<i>Three months ended</i>		<i>KD 000's</i> <i>Six months ended</i>	
	<i>30 June 2021</i>	<i>30 June 2020</i>	<i>30 June 2021</i>	<i>30 June 2020</i>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	<b>(469)</b>	(194)	<b>(778)</b>	(571)
National Labour Support Tax (NLST)	<b>(682)</b>	(560)	<b>(1,748)</b>	(1,411)
Zakat (based on Zakat Law No. 46/2006)	<b>(561)</b>	(158)	<b>(932)</b>	(586)
Taxation related to subsidiaries	<b>(10,104)</b>	(2,652)	<b>(18,450)</b>	(12,529)
	<b>(11,816)</b>	(3,564)	<b>(21,908)</b>	(15,097)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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**6 RESERVES**

The movement of reserves is analysed as follows:

	<i>30 June 2021</i>							<i>KD 000's</i>
	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
Balance at 1 January 2021	<b>340,325</b>	<b>228,893</b>	<b>1,306</b>	<b>15,028</b>	<b>66,933</b>	<b>(305,515)</b>	<b>(23,771)</b>	<b>323,199</b>
Profit for the period	-	-	<b>102,193</b>	-	-	-	-	<b>102,193</b>
Other comprehensive loss	-	-	-	-	<b>(5,282)</b>	<b>(63,426)</b>	-	<b>(68,708)</b>
Total comprehensive income (loss)	-	-	<b>102,193</b>	-	<b>(5,282)</b>	<b>(63,426)</b>	-	<b>33,485</b>
Zakat	-	<b>(20,508)</b>	-	-	-	-	-	<b>(20,508)</b>
Transaction costs on issue of perpetual Tier 1 Sukuk	-	-	<b>(535)</b>	-	-	-	-	<b>(535)</b>
Group's share of retained earnings adjustment relating to Zakat in an associate	-	-	<b>(997)</b>	-	-	-	-	<b>(997)</b>
<b>Balance at 30 June 2021</b>	<b>340,325</b>	<b>208,385</b>	<b>101,967</b>	<b>15,028</b>	<b>61,651</b>	<b>(368,941)</b>	<b>(23,771)</b>	<b>334,644</b>

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6 RESERVES (continued)

30 June 2020

								<i>KD 000's</i>
	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Retained earnings</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign exchange translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
Balance at 1 January 2020	324,875	310,127	55,137	11,899	51,815	(263,569)	(19,376)	470,908
Profit for the period	-	-	56,917	-	-	-	-	56,917
Other comprehensive income (loss)	-	-	-	-	12,076	(19,680)	-	(7,604)
Total comprehensive income (loss)	-	-	56,917	-	12,076	(19,680)	-	49,313
Zakat	-	(19,943)	-	-	-	-	-	(19,943)
Share based payments	-	-	-	-	-	-	754	754
Transfer of fair value reserve of equity instruments designated at FVOCI	-	-	2,061	-	(2,061)	-	-	-
Group share of distribution to Tier 1 Sukuk of an associate	-	-	(704)	-	-	-	-	(704)
Acquisition of non-controlling interest	-	-	-	-	-	-	(4,633)	(4,633)
Modification loss on financing receivables *	-	-	(95,631)	-	-	-	-	(95,631)
Net movement in treasury shares	-	-	-	3,091	-	-	-	3,091
Balance at 30 June 2020	<u>324,875</u>	<u>290,184</u>	<u>17,780</u>	<u>14,990</u>	<u>61,830</u>	<u>(283,249)</u>	<u>(23,255)</u>	<u>403,155</u>

\* 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 the year ended 31 December 2020, which was 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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### 7 CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>		
	<i>30 June 2021</i>	<i>(Audited) 31 December 2020</i>	<i>30 June 2020</i>
Cash	<b>209,002</b>	222,389	249,367
Balances with Central Banks	<b>2,264,270</b>	1,761,063	1,152,173
Balances with banks and financial institutions – current accounts	<b>484,859</b>	507,349	361,150
Cash and balances with banks and financial institutions	<b>2,958,131</b>	2,490,801	1,762,690
Due from banks maturing within 3 months of contract date	<b>1,278,883</b>	1,681,874	816,683
Less: Statutory deposits with Central Banks	<b>(1,267,044)</b>	(821,116)	(460,555)
Cash and cash equivalents	<b>2,969,970</b>	3,351,559	2,118,818

### 8 FINANCING RECEIVABLES

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

	<i>KD 000's</i>		
	<i>30 June 2021</i>	<i>(Audited) 31 December 2020</i>	<i>30 June 2020</i>
Financing receivables, net of deferred and suspended profit	<b>11,721,478</b>	11,318,519	10,643,468
Less: impairment	<b>(635,122)</b>	(570,983)	(519,523)
	<b>11,086,356</b>	10,747,536	10,123,945

The available provision balance on non-cash facilities of KD 15,751 thousand (31 December 2020: KD 16,138 thousand and 30 June 2020: KD 16,880 thousand) is included under other liabilities.

Total provision for ECL is accounted as per CBK regulation which require ECL to be measured at the 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 30 June 2021 is KD 650,873 thousand (31 December 2020: KD 587,121 thousand and 30 June 2020: KD 536,403 thousand) which exceeds the ECL for financing receivables under IFRS 9 in accordance with CBK, by KD 291,008 thousand (31 December 2020: KD 227,587 thousand and 30 June 2020: KD 157,842 thousand).

An analysis of the gross amounts of credit facilities, and the corresponding ECL provision based on the staging criteria under IFRS 9 in accordance with CBK regulations is as below:

<i>30 June 2021</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
Financing receivables	<b>9,396,075</b>	<b>1,805,657</b>	<b>519,746</b>	<b>11,721,478</b>
Non-cash credit facilities	<b>3,131,991</b>	<b>448,553</b>	<b>23,298</b>	<b>3,603,842</b>
ECL provision for credit facilities	<b>34,601</b>	<b>112,350</b>	<b>212,914</b>	<b>359,865</b>

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**8 FINANCING RECEIVABLES (continued)**

<i>31 December 2020</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
Financing receivables	8,946,836	1,942,969	428,714	11,318,519
Non-cash credit facilities	3,610,182	537,555	19,608	4,167,345
ECL provision for credit facilities	35,381	162,964	161,189	359,534
<i>30 June 2020</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
Financing receivables	8,480,504	1,654,904	508,060	10,643,468
Non-cash credit facilities	4,028,166	332,388	19,845	4,380,399
ECL provision for credit facilities	44,085	107,803	226,673	378,561

An analysis of the changes in the expected credit losses in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is detailed below:

<i>30 June 2021</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
ECL allowance as at 1 January 2021	<b>35,381</b>	<b>162,964</b>	<b>161,189</b>	<b>359,534</b>
Impact due to transfer between stages	<b>1,501</b>	<b>(9,634)</b>	<b>8,133</b>	<b>-</b>
Additional ECL for the period	<b>(646)</b>	<b>(30,447)</b>	<b>67,311</b>	<b>36,218</b>
Amounts written off	<b>-</b>	<b>-</b>	<b>(10,805)</b>	<b>(10,805)</b>
Foreign currency translation	<b>(1,635)</b>	<b>(10,533)</b>	<b>(12,914)</b>	<b>(25,082)</b>
At 30 June 2021	<b>34,601</b>	<b>112,350</b>	<b>212,914</b>	<b>359,865</b>
<i>30 June 2020</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
ECL allowance as at 1 January 2020	45,037	157,919	160,118	363,074
Impact due to transfer between stages	3,458	(21,509)	18,051	-
ECL allowance for the period	(1,745)	(15,446)	84,151	66,960
Amounts written off	-	-	(25,253)	(25,253)
Foreign currency translation	(2,665)	(13,161)	(10,394)	(26,220)
At 30 June 2020	44,085	107,803	226,673	378,561



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**8 FINANCING RECEIVABLES (continued)*****Modification loss on deferral of consumer and housing financing by six months and related government grant income***

During the period, the Bank has provisionally estimated and recognised a modification loss of KD 65,176 thousand arising from the deferral of consumer and housing financing instalments for a period of six months, computed in accordance with IFRS 9, in accordance with CBK circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementation of the provisions of Article No. (2) of Law No. (3) of 2021 ('the Law'). According to the Law, the modification loss arising on the deferral of the financing instalments will be fully borne by the Kuwait government. Therefore, the Bank has recognised this income in accordance with IAS 20 'Accounting for Government Grants and Disclosures of Government Assistance' and set it off against the modification loss. The Government grant receivable is included in other assets in the interim condensed consolidated statement of financial position.

**9 SHARE CAPITAL, ISSUE OF BONUS SHARES AND CASH DIVIDENDS**

The ordinary general assembly of the Bank's shareholders held on 22 March 2021 approved to distribute bonus shares of 10% (2019: 10%) of the issued and fully paid share capital, and cash dividends of 10 fils per share (2019: 20 fils per share) to the Bank's shareholders, for the year ended 31 December 2020.

The Extra-ordinary general assembly of the Bank's shareholders held on 22 March 2021 also approved to increase the authorised share capital to be comprised of 12,641,551,934 shares (31 December 2020: 11,874,138,122 and 30 June 2020: 11,874,138,122) shares of 100 fils each.

The issued, and fully paid share capital as at 30 June 2021 comprise of 8,441,551,934 shares (31 December 2020: 7,674,138,122 and 30 June 2020: 7,674,138,122) shares of 100 fils each.

**10 DIRECTORS' FEES**

The ordinary general assembly meeting of the shareholders of the Bank for the year ended 31 December 2020 held on 22 March 2021 approved the directors' fees proposed for the year ended 31 December 2020 of KD 608 thousand (2019: KD 942 thousand).

**11 CONTINGENCIES AND 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:

	<b><i>KD 000's</i></b>		
	<b><i>30 June</i></b>	<b><i>(Audited)</i></b>	
	<b><i>2021</i></b>	<b><i>31 December</i></b>	<b><i>30 June</i></b>
		<b><i>2020</i></b>	<b><i>2020</i></b>
Acceptances and letters of credit	<b>195,588</b>	159,067	140,367
Letters of guarantee	<b>1,300,142</b>	1,402,288	1,509,768
Contingencies	<b>1,495,730</b>	1,561,355	1,650,135
Capital and other commitments	<b>309,968</b>	306,005	451,091

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### 12 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.

The balances included in the interim condensed consolidated statement of financial position are as follows:

<i>KD 000's</i>							
				<i>Total</i>			
				<i>(Audited)</i>			
<i>Major</i>	<i>Associates</i>	<i>Board</i>	<i>Other</i>	<i>30 June</i>	<i>31 December</i>	<i>30 June</i>	<i>30 June</i>
<i>shareholders</i>		<i>members</i>	<i>related</i>	<i>2021</i>	<i>2020</i>	<i>2020</i>	<i>2020</i>
		<i>and</i>	<i>parties</i>				
		<i>executive</i>					
		<i>officers</i>					
<b>Related parties</b>							
Financing receivables	-	209,234	2,814	1,080	213,128	208,306	242,628
Due to banks and financial institutions	568,553	33,189	-	-	601,742	1,135,722	920,953
Depositors' accounts	-	43,290	14,224	13,375	70,889	57,609	47,247
Contingencies and commitments	486	5,819	-	571	6,876	11,802	10,002

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

<i>KD 000's</i>						
				<i>Total</i>		
				<i>Six months ended</i>		
<i>Major</i>	<i>Associates</i>	<i>Board</i>	<i>Other</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
<i>shareholders</i>		<i>members and</i>	<i>related</i>	<i>2021</i>	<i>2020</i>	<i>2020</i>
		<i>executive</i>	<i>parties</i>			
		<i>officers</i>				
Financing income	-	3,772	56	24	3,852	4,258
Fee and commission income	-	88	85	37	210	105
Finance cost and estimated distribution to depositors	4,487	188	47	238	4,960	8,706

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**12 RELATED PARTY TRANSACTIONS (continued)**

Details of the interests of the Groups, Board Members, Executive Officers and their immediate relatives are as follows:

	<i>KD 000's</i>								
	<i>The number of Board Members or Executive Officers</i>			<i>The number of related parties (Relatives of Board Members or Executive Officers)</i>			<i>Values</i>		
	<i>(Audited)</i>			<i>(Audited)</i>			<i>(Audited)</i>		
	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2020</i>	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2020</i>	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2020</i>
<b>Board Members</b>									
Finance facilities and credit cards	<b>28</b>	25	22	<b>21</b>	23	12	<b>1,262</b>	1,120	2,085
Depositors' accounts	<b>55</b>	53	51	<b>109</b>	123	82	<b>16,264</b>	19,364	13,340
Collateral against finance facilities	<b>1</b>	1	5	<b>2</b>	3	1	<b>2,273</b>	2,362	2,358
<b>Executive Officers</b>									
Finance facilities and credit cards	<b>67</b>	68	69	<b>16</b>	14	19	<b>2,402</b>	2,422	2,590
Depositors' accounts	<b>82</b>	81	88	<b>115</b>	111	111	<b>9,707</b>	11,585	12,721
Collateral against finance facilities	<b>6</b>	7	8	<b>3</b>	3	4	<b>2,940</b>	2,708	3,543

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**12 RELATED PARTY TRANSACTIONS (continued)**

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

	<i>KD 000's</i>	
	<u>Total</u>	
	<i>Six months ended</i>	
	<u>30 June</u>	<u>30 June</u>
	<u>2021</u>	<u>2020</u>
Salaries, allowances and bonuses of key management personnel	<b>6,998</b>	9,039
Termination and long term benefits of key management personnel	<b>500</b>	492
Board of directors' remuneration	<b>84</b>	121
	<u><b>7,582</b></u>	<u>9,652</u>

**13 SEGMENTAL ANALYSIS**

*Segment information*

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private banking</i>	<i>Corporate banking</i>	<i>Investment</i>	<i>Total</i>
<b>30 June 2021</b>					
Total assets	<u>7,529,443</u>	<u>6,554,541</u>	<u>5,809,100</u>	<u>1,653,704</u>	<u>21,546,788</u>
Total liabilities	<u>3,085,402</u>	<u>12,992,148</u>	<u>2,742,878</u>	<u>464,303</u>	<u>19,284,731</u>
Operating income	<u>37,792</u>	<u>163,272</u>	<u>128,620</u>	<u>70,371</u>	<u>400,055</u>
Provisions and impairment	<u>22,514</u>	<u>(6,747)</u>	<u>(83,872)</u>	<u>(21,870)</u>	<u>(89,975)</u>
Profit for the period	<u>53,236</u>	<u>64,203</u>	<u>7,973</u>	<u>10,690</u>	<u>136,102</u>
					<i>KD 000's</i>
<b>30 June 2020</b>					
Total assets	<u>7,871,470</u>	<u>5,529,551</u>	<u>5,585,770</u>	<u>1,595,688</u>	<u>20,582,479</u>
Total liabilities	<u>3,600,387</u>	<u>11,582,575</u>	<u>2,884,122</u>	<u>476,267</u>	<u>18,543,351</u>
Operating income	<u>57,515</u>	<u>163,079</u>	<u>145,840</u>	<u>53,303</u>	<u>419,737</u>
Provisions and impairment	<u>(63,356)</u>	<u>(14,644)</u>	<u>(80,022)</u>	<u>(28,172)</u>	<u>(186,194)</u>
(Loss) profit for the period	<u>(13,686)</u>	<u>59,095</u>	<u>29,754</u>	<u>(8,833)</u>	<u>66,330</u>

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

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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#### 14 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets 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 financial assets and financial liabilities as at 30 June 2021:

	<i>KD 000's</i>			
<b>Financial assets measured at fair value:</b>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at fair value through statement of income	-	16,068	-	16,068
Equities at FVTPL	13,008	45,694	41,306	100,008
Equities at FVOCI	45,168	-	65,005	110,173
Investment in Sukuk FVTPL	287,850	-	-	287,850
Investment in Sukuk FVOCI	2,292,093	-	60,274	2,352,367
<i>Derivative financial assets:</i>				
Forward contracts	-	5,516	-	5,516
Currency swaps	-	17,508	-	17,508
	<u>2,638,119</u>	<u>84,786</u>	<u>166,585</u>	<u>2,889,490</u>

	<i>KD 000's</i>			
<b>Financial liabilities measured at fair value:</b>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	958	-	958
Profit rate swaps	-	18,331	-	18,331
Currency swaps	-	11,115	-	11,115
Embedded precious metals	-	97	-	97
	<u>-</u>	<u>30,501</u>	<u>-</u>	<u>30,501</u>

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 31 December 2020:

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2021

14 FAIR VALUES (continued)

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

The following table provides the fair value measurement hierarchy of the Group financial assets and financial liabilities as at 30 June 2020:

	<i>KD 000's</i>			
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Venture capital at fair value through statement of income</i>				
Equities at FVTPL	7,081	37,941	30,253	75,275
Equities at FVOCI	20,448	-	57,538	77,986
Investment in Sukuk FVTPL	326,495	-	-	326,495
Investment in Sukuk FVOCI	2,730,810	-	118,230	2,849,040
<i>Derivative financial assets:</i>				
Forward contracts	-	1,985	-	1,985
Currency swaps	-	21,273	-	21,273
	3,084,834	79,256	206,021	3,370,111

	<i>KD 000's</i>			
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,971	-	1,971
Profit rate swaps	-	30,587	-	30,587
Currency swaps	-	14,461	-	14,461
Embedded precious metals	-	68	-	68
	-	47,087	-	47,087

No transfers have been made between the levels of hierarchy.

Level 3 investments included unquoted Sukuk of KD 60,274 thousand (31 December 2020: KD 84,681 thousand and 30 June 2020: KD 118,230 thousand) and unquoted equity investments of KD 106,311 thousand (31 December 2020: KD 100,688 thousand and 30 June 2020: KD 87,791 thousand). Sukuk included in this category represent Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Sukuk are estimated using discounted cash flow method using discount rate ranging from 1.1% to 5.9% (31 December 2020: 1.9% to 9.3% and 30 June 2020: 0.7% to 5.7%). Unquoted equity investments are fair valued using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models adjusted, 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 interim condensed consolidated statement of financial position or the interim condensed consolidated statement of income or the interim condensed 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 and unquoted sukuk were altered by 5%.

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

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2021

#### 14 FAIR VALUES (continued)

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

	<i>KD 000's</i>	
	<u>2021</u>	<u>2020</u>
<b>As at 1 January</b>	<b>185,369</b>	201,799
Fair value re-measurement	<b>3,166</b>	50
(Disposal) purchase, net	<b>(21,950)</b>	4,172
	<u>          </u>	<u>          </u>
<b>As at 30 June</b>	<b>166,585</b>	206,021
	<u>          </u>	<u>          </u>

#### 15 PERPETUAL TIER 1 SUKUK

On 30 June 2021, the Bank through a Sharia's compliant Sukuk arrangement issued Perpetual Tier 1 Sukuk amounting to USD 750 million. The Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Perpetual Tier 1 Sukuk is listed on the London Stock Exchange and callable by the Bank after five-year period ending June 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of the Perpetual Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. Perpetual Tier 1 Sukuk bears an expected profit rate of 3.6% per annum to be paid semi-annually in accordance with the terms of the issue. Transaction costs incurred on the issue of the Perpetual Tier 1 Sukuk is accounted as a deduction from equity.