kfic

كفيك

2021

Annual Report

www.kfic-kw.com
Tel.:+965 1889000 - Fax : + 965 2242 0175
kfickw
kfic Moblie app

H.H. Sheikh Nawaf Al ahmad Al Jaber Al Sabah
The Amir of the State of Kuwait

H.H. Sheikh Mishal Al Ahmad Al Jaber Al Sabah
The Crown Prince

Board Of Directors

Sulaiman Khaled AL-Fulaij
Chairman

Tareq Meshari Al-Baher
Vice Chairman & CEO

Nouriya Imad Al-Sagar
Board Member

Ahmed Hamad Al-Humaidhi
Board Member

Abdullah Khalid Al-Tarkait
Board Member (Independent)

Hamad Falah Al-Hajeri
Board Member

Index

Index	Page

CHAIRMAN LETTER

Dear shareholders,

After greetings,

It gives me pleasure, on my own behalf and on behalf of the members of the Board of Directors, to present the 21st annual report of the company for the year **2021**, in which we present the results of **KFIC** activities and its financial position for this year.

Kuwait

Despite the on-going repercussions of the Covid-19 pandemic, The Kuwait economy rebounded in **2021** compared to **2020** which was driven via the phased relaxation of pandemic related control measures and boost in global oil prices. During **2021**, domestic credit increased by **4%** driven by personal credit growth which was buoyed by the six-month loan deferral scheme for Kuwait Nationals, while 2022 estimates vary based on the possible introduction of a mortgage law which would boost household lending. The banking sector in general also witnessed a noticeable improvement, as the compound growth rate over the last five years in customer deposit portfolios with local banks and loan portfolios reached **3%** and **5%** respectively. On the monetary front, The Central Bank of Kuwait “CBK” maintained its benchmark discount rate at **1.5%** throughout 2021, after reduction in early **2020**, in parallel with decreases approved by US Federal Reserve in response to the emergence COVID 19 pandemic. Furthermore, in response to the on-going COVID-19 Pandemic, CBK has taken several procedures to enhance the capabilities of banks and financing companies so that they can play their role in the economic sector. These procedures included deferring the installments of a six-month for Kuwait Nationals on consumer finance from April **2021** without charging additional charges as a result of that postponement as well as maintaining reduced capital and liquidity requirements for banks put in place in early 2020 which will phase out by 2023.

The Kuwaiti dinar maintained its stability against the US dollar during the year 2021, as the price of the dinar against the US dollar reached **3.03** as on **31 December 2021** and **31 December 2020**.

Kuwait stocks recovered in **2021** with positive gains outperforming many of the GCC markets with growth of **27%** across all stocks, compared to a decline by **11.7%** in **2020**.

2021 Results

KFIC achieved profits before impairment losses of intangible assets, Board remuneration and Taxes of approximately **KD 1.7 Million** in **2021** compared to profits of approximately **KD 184 Thousand** in 2020 with an increase of approximately **KD 1.5 Million**, also the Group achieved net profit of approximately **KD 627 Thousand** in **2021** compared to net profits of approximately **KD 144 Thousand** in **2020** with an increase of approximately **KD 483 Thousand** and a percentage of growth of **337%**, where the Parent Company recognized slight increase in net profit compared to prior year where the Parent Company achieved net profit amounted to approximately **KD 470 Thousand** with a profit of **1.5 fils** per share in **2021**, compared to a net profit of **KD 447 Thousand** with a profit of **1.4 fils** per share for **2020**.

Below summary shows the results of the Group's business sectors in 2021 compared to 2020:

2021	**Finance**	**Asset management**	**Investment & corporate finance**	**Financial brokerage & online trading**	**Total**
	KD	**KD**	**KD**	**KD**	**KD**
Revenues	1,934,788	1,249,742	812,728	2,024,799	6,022,057
Expenses	(1,783,010)	(833,553)	(397,380)	(1,135,280)	(4,149,223)
Impairment of intangible assets	-	-	-	(981,843)	(981,843)
Segment results	151,778	416,189	415,348	(92,324)	**890,991**
Unallocated revenues					**9,895**
Unallocated expenses					(273,472)
Profit for the year					**627,414**
Segment assets	17,768,154	3,597,344	9,169,333	21,567,761	**52,102,592**
Unallocated assets					2,765,091
Total assets					**54,867,683**
Segment liabilities	4,455,622	341,810	751,363	407,656	**5,956,451**
Unallocated liabilities					6,632,879
Total liabilities					12,589,330

2020	**Finance**	**Asset management**	**Investment & corporate finance**	**Financial brokerage & online trading**	**Total**
	KD	**KD**	**KD**	**KD**	**KD**
Revenues	2,226,643	(92,189)	341,578	4,743,542	7,219,574
Expenses	(3,348,285)	(910,297)	(582,477)	(1,414,826)	(6,255,885)
Segment results	(1,121,642)	(1,002,486)	(240,899)	3,328,716	963,689
Unallocated revenues					97,470
Unallocated expenses					(917,644)
Profit for the year					143,515

Segment assets	14,798,276	2,930,276	12,155,013	22,621,619	52,505,184
Unallocated assets					4,492,218
Total assets					56,997,402
Segment liabilities	6,233,429	229,306	320,043	1,063,229	7,846,007
Unallocated liabilities					7,275,340
Total liabilities					15,121,347

The below table shows the main financial highlights: -

Description	31/12/2021	30/12/2020	Variance %
Net profit attributable to Equity holders of the Parent Company	470,273	447,312	5 %
Earnings per share attributable to equity holders of the parent company (FILS)	1.5	1.4	5 %
Total operating revenues	6,031,952	7,553,802	(20) %
Net operating revenue before impairment losses of intangible assets	1,928,159	856,351	125 %
Net Operating Revenues	946,316	856,351	11 %
Total assets	54,867,683	56,997,402	(4) %
Total liabilities	12,589,330	15,121,347	(17) %
Equity attributable to the equity holders of the Parent Company	41,411,153	41,161,206	1 %

The year **2021** witnessed a slight increase in net profit attributable to the shareholders of the Parent Company by **5%** compared to **2020** which is mainly resulted from the decrease in provision for credit losses by **123%** given to the on-going recovery seen in the market from repercussions of the Covid-19 pandemic, and decrease in finance costs approximately by **38%** compared to 2020, due to the decrease in average borrowings balances during the year, it worth to mention that due to **KFIC's** good credit reputation as a result of **KFIC's** commitment to pay all the dues towards the creditor banks on their due dates, **KFIC** was able to obtained a new credit facility with an amount of **KD 6 million** from one of the Kuwaiti Islamic bank with a tenor of 7 years including a grace period of 1 year and bearing a profit rate of 2.5% per annum above CBK discount rate and to be repaid on quarterly instalments after the grace period, The purpose of obtaining this borrowing is to repay the indebtedness of KFIC to the 6 creditor banks on easier terms than before, which will give the company time and flexibility to pay off its new debt obligations and provide the liquidity necessary to expand its financing activities. and investment during the coming years, Also **KFIC** obtain a new credit facility amounted to **KD 2 Million** from a foreign bank located in Kuwait, **KFIC** utilized **KD 1 Million** of such facility during **2021**.

During **2021**, **KFIC** recorded an impairment loss in the value of intangible assets of KD 982 Thousand represents in brokerage license.

2021 also witnessed an increase in wages and salaries costs by 10% due the reason that the company's reduction of wage and salary expenses during **2020** in response to the emergence COVID 19 pandemic and within the company's action plan to face that pandemic during 2020, also other operating expenses decreased by **22%** which is associated with the decrease in operating revenues compared to prior year.

Below is a comparative summary of expenses of **KFIC** for the years **2021** and **2020**.

	2021	2020
Finance cost	**271,245**	435,745
Wages and salaries	**2,779,600**	2,534,516
Other operating expenses	**1,405,793**	1,796,706
Other provisions "precautionary provisions"	**-**	500,000
Depreciation	**283,375**	284,397
Recovery (charge) of credit losses provisions	**(364,975)**	238,185,1
Impairment losses of intangible assets	**981,843**	-
	5,356,881	7,133,196

Below is a brief on the Company's Divisions

<u>Finance Services Division</u>

This sector achieved positive results during this year, where the net profit reached **KWD 152 Thousand** approximately in year **2021** compared to a net losses of approximately **KD 1,122 Thousand** in **2020**. The carrying value of finance portfolio has amounted to approximately **KWD 13.4 Million** as of **31 December 2021** with a decrease of approximately **KWD 0.3 Million** with a decline of approximately **2%** compared to its carrying value as of **31 December 2020** of approximately **KWD 13.7 Million** as a result of the continued repercussions of the Covid-19 pandemic, Although the market began to recover relatively from such pandemic, the executive management of **KFIC** felt reticent in loan financing for individuals and companies, which affected the revenues of the finance sector as it witnessed a decline in **2021** to reach **KWD 1.9 Million** compared to **KWD 2.2 Million** in **2020**.

The division managed finance portfolios on behalf of local banks with an amount of approximately **KD 14.1 Million in** 2021 compared to approximately **KD 17.8 Million** in **2020**, with a decrease of **21%.**

The plans of the **Finance Sector** geared towards expanding and increasing market share by targeting customers with good credit solvency and offering new products and services, while continuing to intensifyefforts to collect the company's dues from the remaining defaulting clients **(representing loans granted during 2010 and before)**, either through friendly or legal settlements, while maintaining an acceptable level of portfolio size that achieves financial efficiency and is sufficient to cover operating costs and achieve a return that exceeds the cost of capital. In addition, and in line with **KFIC's** plan to expand the financing activity, **KFIC** has established a new subsidiary, **(KFIC Financial Services Company - K.S.C.C.)**, a company owned by **KFIC** by 99.96%. Currently KFIC is coordinating with the regulatory and governmental authorities to provide them with all the necessary requirements to complete the company's registration procedures and to start its operations. **KFIC's** management sought to establish a new company practicing financing activities as a result of **KFIC's** Board of Directors and the executive management's conviction to double the returns to **KFIC's** Shareholders and to expand in the financing activity by obtaining new credit facilities from banks and benefiting from the generation of revenues resulting from this. This strategy is inline with **KFIC's** journey in expanding its activities. The capital of the new company has been set at **KWD 15 Million**, of which a cash capital of **KWD 3.75 Million** has been fully deposited and the remaining **KWD 11.25 Million** will be subscribed as in-kind capital through **KFIC's** existing financing portfolio which has been evaluated by one of the independent evaluators.

Asset Management Sector

This sector achieved positive results during the year, where the net profit reached **KWD 416 Thousand** approximately in year **2021** compared to a net losses of approximately **KD 1,002 Thousand** in **2020**. Also, the funds managed and those held in trust amounted to approximately **KD 224.9 Million** in **2021** compared to approximately **KD 213.3 Million** in 2020, with an increase of **5.4%**.The sector also achieved revenues of approximately **KD 1,250 Thousand** in **2021** compared to revenues deficit of approximately **KD 92 Thousand** in **2020**, which is mainly due to the improvement in the performance of Al-Wasam Fund during 2021 (dedicated to investing in listed shares on Boursa Kuwait), as the Fund recognized profits of approximately **KD 524 Thousand** in **2021**, compared to losses of approximately KD 848 Thousand in 2020, in addition to the increase in the market value of the portfolios resulted from the followed strategy and linked to the appreciation in the stock markets.

Al Wasm Fund which is managed by KFIC has achieved an outstanding level of performance by end of the year where the Fund has recorded a gains of **22.28%** by the end of the year compared to Kuwait All Share Market indices PR which gained **26.99%**, where the gains achieved by Boursa Kuwait indices by the end of **2021** affected the performance of the Fund and also the strategy followed has a positive impact on the Fund performance.

The Asset Management Division has been supported by the necessary specialized human resources in research, strategies and investment management in international markets to be able to provide better services to our clients and to attract new funds to achieve revenues growth.

Investment and Corporate Finance Division

This sector adopts a business model that relies on generating revenues continuously through advisory services fees and returns from investments distributed in multiple geographical regions such as Kuwait, GCC countries and North America, also this sector provides consulting services for solutions and products commensurate with each of our clients in Kuwait and **KFIC** strategic partners in the Arab Gulf region.

This sector achieved positive results during this year, where the net profit reached **KWD 415 Thousand** approximately in year **2021** compared to a net losses of approximately **KD 241 Thousand** in **2020**, with the recovery of the Boursa Kuwait and the improvement of securities performance and consequently the financial efficiency of investors, the investment sector was able to exit from one of its investments in associates, recording a profit from such exit by **KWD 390 Thousand**, in addition to the revaluation gain of investment properties amounted to **KD 4 Thousand** in **2021** compared to revaluation losses amounted to **KD 164 Thousand** in **2020**.

In order to complete the plans to exitfrom the non-yielding assets, the investment sector of the parent company succeeded in completion of the remaining terms of the exit transaction of the group's assets through one of the group's subsidiaries **KFIC** Financial Brokerage Company (KSCC) which the sector started implementing late last year, which resulted in the group recording a net gain on sale amounted to approximately **KWD 1.4 Million** in **2021** compared to approximately **KWD 3.1 Million** in **2020** which included in the results of financial brokerage and online trading services sector.

Financial Brokerage and Online Trading Sector

The brokerage revenues of this sector witnessed decrease in **2021** compared to **2020** although the increase in the value of trading in Boursa Kuwait from approximately **KD 10.8 Billion** during the year **2020** to approximately **KD 13.7 Billion** during the year **2021**, with an increase of **27%**, However, the average market share of the sector decreased significantly from **8.03%** during **2020** to **3.94%** during **2021** and with an average decrease of **51%** due to the cease of trading by one of the major client, which negatively affected the results of this sector's business, where brokerage and commission revenues of this sector in **2021** amounted to **KD 1,010** Thousand compared to **KD 1,575 Thousand** in **2020**, with a decrease of **36%**.The investment income in this sector witnessed an exceptional decrease in **2021** which is mainly due to completion of the remaining terms of the exit transaction of the group's assets and recording a net gain on sale of amounted to approximately **KWD 1.4 Million** in **2021** compared to approximately **KWD 3.1 Million** in **2020**, in addition to the revaluation losses of investment properties amounted to **KD 561 Thousand** in **2021**. The sector also conducted the annual impairment test of the brokerage license based on the discounted cash flow method which resulted in recording an impairment loss in the brokerage license by **KWD 982 thousand** in **2021**.

KFIC's Financial Position

The total assets amounted to approximately **KWD 54.9 Million** as of "**31 December 2021**" with a decrease of **4%** compared to the total assets amounting to approximately KWD 56.9 Million as of **31 December 2020**. Also, total liabilities amounted to approximately **KWD 12.6 Million** as of **31 December 2021** with a decrease of approximately **17%** compared to the total liabilities amounting to approximately **KWD 15.1 Million** as of **31 December 2020**.

The equity of the parent company, KFIC, increased by **1%,** to approximately **KD 41.4 Million** as of **2021**, compared to approximately **KD 41.1 Million** as of **2020.**

Below are the key indicators of **KFIC** financial position as of **31 December 2021** compared to **31 December 2020**.

Index	2021	2020
Debt ratios	0.80%	-5.35%
Liabilities: Equity	0.30 times	0.36 times
Liquidity percentage	61%	71%

The indicators above which show the low levels of leverage and the high levels of liquidity reflect the solid financial position of **KFIC** to enable it to grow in its business.

The Board of Directors has recommended to the general assembly of shareholders not to distribute dividends to enhance the company's ability to achieve its growth strategy after supporting the company's reserves with an amount of **KWD 60 Thousand**.

Conclusion

I would like to extend sincere thanks and appreciation to all **KFIC** shareholders for their support to the company as well as to **KFIC's** clients for their valued confidence in **KFIC** Board of Directors and executive management.

I would also like to extend thanks to the regulatory authorities, notably **Capital Markets Authority "CMA", Central Bank of Kuwait "CBK" and Ministry of Commerce and Industry** for their productive directives and continuous follow up to ensure the stability and integrity of financial sector in the State of Kuwait.

Finally, on behalf of the members of Board of Directors I would like to thank the executive management and all Group's employees for their efforts to achieve **KFIC's** strategy and objectives.

May God make us successful!

Suliman Khalid Al-Fulaij

Chairman

The Audit Committee Report

1. Audit Committee Chairman Letter

Dear Honorable Shareholders,
Greetings,

On behalf of myself and the members of the audit committee, I gladly place in your hands the audit committee report, exclusive for **'Kuwaiti Finance & Investment Company (KFIC)'** for the year '**2021** in which it supervised all internal and external audit activities in accordance to the work plan that was accepted by the board of directors and the application of the issuance of the Executive Bylaws of Law No. (7) of 2010 and its Amendments regarding the Establishment of Capital Markets Authority and Regulating Securities Activities, issued by the Government.

Abdullah K. AlTerkait
Audit Committee Chairman

2. Audit Committee's goals:

Assisting the Board in its obligation with regards to the integrity of the financial reports, internal monitoring systems and assisting the Board of Directors in further comprehending the analysis of risks that the company's activities face and to reduce its occurrence, besides ensuring compliance with the regulatory guidelines (CBK, CMA and Ministries).

3. Formalization of the Audit Committee:

#	Board Member Name	Membership in the Board	Membership in the Audit Commi tee
1	Mr. Abdullah Khaled Al-Tarkait	Board Member (Independent)	Chairman
2	Mr. Hamad Falah Al-Hajeri	Board Member (Non-Executive)	Member

4. Committee's Key Tasks

The following is a summary of the responsibilities of the committee based on the line with CMA's Corporate Governance guidelines:

1. Review of periodical financial reports, prior to presenting to the board of directors, as well as expressing opinion and endorsing it.

2. Recommending appointment or re-appointment of external auditors to the Board of Directors, as well as determining their fees and ascertaining their independence and reviewing their engagement letter.

3. Evaluation of the sufficiency of the internal controls that are applied within the company and preparation of a report that includes the committee's endorsements concerning it.

4. Supervision of the internal audit functions, including evaluating its performance.

5. Ensuring company's compliance with internal policies, as well as regulatory guidelines.

5. Audit Committee Meetings

The CMA guidelines were met regarding the conduct of meetings in each quarter. The details are as follows:-

Meeting #	1	2	3	4	5	6	7	8	Total	%
Date of Meeting / Board Member Name	13 Jan.	15 Feb.	04 Mar.	11 May	14 Jul.	12 Aug.	11 Nov.	30 Dec.		
Mr. Abdullah K. Al-Terkait Audit Committee Chairman	✓	✓	✓	✓	✓	✓	✓	✓	8	100%
Mr. Hamad Falah Al-Hajeri Audit Committee Member	✓	✓	✓	✓	✓	✓	✓	✓	8	100%

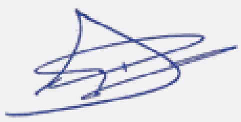
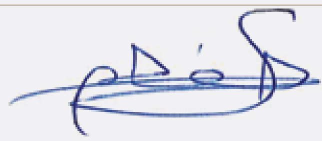
* Ms. Mona Bahjat Al Shawa representing the First Abu Dhabi Bank was a member of the Audit Committee from 20/05/2021 until the date of her resignation on 16/12/2021.

6. Audit Committee Achievements:

The committee accomplished several achievements in its current year, which are summarized below:

1. Periodical review of financial statements, reports and ensured fairness and transparency.
2. Provide Recommendations to the Board of Directors concerning the matters related to External Auditors.
3. Supervision of Internal Audit Division and ensuring its effectiveness.
4. Review and Approval of the following:-
   a. The annual internal audit plan for 2021-2022.
   b. The periodical internal audit reports and status.
   c. CMA Reports
      i. Anti-Money Laundering (AML) Report.
      ii. Internal Controls Report (ICR).
5. The Status of annual review of policies and procedures are examined.
6. Affirming and ensuring that the company complied with the instructions and decisions of the concerned regulatory authorities, viz., CMA, CBK and Ministries.

7. Signatures:

Member's Name	Signature
Mr. Abdallah Khaled Al-Tarkait Audit Committee Chairman	
Mr. Hamad Falah Al-Hajeri Audit Committee Member	

FINANCIAL STATEMENTS

Building a better working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74 Safat
13001 Safat, Kuwait
Baitak Tower, 18-21st Floor
Safat Square

Tel: 2245 2880/2295 5000
Fax: 2245 6419
kuwait@kw.ey.com
www.ey.com/me

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE AND INVESTMENT COMPANY K.S.C. (PUBLIC)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kuwait Finance and Investment Company - K.S.C. (Public) (the " Parent Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our reports, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond our assessment of the risks of material misstatement of the consolidated financial statements.

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE AND INVESTMENT COMPANY K.S.C. (PUBLIC) *(continued)*

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

The Tresults of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying consolidated financial statements.

We have identified the following key audit matter:

Measurement of Expected Credit Losses

The recognition of credit losses on financing receivables to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2.7 and Note 6 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of financing receivables into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Furthermore, as disclosed in Note 25, the COVID-19 pandemic significantly impacted the amount of judgement that management applied in their determination of the ECL. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by 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 credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the economic impacts of COVID-19.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the economic disruption caused by COVID-19.

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE AND INVESTMENT COMPANY K.S.C. (PUBLIC) ***(continued)***

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Measurement of Expected Credit Losses (continued)

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of financing facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. We have reviewed 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 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 and the overlays considered by the management in view of the ongoing COVID-19 pandemic, 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 the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired financing facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

Impairment of intangible asset

The Group has intangible asset amounted to KD 8,075,456 as at 31 December 2021 representing a brokerage license for which management assessed as having an indefinite useful life as detailed in Note 11 to the consolidated financial statements. Intangible asset with an indefinite useful life shall be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is an indication of impairment.

The annual impairment testing of intangible asset is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgment and estimates applied by the management that are required in determining the assumptions to be used to estimate the recoverable amount. In addition, the significant impact of the COVID-19 pandemic has led to additional uncertainty in arriving at reasonable assumptions. The recoverable amount of the intangible asset, which is based on the higher of the value in use or fair value less cost to sell, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future trading volumes and values, revenue growth rates, operating costs, terminal value growth rates and the weighted-average cost of capital (discount rate).

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE AND INVESTMENT COMPANY K.S.C. (PUBLIC) *(continued)*

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Impairment of intangible asset (continued)

The Group engaged an external management expert to assist with the impairment testing.

Our audit procedures included, among others, the following:

- We involved our internal valuation specialists to assist us in challenging the methodology used in the impairment assessment and evaluating the appropriateness of the discount rates applied, which included comparing the weighted-average cost of capital with sector averages for the relevant markets in which the CGUs operate.
- We evaluated whether the external management expert has the necessary competency, capabilities and objectivity for audit purposes.
- We assessed the appropriateness of the assumptions applied to key inputs such as trade volumes and values, operating costs, inflation and long-term growth rates, which included comparing these inputs with externally derived data as well as our own assessments based on knowledge of the client and the industry.
- We evaluated the adequacy of the Group's disclosures concerning intangible assets in Note 11 to the consolidated financial statements, including disclosures of key assumptions, judgements and sensitivities.

Valuation of investment properties

The Group had investment properties amounting to KD 8,925,776 representing 16% of the Group's total assets and are carried at fair value.

The fair value of Group's investment properties have been determined by external real estate appraisers. The determination of fair value of the investment properties is highly dependent on estimates and assumptions, such as rental value, maintenance status, market knowledge and historical transactions, which has been impacted by the ongoing COVID-19 pandemic. Given the size and complexity of the valuation of investment properties and the importance of the disclosures relating to the assumptions used in the valuation, we have considered this as a key audit matter.

We have challenged the appropriateness of the properties' related data supporting the external appraisers' valuations, including COVID-19 considerations. We performed additional procedures for areas of higher risk and estimation. This included, where relevant, comparison of judgements made to current and emerging market practices and challenging the valuations on a sample basis. Further, we have considered the objectivity and expertise of the external real estate appraisers. We also assessed the appropriateness of the disclosures relating to the investment properties of the Group in Note 10 to the consolidated financial statements.

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE AND INVESTMENT COMPANY K.S.C. (PUBLIC) *(continued)*

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Other information included in the Group's 2021 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE AND INVESTMENT COMPANY K.S.C. (PUBLIC) *(continued)*

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

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.

- 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.

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

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.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company'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 Companies Law No.1 of 2016, as amended, and its executive regulations, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No.1 of 2016, as amended and its executive regulations, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Parent Company 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, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER

LICENCE NO. 207 A

EY

AL-AIBAN, AL-OSAIMI & PARTNERS

10 March 2022

Kuwait

Kuwait Finance and Investment Company K.S.C. (Public) and its subsidiaries

Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	*2021* *KD*	*2020* *KD*
ASSETS			
Bank balances and cash	4	**7,657,272**	10,666,514
Financial assets at fair value through profit or loss	5	**4,591,862**	3,406,669
Financial assets at fair value through other comprehensive income		**184,228**	134,207
Finance receivables at fair value through other comprehensive income	6a	**10,433,382**	10,388,032
Finance receivables at amortized cost	6b	**2,948,688**	3,267,648
Financial assets at amortized cost		**-**	372,111
Assets classified as held for sale	7	**-**	3,454,092
Other assets	8	**9,175,094**	9,696,024
Investments in associates	9	**2,098,001**	2,103,203
Investment properties	10	**8,925,776**	3,636,000
Property and equipment		**777,924**	815,603
Intangible assets	11	**8,075,456**	9,057,299
TOTAL ASSETS		**54,867,683**	56,997,402
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	12	**8,000,000**	8,538,126
Other liabilities	13	**4,589,330**	6,583,221
Total liabilities		**12,589,330**	15,121,347
Equity			
Share capital	14.1	**32,249,138**	32,249,138
Statutory reserve	14.2	**2,371,535**	2,311,535
Voluntary reserve	14.3	**750,000**	750,000
Treasury shares	14.4	**(3,145,214)**	(3,145,214)
Fair value reserve		**1,673,964**	1,738,672
Foreign currency translation reserve		**7,798**	162,998
Equity transactions reserve		**1,156,426**	1,156,426
Retained earnings		**6,347,506**	5,937,651
Equity attributable to the equity holders of the Parent Company		**41,411,153**	41,161,206
Non-controlling interests		**867,200**	714,849
Total equity		**42,278,353**	41,876,055
TOTAL LIABILITIES AND EQUITY		**54,867,683**	56,997,402

Sulaiman Khaled AlFulaij
Chairman

Tareq Meshari AlBahar
Vice Chairman & CEO

The attached notes from 1 to 25 form part of these consolidated financial statements.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

	Notes	*2021* *KD*	*2020* *KD*
REVENUES			
Finance income		**1,521,049**	1,956,455
Management and advisory fees		**923,073**	831,375
Brokerage commissions		**1,038,599**	1,623,526
Investment income	15	**1,842,360**	2,471,579
Rental income		**466,714**	271,500
Share of result of associates		**121,127**	(77,410)
Foreign currency (loss) gain		**(32,190)**	347
Other income		**151,220**	239,672
		6,031,952	7,317,044
EXPENSES			
Finance costs		**(271,245)**	(435,745)
Staff costs		**(2,779,600)**	(2,534,516)
General, administrative and marketing expenses		**(1,405,793)**	(2,296,706)
Depreciation		**(283,375)**	(284,397)
Impairment losses of intangible assets	11	**(981,843)**	-
Recovery (charge) of expected credit losses	16	**364,975**	(1,581,832)
		(5,356,881)	(7,133,196)
PROFIT BEFORE BOARD OF DIRECTORS' RENUMERATION AND PROVISION FOR TAXES		**675,071**	183,848
Board of directors' remuneration		**(19,800)**	(18,000)
National labour support tax		**(19,898)**	(15,952)
Zakat		**(7,959)**	(6,381)
PROFIT FOR THE YEAR		**627,414**	143,515
Attributable to:			
Equity holders of the Parent Company		**470,273**	447,312
Non-controlling interests		**157,141**	(303,797)
PROFIT FOR THE YEAR		**627,414**	143,515
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (fils)	17	**1.5**	1.4

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	***2021*** ***KD***	*2020* *KD*
Profit for the year		**627,414**	143,515
Other comprehensive (loss) income:			
Items that are or may be reclassified to consolidated statement of income in subsequent years:			
Net change in fair value of finance receivables at fair value through other comprehensive income		**(82,065)**	168,706
Fair value reserve transferred to consolidated statement of income on sale of finance receivable at fair value through other comprehensive income		**(10,034)**	(37,684)
Net charge in provision for expected credit losses of finance receivables at fair value through other comprehensive income	6c	**86,954**	1,495,207
Share of other comprehensive loss of associates		**(210,796)**	(1,361)
		(215,941)	1,624,868
Items that will not be reclassified to consolidated statement of income in subsequent years:			
Net change in fair value of equity instruments classified at fair value through other comprehensive income		**(4,385)**	(55,291)
Other comprehensive (loss) income for the year		**(220,326)**	1,569,577
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**407,088**	1,713,092
Attributable to:			
Equity holders of the Parent Company		**249,947**	2,017,268
Non-Controlling interests		**157,141**	(304,176)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**407,088**	1,713,092

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to equity holders of the Parent Company										
	Share capital	*Statutory reserve*	*Voluntary reserve*	*Treasury shares*	*Fair value reserve*	*Foreign currency translation reserve*	*Equity transactions reserve*	*Retained earnings*	*Sub-total*	*Non-controlling interests*	*Total equity*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
As at 1 January 2021	32,249,138	2,311,535	750,000	(3,145,214)	1,738,672	162,998	1,156,426	5,937,651	41,161,206	714,849	41,876,055
Profit for the year	-	-	-	-	-	-	-	470,273	470,273	157,141	627,414
Other comprehensive loss for the year	-	-	-	-	(65,126)	(155,200)	-	-	(220,326)	-	(220,326)
Total comprehensive (loss) income for the year	-	-	-	-	(65,126)	(155,200)	-	470,273	249,947	157,141	407,088
Disposal of equity Instruments at fair value through other comprehensive income	-	-	-	-	418	-	-	(418)	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(10,790)	(10,790)
Establishment of new subsidiary	-	-	-	-	-	-	-	-	-	6,000	6,000
Transfer to statutory reserve (Note 14.2)	-	60,000	-	-	-	-	-	(60,000)	-	-	-
As at 31 December 2021	**32,249,138**	**2,371,535**	**750,000**	**(3,145,214)**	**1,673,964**	**7,798**	**1,156,426**	**6,347,506**	**41,411,153**	**867,200**	**42,278,353**
As at 1 January 2020	32,249,138	2,236,535	750,000	(3,145,214)	167,459	164,452	1,106,742	5,565,240	39,094,352	1,298,876	40,393,228
Profit (loss) for the year	-	-	-	-	-	-	-	447,312	447,312	(303,797)	143,515
Other comprehensive income (loss) for the year	-	-	-	-	1,571,410	(1,454)	-	-	1,569,956	(379)	1,569,577
Total comprehensive income (loss) for the year	-	-	-	-	1,571,410	(1,454)	-	447,312	2,017,268	(304,176)	1,713,092
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(197)	-	-	99	(98)	-	(98)
Acquisition of non-controlling interests	-	-	-	-	-	-	49,684	-	49,684	(274,683)	(224,999)
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(5,168)	(5,168)
Transfer to statutory reserve (Note 14.2)	-	75,000	-	-	-	-	-	(75,000)	-	-	-
As at 31 December 2020	32,249,138	2,311,535	750,000	(3,145,214)	1,738,672	162,998	1,156,426	5,937,651	41,161,206	714,849	41,876,055

The attached notes from 1 to 25 form part of these consolidated financial statements.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	***2021*** ***KD***	*2020* *KD*
OPERATING ACTIVITIES			
Profit for the year		**627,414**	143,515
Adjustments to reconcile profit for the year to net cashflows:			
Dividend income	15	**(64,711)**	(8,276)
Share of results of associates		**(121,127)**	77,410
Change in fair value of investment properties	15	**557,388**	164,000
(Gain) loss on sale of investment in associates	15	**(1,782,762)**	191,912
Finance costs		**271,245**	435,745
Depreciation		**283,375**	284,397
Impairment losses of intangible assets	11	**981,843**	-
Provision (recovery) charge for expected credit losses for finance receivables	16	**(284,771)**	1,563,225
Provision (recovery) charge for expected credit losses on other assets	16	**(80,204)**	18,607
Provision for employees' end of service benefits		**263,005**	214,138
		650,695	3,084,673
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		**(1,185,193)**	2,858,311
Finance receivables at fair value through other comprehensive income	6a	**(137,449)**	(1,045,383)
Finance receivables at amortised cost	6b	**690,685**	679,525
Financial assets at amortised cost		**372,111**	538,151
Other assets		**(479,525)**	(4,262,744)
Other liabilities		**(2,084,595)**	1,077,393
Cash flows (used in) from operations		**(2,173,271)**	2,929,926
Employees' end of service benefits paid		**(161,383)**	(28,690)
Net cash flows (used in) from operating activities		**(2,334,654)**	2,901,236
INVESTING ACTIVITIES			
Net movement of property and equipment		**(245,696)**	(113,635)
Dividends received		**64,711**	8,276
Proceed from sale of equity instruments at fair value through other comprehensive income		**210,216**	99
Dividends received from associates		**121,260**	162,209
Fixed deposits with original maturity greater than three months (placed) withdrawn		**(540,178)**	3,553,797
Placement of restricted cash and fixed deposits		**(2,851,650)**	(129,659)
Net cash flows (used in) from investing activities		**(3,241,337)**	3,481,087
FINANCING ACTIVITIES			
Proceeds from borrowings		**7,000,000**	1,500,000
Repayments of borrowings		**(7,538,126)**	(3,854,245)
Finance costs paid		**(282,163)**	(560,511)
Net movement in non-controlling interests		**(4,790)**	(230,167)
Net cash flows used in financing activities		**(825,079)**	(3,144,923)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(6,401,070)**	3,237,400
Cash and cash equivalents as at 1 January		**8,342,548**	5,105,148
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	4	**1,941,478**	8,342,548

The attached notes from 1 to 25 form part of these consolidated financial statements.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

1 INCORPORATION AND ACTIVITIES

Kuwait Finance and Investment Company K.S.C. (Public) (the Parent Company) is a Kuwaiti Shareholding Company incorporated on 29 March 2000 in accordance with Commercial Companies Law No. 15 of 1960 which has been replaced by Law no 1 of year 2016 (New Companies' Law). The Parent Company is regulated by the Capital Markets Authority (CMA) as an investment company. It is also subject to the supervision of the Central Bank of Kuwait (CBK) as an investment company practicing finance activities.

The Parent Company's shares are listed on the Kuwait Stock Exchange (Boursa Kuwait).

The Parent Company's registered office is at Arabia Tower, Sharq, P.O. Box 21521, Safat 13037, Kuwait.

The Parent Company and its subsidiaries (together referred to as "the Group") are principally engaged in consumer and commercial lending activities, lease, sell and buy vehicles, collection services, managing funds and portfolios on behalf of clients, investment banking activities, brokerage activities, providing financial and consulting services and investing in securities and real estate.

The consolidated financial statements of Kuwait Finance and Investment Company K.S.C. (Public) (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 10th March 2022 and are subject to the approval of the shareholders of the Parent Company in the Annual General Assembly Meeting.

The consolidated financial statements for the year ended 31 December 2020 were approved by the Parent Company's shareholders at the annual general assembly meeting ("AGM") held on 5th May 2021.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group were prepared in accordance with the regulations issued by Central Bank of Kuwait (CBK) for financial services institutions in the State of Kuwait. These regulations require that the expected credit loss ("ECL") on credit facilities to be measured at the higher of the amount computed under IFRS9 in accordance with CBK guidelines or provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB") (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

The consolidated financial statements have been presented in Kuwaiti Dinar which is also the Parent Company's functional and presentation currency.

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, finance receivables at fair value through other comprehensive income and investment properties.

Certain comparative information has been represented to conform to current year presentation and reflect the adjustments made for discontinued operations of the Group associate's "Al-Salbookh Trading Company K.S.C.P" since the associate is no longer held for sale as detailed in Note 7. These reclassifications do not affect the previously reported assets, liabilities, equity and profit for the year.

2.2 Changes in accounting policies

New and amended standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements 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 other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these standards did not have material impact on the financial performance or consolidated financial position of the Group.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

New and amended standards and interpretations adopted by the Group (continued)

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The amendments to IFRS 9, IAS 39 and IFRS 7 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Financial assets and liabilities

The Group's exposure to IBOR linked financial assets and liabilities is mainly through USD LIBOR. The Group will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023.

The Group's exposure to financial assets and liabilities that are based on USD LIBOR maturing after June 2023 is not significant. The Group is in discussion with the counterparties clients to effect an orderly transition of USD exposures to the relevant RFR.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2021, 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. The amendment applies to annual reporting periods beginning on or after 1 June 2021. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The impact is not material on the consolidated financial statements of the Group.

2.3 New standards issued but not yet effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2022 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group's consolidated financial statements.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (investees which are controlled by the Group) (collectively the "Group") as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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, and
- The ability to use its power over the investee to affect its returns.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses at each reporting date 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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in the consolidated statement of income.

2.5 Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded swaps and profit rate contracts in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Business combinations and goodwill (continued)

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the consolidated statement of income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed). If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 or the amount initially recognised less (when appropriate) cumulative amount of income recognized in accordance with the requirements of IFRS 15.

2.6 Bank balances and cash

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consists of cash at banks, cash in portfolios, and fixed deposits with banks and financial institutions, whose original maturities periods not exceeding three months from the date of placement.

2.7 Financial instruments

(a) Classification and measurement of financial assets

The Group classifies its financial assets upon initial recognition into three classification categories: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

The Group determines the classification and measurement approach for its financial assets that reflect the business model in which assets are managed and its contractual cash flow characteristics.

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. 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:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within this business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

(a) Classification and measurement of financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. 'Interest' is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin.

1- Financial assets carried at amortised cost

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are debt instruments initially recognized at fair value plus directly attributable costs and subsequently measured at amortised cost using the effective interest rate method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

The Group's financial assets carried at amortised cost comprise of finance receivables carried at amortised cost (which include originated loans where loan is provided directly to the borrower, participation in a loan from another lender and purchased loans), financial assets at amortised cost, other assets, bank balances and cash.

2- Financial assets carried at fair value through other comprehensive income (FVOCI)

(i) Debt instruments

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

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt instrument carried at FVOCI are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and charge for expected credit losses 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 consolidated statement of changes 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 to the consolidated statement of income.

The Group’s debt financial assets carried at FVOCI represents in finance receivables at FVOCI which are reported in a separate line item in the consolidated statement of financial position.

(ii) Equity instruments

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity instruments as investments at FVOCI if they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading neither nor contingent consideration recognized by the Group in a business combination. Such classification is determined on an instrument by instrument basis.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

(a) Classification and measurement of financial assets (continued)

2- Financial assets carried at fair value through other comprehensive income (FVOCI) (continued)

(ii) Equity instruments (continued)

Equity instruments at FVOCI initially recognized at fair value plus directly attributable transaction costs and 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 consolidated statement of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income 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 instruments at FVOCI are not subject to impairment assessment.

3- Financial assets carried at fair value through profit or loss

Financial assets in this category are those financial assets held for trading, financial assets which have been designated by management as FVTPL upon initial recognition or debt instruments with contractual cash flows that do not represent solely payments of principal and interest. Management can designate an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise from measuring financial assets and liabilities on a different basis.

Financial assets at FVTPL initially recognized at fair value and transaction costs are recognized as expenses in the consolidated statement of income. Subsequently they are measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income is recognised in the consolidated statement of income when the right to the payment has been established.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition other than in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line "change business model".

(b) Classification and measurement of financial liabilities

Classification of financial liabilities

Financial liabilities "other than classified at fair value through profit or loss" are represented in borrowings and other liabilities.

Measurement of financial liabilities

Financial liabilities other than classified at fair value through profit or loss are initially recognized at fair value, net of transaction costs incurred, and subsequently measured and carried at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income using the effective interest method.

(c) Recognition and de-recognition of financial assets and financial liabilities

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset is de-recognized when: the rights to receive cash flows from the asset have expired, or the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a " pass through" arrangement, or the Group has transferred its right to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

(c) Recognition and de-recognition of financial assets and financial liabilities (continued)

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and a recognition of a new liability.

All regular way purchase and sale of financial assets are recognized on the trade date, which is the date on which the Group commits to purchase or sell the financial instrument.

(d) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

(e) Impairment of financial assets

The Group computes Expected Credit Losses (ECL) for financial assets carried at amortised cost and debt instruments classified as FVOCI.

This will require considerable judgment about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

Under IFRS 9, the impairment requirements apply to financial assets carried at amortised cost and debt instruments classified as FVOCI. At initial recognition, allowance is required for expected credit losses (‘ECL’) resulting from default events that are possible within the next 12 months (’12-month ECL’). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’).

Equity investments are not subject to Expected Credit Losses.

The Group provides for credit losses on finance receivables carried at amortised cost and finance receivables carried at FVOCI according to the CBK guidelines and shall record the impairment of finance receivables in the consolidated financial position at the higher of ECL under IFRS 9 according to the CBK guidelines, or the provisions required by the CBK instructions (described below in provision for credit losses in accordance with CBK instructions).

Impairment of financial assets other than finance receivables

The Group recognizes ECL on investment in debt instruments measured at amortised cost or FVOCI and on balances and deposits with banks.

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 will estimate 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 interest rate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

(e) Impairment of financial assets (continued)

Expected Credit losses (continued)

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.

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.

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 expected credit loss

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. 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, except for retail finance receivables (consumer and housing) that are more than 60 days past due are deemed to have a significant increase in credit risk since initial recognition and migrated to stage 2.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are more than 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer.
- A breach of contract such as default or past due event.
- The disappearance of an active market for a security because of financial difficulties.
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss.
- All rescheduled facilities.
- Retail facilities from commencement of legal recourse.

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

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 interest 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 (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit factors of the assets, nature and value of collaterals, forward looking of macroeconomic scenarios as well as other factors.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

(e) Impairment of financial assets (continued)

Expected Credit losses (continued)

Measurement of ECLs (continued)

- 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) for each rating to calculate the ECL.
- 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 interest.
- 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, except for financial assets in Stage 2, the Group considers a minimum maturity of 7 years for all finance receivables (excluding consumer financing, and personal housing financing which is regulated by CBK) unless financing facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financing and personal housing financing which is regulated by CBK in Stage 2, the Group considers minimum maturity of 5 years and 15 years respectively.

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 consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets 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 credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities 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 credit facility is classified as past due and impaired when the interest 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 but not impaired and past due and impaired loans 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 provision
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (continued)

(e) Impairment of financial assets (continued)

Expected Credit losses (continued)

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

The Group may also include a credit facility in one of the above categories based on management's judgment 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 credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning. The following classification of credit exposures is considered by the Group in accordance with the instructions of CBK on the classification of credit facilities.

Number of days past due	Classification
Within 90 days	Watch list
More than 90 days but not exceeding 180 days	Substandard
More than 180 days but not exceeding 365 days	Doubtful
More than 365 days	Bad

2.8 Investments in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognized as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognized at cost and are subsequently accounted for using the equity method of accounting from the date of obtaining significant influence to the date it ceases. Under the equity method, the Group recognizes in the consolidated statement of income, its share of the associate's post acquisition profit or loss, and in other comprehensive income, its share of post-acquisition movements in reserves that the associate directly recognizes in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associates.

Appropriate adjustments such as depreciation, amortization and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount as 'Impairment loss of investment in associates' in the consolidated statement of income.

Profit and loss resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates are to be changed when necessary to ensure consistency with the policies adopted by the Group.

2.9 Goodwill and intangible assets

Goodwill is measured as described in Note 2.5. When calculating gains and losses on disposal of an entity or a part of an entity, the carrying amount of goodwill relating to the entity or the portion sold is taken into consideration as part from the carrying amount of that entity or that portion sold.

Intangible assets comprise separately identifiable intangible items arising from business combinations and certain purchased license. Intangible assets with definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses, while intangible assets with indefinite useful lives are not amortised and carried at cost less accumulated impairment losses. Subsequently, intangible assets with definite useful lives are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years, while intangible assets such as brokerage license with an indefinite useful life are not amortised and tested for impairment annually.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are re-measured at fair value on an individual basis based on valuations by independent real estate appraisers. The Group uses the lesser valuation in determining the fair value. The Group reevaluates investments properties at least annually or upon occurrence of any material changes in the market conditions whichever is earlier. Changes in fair value are taken to the consolidated statement of income.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Investment properties are de-recognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment properties to owner-occupied properties, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy followed in recognizing and measuring property and equipment up to the date of change in use.

2.11 Property and equipment

Property and equipment include own-used properties, software and other office equipment. Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, and are periodically reviewed for impairment. Cost comprises of purchase cost and all directly attributable costs of bringing the asset to working conditions for its intended use. The useful life of property and equipment is estimated on the basis of the economic utilization of the asset. Depreciation of property and equipment is calculated using the straight-line method to allocate their depreciable values over their estimated useful lives which are determined to be from three to five years.

The property and equipment's residual values and useful lives are reviewed, and adjusted if appropriate, at the beginning of each reporting period.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within other income in the consolidated statement of income.

2.12 Impairment of assets other than financial assets within the scope of IFRS 9 and investment properties

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units (CGUs). Goodwill is allocated to CGUs to benefit from the synergies of the combination. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit.

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 risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five-year period.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of assets other than financial assets within the scope of IFRS 9 and investment properties (continued)

Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry and geographical region.

The Group shall assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group shall estimate the recoverable amount of the asset. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

2.13 Provisions

Provisions for liabilities are recognized when the Group has a current or a future constructive obligation as a result of past events and it is probable that an outflow of economic resources will be required to settle this obligation and the amount can be reliably estimated.

2.14 End of service benefits

The Group provides end of service benefits to all its employees. As per the Kuwaiti law and the Parent Company's internal policy, the entitlement to these benefits is based upon the employees' final salaries and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The Group expects this method to produce a reliable approximation of the present value of this obligation. In addition, with respect to its national employees, the Group makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries.

2.15 Share capital and treasury shares

Share capital

Ordinary shares are classified as equity.

Transaction costs related to share issuances

Incremental costs directly attributable to the issue of new shares or other instruments classified as equity instruments are recognized in equity as "transaction costs related to share issuances", and are deducted from the proceeds.

Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in equity (gain on sale of treasury shares) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares. Any capital reduction by amortizing the accumulated losses is considered economic losses which reduces the number of shares. Reserves including equity transactions reserve, equal to the cost of treasury shares held are not available for distribution.

2.16 Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinars which is the functional and presentation currency of the Group using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as FVOCI are analyzed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to amortised cost are recognized in the consolidated statement of income, while other changes are recognized in other comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Foreign currencies (continued)

Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in the consolidated statement of income. Translation differences on non-monetary financial assets, such as equity instruments classified as FVOCI, are included in other comprehensive income.

Net assets in foreign subsidiaries and associates that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates prevailing at the reporting date. Revenues and expenses of those entities are translated at the average exchange rates for the year. All resulting exchange differences are recognized in the foreign currency translation reserve in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in other comprehensive income in respect of that operation attributable to the equity holders of the Parent Company are reclassified to the consolidated statement of income.

2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for service provided. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below:

- Financing income is recognized as income on a time proportion basis to yield a constant periodic interest rate on the balance outstanding based on the effective interest rate method. The recognition of financing income is suspended when loans become impaired.
- Management and advisory fees are recognized based on the terms of the applicable service contract. The portfolio management fees are usually recognized on a time proportionate basis.
- Commission on brokerage services are recognized as the service is provided.
- Rental income from operating leases is recognized on a straight line basis over the lease term.
- Dividend income is recognized when the Group's right to receive payment is established.

2.18 Leases

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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 incentives 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 a lease if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Leases (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing 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 finance cost 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.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of 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.

Finance lease

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessee are classified as finance leases.

Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

When the Group is a lessee, each lease payment is allocated between the liability and finance costs. The interest element of the finance cost is charged to the consolidated statement of income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

When the Group is a lessor, finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Interest income arising from finance leases are recognized by the effective interest rate method and classified as part of finance income.

2.19 Assets classified as held for sale

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

2.20 Finance costs

Finance costs on borrowings and finance leases are recognized as expenses in the consolidated statement of income using the effective interest rate method, unless the finance costs are related to qualified assets for capitalization, in which case they are capitalized and considered part of the cost of the qualified assets.

2.21 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated using the same method as for basic earnings per share by adjusting the weighted average number of ordinary shares outstanding to reflect the potential dilution through the increase in the ordinary shares that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM).

The Group's businesses are organized into four business segments "Finance, Asset Management, Investment and Corporate Finance, and Financial Brokerage and Online Trading". These operating segments are reported in Note 20.

2.23 Fiduciary assets

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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In the process of applying the Group's accounting policies, management has used judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The followings are the areas involving a high degree of judgment or areas where assumptions and estimates are significant to the consolidated financial statements.

Accounting judgments

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 interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer Note 2.7 classification of financial assets for more information.

Uncertainty of accounting estimates

The Group determines assumptions relating to the future. The outcome of accounting estimates are rarely equal to the actual results. Management undertakes these assumptions based on the information that has been available during the year, taking into consideration the economic and political circumstances of the region. Estimates and assumptions that have a material impact attributable to adjustments affecting the carrying values of the assets and liabilities during the next financial year are as follows:

Impairment of intangible assets

The Group calculates the recoverable amount for its intangible assets that have indefinite useful lives annually to determine whether there is an impairment loss to be recorded as per the accounting policy Note 2.12. Recoverable amount is calculated based on the value in use which involves high degree of estimates.

In estimating value in use, cash flows based on the business plans are discounted using relevant discount rate and the terminal value is calculated by estimating the terminal growth rate.

Valuation of investment properties

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

Investment properties are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 10.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Uncertainty of accounting estimates (continued)

Impairment of investments in associates

The Group calculates the recoverable amount for its investments in associates if there is an indication of an impairment to determine whether there is any impairment loss to be recorded.

Recoverable amount is calculated based on the value in use or fair value less cost to sell whichever is higher. In estimating the value in use, cash flows which are based on the associates' business plans are discounted using the relevant discount rate and the terminal value is calculated by estimating the terminal growth rates. Fair value of the unquoted associates is determined by using valuation techniques that take into consideration the market conditions and the difficulties that may be faced by the investee. These involve high degree of estimates.

Fair value of unquoted equity investments

Estimates are used in applying the valuation techniques used to estimate the fair value of unquoted investments. Those techniques include the expected cash flows, recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques used by the participants in the market generally which is mainly represented in adjusted net book value method. The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Impairment of financial assets

The measurement of Expected Credit Losses (ECL) 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 Expected Credit Losses (ECL) 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 estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

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, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- 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
- Establishing group of similar financial assets for the purpose of measuring ECL.

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

Significant judgement in determining the lease term of contracts with renewal options

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

The Group has the option, under some of its leases, to lease the assets for additional periods. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. This consider 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).

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

4 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of the following:

	2021 KD	*2020 KD*
Cash at banks and on hand	**6,345,661**	8,424,761
Cash in investment portfolios	**29,909**	660,229
Fixed deposits	**1,281,702**	1,581,524
Bank balances and cash	**7,657,272**	10,666,514
Fixed deposits with a maturity greater than three months from the date of placement	**(547,702)**	(7,524)
Fixed deposit blocked	**(734,000)**	(774,000)
Cash at banks blocked	**(4,434,092)**	(1,542,442)
Total cash and cash equivalents	**1,941,478**	8,342,548

Fixed deposits duration varies from three to twelve months and carry an average effective interest rate of 1.2% per annum as at 31 December 2021 (2020: 1.9%) per annum.

Bank balances and cash amounting to KD 734,000 are pledged against borrowings (2020: KD 803,704) (Note 12).

Cash at banks disclosed above include restricted bank balances of KD 684,092 (2020: KD 1,512,738) represents the Group's share in the new regime of guarantee fund established by Boursa Kuwait. This amount is restricted for use by the Kuwait Clearing Company to fulfill the Group's obligations against the short fall in the trade (if any).

Cash at banks disclosed above include restricted bank balances of KD 3,750,000 (2020: Nil). This balance represents cash contribution to the new subsidiary's capital which is currently under regulatory approval for incorporation. This amount is restricted by ministry of commerce and industry till the Group finalizing the establishment of the new subsidiary (Note 18).

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 KD	*2020 KD*
Quoted equity	**2,544,161**	1,358,968
Unquoted equity	**2,047,701**	2,047,701
	4,591,862	3,406,669

The hierarchy for determining and disclosing the fair value of financial instruments by valuation technique are presented in Note 21.

Financial assets at fair value through profit or loss are denominated in the following currencies:

	2021 KD	*2020 KD*
Kuwaiti Dinar	**4,314,857**	3,253,439
US Dollar	**5**	5
Bahrain Dinar	**277,000**	153,225
	4,591,862	3,406,669

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

6 FINANCE RECEIVABLES

a - Finance receivables carried at fair value through other comprehensive income

	2021 KD	*2020 KD*
Gross finance receivables	**11,237,195**	11,169,783
Less: deferred income	**(848,390)**	(918,427)
	10,388,805	10,251,356
Fair value adjustment (Net)	**44,577**	136,676
	10,433,382	10,388,032

The below analysis shows the changes in the carrying amount and the corresponding expected credit losses in relation to finance receivables carried at FVOCI:

2021	**Stage 1** ***KD***	**Stage 2** ***KD***	**Stage 3** ***KD***	**Total** ***KD***
Carrying value as at 1 January 2021	**7,363,025**	**1,050,634**	**1,837,697**	**10,251,356**
Repurchase of sold portfolios	**3,078**	**3,540**	**104,039**	**110,657**
New assets originated net of repayments and selling portfolios during the year	**632,846**	**(276,350)**	**(329,704)**	**26,792**
Transfer between stages	**(274,238)**	**(171,357)**	**445,595**	**-**
As at 31 December 2021	**7,724,711**	**606,467**	**2,057,627**	**10,388,805**

2021	**Stage 1** ***KD***	**Stage 2** ***KD***	**Stage 3** ***KD***	**Total** ***KD***
Expected credit losses as at 1 January 2021	**(174,681)**	**(249,492)**	**(1,837,697)**	**(2,261,870)**
Charge from repurchase of sold portfolios during the year (Note 6c)	**(115)**	**(626)**	**(104,039)**	**(104,780)**
(Charge) recovery during the year (Note 6c)	**(236,288)**	**(133,964)**	**388,078**	**17,826**
Impact due to transfer between stages	**252,977**	**250,992**	**(503,969)**	**-**
As at 31 December 2021	**(158,107)**	**(133,090)**	**(2,057,627)**	**(2,348,824)**

2020	Stage 1 *KD*	Stage 2 *KD*	Stage 3 *KD*	Total *KD*
Carrying value as at 1 January 2020	8,247,257	403,307	555,409	9,205,973
Repurchase of sold portfolios	152,905	302,838	688,790	1,144,533
New assets originated net of repayments and selling portfolios during the year	(108,185)	(24,030)	33,065	(99,150)
Transfer between stages	(928,952)	368,519	560,433	-
As at 31 December 2020	7,363,025	1,050,634	1,837,697	10,251,356

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

6 FINANCE RECEIVABLES (CONTINUED)

a - Finance receivables carried at fair value through other comprehensive income (continued)

2020	Stage 1 *KD*	Stage 2 *KD*	Stage 3 *KD*	Total *KD*
Expected credit losses as at 1 January 2020	(122,555)	(88,699)	(555,409)	(766,663)
Charge from repurchase of sold portfolios during the year (Note 6c)	(7,467)	(67,390)	(688,790)	(763,647)
Charge during the year (Note 6c)	(35,051)	(134,048)	(562,461)	(731,560)
Impact due to transfer between stages	(9,608)	40,645	(31,037)	-
As at 31 December 2020	(174,681)	(249,492)	(1,837,697)	(2,261,870)

The increase in ECLs of the finance receivable portfolio was driven by increase in the gross size of the portfolio and movements between stages as a result of increases in credit risk, a deterioration in economic conditions.

As of 31 December 2021, finance receivables of KD 2,057,627 (2020: KD 1,837,697) were impaired and provided for. The related provision for those receivables amounted to KD 2,057,627 as of 31 December 2021 (2020: KD 1,837,697).

As of 31 December 2021, finance receivables amounting to KD 8,331,178 (2020: KD 8,413,659) were performing. Included in these receivables are finance receivables installments that are classified as past due for less than three months but not impaired amounting to KD 361,666 as of 31 December 2021 (2020: KD 269,330). These receivables are not considered impaired. Following is the aging of finance receivables installments which are past due but not impaired:

	2021 ***KD***	*2020* *KD*
One month	**198,393**	152,316
More than one month till two months	**97,422**	76,781
More than two months till three months	**65,851**	40,233
	361,666	269,330

Finance receivables carried at fair value through other comprehensive income are mortgaged against borrowings by simple assignment of right (Note 12).

The hierarchy for determining and disclosing the fair value of finance receivables by valuation technique are in Note 21.

b - Finance receivables carried at amortised cost

	2021 ***KD***	*2020* *KD*
Gross finance receivables	**4,894,642**	5,677,849
Less: deferred income	**(195,775)**	(288,297)
	4,698,867	5,389,552
Less: Expected credit losses	**(1,750,179)**	(2,121,904)
	2,948,688	3,267,648

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

6 FINANCE RECEIVABLES (CONTINUED)

b - Finance receivables carried at amortised cost (continued)

The below analysis shows the changes in the carrying amount and the corresponding expected credit losses in relation to finance receivables at amortised cost:

2021	**Stage 1** *KD*	**Stage 2** *KD*	**Stage 3** *KD*	**Total** *KD*
Carrying value as of 1 January 2021	**2,684,270**	**14,272**	**2,691,010**	**5,389,552**
New assets originated net of repayments during the year	**(530,999)**	**64,334**	**(224,020)**	**(690,685)**
Transfer between stages	**(232,411)**	**228,033**	**4,378**	**-**
As at 31 December 2021	**1,920,860**	**306,639**	**2,471,368**	**4,698,867**

2021	**Stage 1** *KD*	**Stage 2** *KD*	**Stage 3** *KD*	**Total** *KD*
Expected credit losses as of 1 January 2021	**(16,368)**	**(610)**	**(2,104,926)**	**(2,121,904)**
Recovery (charge) during the year (Note 6c)	**4,055**	**(6,946)**	**374,616**	**371,725**
Impact due to transfer between stages	**6,753**	**(2,323)**	**(4,430)**	**-**
As at 31 December 2021	**(5,560)**	**(9,879)**	**(1,734,740)**	**(1,750,179)**

2020	Stage 1 *KD*	Stage 2 *KD*	Stage 3 *KD*	Total *KD*
Carrying value as of 1 January 2020	3,014,522	305,980	3,744,971	7,065,473
New assets originated net of repayments during the year	(315,980)	(305,980)	(57,565)	(679,525)
Transfer between stages	(14,272)	14,272	-	-
Amounts written off	-	-	(996,396)	(996,396)
As at 31 December 2020	2,684,270	14,272	2,691,010	5,389,552

2020	Stage 1 *KD*	Stage 2 *KD*	Stage 3 *KD*	Total *KD*
Expected credit losses as of 1 January 2020	(13,087)	(27,394)	(3,009,801)	(3,050,282)
(Charge) recovery during the year (Note 6c)	(3,428)	26,931	(91,521)	(68,018)
Impact due to transfer between stages	147	(147)	-	-
Amounts written off	-	-	996,396	996,396
As at 31 December 2020	(16,368)	(610)	(2,104,926)	(2,121,904)

The decrease in ECLs of the finance receivable portfolio was driven by a net effect of settlement, grants and decrease in the gross size of the portfolio, and movements between stages as a result of increases in credit risk and a deterioration in economic conditions.

As of 31 December 2021, finance receivables of KD 2,471,368 (2020: KD 2,691,010) were impaired and provided for. The related provision for those receivables amounted to KD 1,734,740 as of 31 December 2021 (2020: KD 2,104,926).

6 FINANCE RECEIVABLES (CONTINUED)

b - Finance receivables carried at amortised cost (continued)

As of 31 December 2021, finance receivables amounting to KD 2,227,499 (2020: KD 2,698,542) were performing. Included in these receivables are finance receivables installments that are classified as past due for less than three months but not impaired amounting to KD 50,057 as of 31 December 2021 (2020: KD 66,521). These receivables are not considered impaired. Following is the aging of finance receivables installments which are past due but not impaired:

	2021 KD	*2020 KD*
One month	**25,256**	66,175
More than one month till two months	**12,410**	346
More than two months till three months	**12,391**	-
	50,057	66,521

The fair value of collaterals held against finance receivables of KD 2,663,215 as of 31 December 2021 (2020: KD 2,844,664) is KD 5,107,082 (2020: KD 4,803,612).

The fair value of finance receivables as of 31 December 2021 is KD 3,023,191 (2020: KD 3,298,752) was determined by using current discount market rates prevailing at the end of the reporting year.

Finance receivables are mortgaged against borrowings by simple assignment of right (Note 12).

Finance receivables carried at amortised cost are denominated in the following currencies:

	2021 KD	*2020 KD*
Kuwaiti Dinar	**1,995,087**	2,313,835
US Dollar	**953,601**	953,813
	2,948,688	3,267,648

c - Finance receivables expected credit loss (ECL)

Provision for expected credit losses for finance receivables carried at amortised cost and finance receivables carried at fair value through other comprehensive income (FVOCI) as follows:

2021	**12m ECL Stage 1** ***KD***	**Life time ECL Stage 2** ***KD***	**Life time ECL Stage 3** ***KD***	**Total ECL recovery** ***KD***
Provision for expected credit loss (charge) recovery for finance receivables carried at FVOCI (Net)	**(236,403)**	**(134,590)**	**284,039**	**(86,954)**
Provision for expected credit loss recovery (charge) recovery for finance receivables carried at amortised cost (Net)	**10,808**	**(9,269)**	**370,186**	**371,725**
	(225,595)	**(143,859)**	**654,225**	**284,771**

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

6 FINANCE RECEIVABLES (CONTINUED)

c - Finance receivables expected credit loss (ECL) (continued)

2020	12m ECL Stage 1 KD	Life time ECL Stage 2 KD	Life time ECL Stage 3 KD	Total ECL charge KD
Provision for expected credit loss charge for finance receivables carried at FVOCI (Net)	(42,518)	(201,438)	(1,251,251)	(1,495,207)
Provision for expected credit loss (charge) recovery for finance receivables carried at amortised cost (Net)	(3,428)	26,931	(91,521)	(68,018)
	(45,946)	(174,507)	(1,342,772)	(1,563,225)

The accumulated expected credit losses calculated as per IFRS 9 according to the CBK guidelines as at 31 December 2021 amounted to KD 4,099,003 (2020: KD 4,383,774), which is higher than provisions computed as required by the CBK guidelines amounting to KD 3,615,727 (2020: KD 3,505,454).

7 ASSETS CLASSIFIED AS HELD FOR SALE

On 2 December 2020, the Parent Company received a letter from KFIC Financial Brokerage K.S.C.C.'s target buyer informing the Parent Company that the regulatory authority rejected the buyer's request for acquiring 100% of KFIC Financial Brokerage K.S.C.C. As a result the Parent Company reclassified its investment in KFIC Financial Brokerage K.S.C.C from classified assets held for sale to assets held for use and accounted for as a subsidiary.

On 29 December 2020, KFIC Financial Brokerage – K.S.C.C, signed an irrevocable agreement to purchase real estate properties with total fair value of KD 12,500,000 in exchange for some of its assets which includes: i) certain shares of Bayan Holding Company K.S.C.C (financial assets at fair value through profit or loss), ii) certain shares of Calhoun Equity Company Ltd (investment in associate) iii) certain shares Calhoun Debt Company Ltd. (investment in associate), iv) all shares of Salbookh Trading Company – K.S.C.P (investment in associate), v) Shares of Carolina Agriculture Company – K.S.C.C. (investment in subsidiary), and vi) cash of KD 2,750,000.

During prior year, the Group has partially executed some clauses of this agreement through a sale of Bayan Holding – K.S.C.C, Calhoun Equity Company Ltd and Calhoun Debt Company Ltd with a total net carrying value of KD 1,568,927 in exchange for a net receivable for a promissory note amounting to KD 4,710,344 (Note 8) and consequently recorded a net gain amounting to KD 3,141,557 included in the consolidated statement of income under investment income.

During the year, the Group executed the remaining clauses of the irrevocable agreement by transferring its ownership in Carolina Agriculture Company K.S.C.C. and its associate Al Salbookh Trading Co. K.S.C.P., with a net carrying value of KD 3,253,253 for a total consideration of KD 5,036,015, which resulted in gain of KD 1,782,762 recorded in the consolidated statement of income (Note 15).

During the year, some of investment properties involved in the irrevocable agreement have been transferred to KFIC Financial Brokerage K.S.C.C through 100% subsidiaries (Rifaa District For Shares and Securities W.L.L with a carrying value of BHD 4,960,876 "equivalent to KD 3,989,164 as of settlement date" and Al Salbookh Al Oula For General Trading S.P.C with a carrying value of KD 1,858,000). Accordingly, those real estate properties have been offset by other assets. (Notes 8,10, and 18).

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

7 ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operations as at 31 December 2021 and 31 December 2020:

	2021 KD	*2020 KD*
Assets classified as held for sale		
Investment in associates - Salbookh Trading Company K.S.C.P	**-**	3,454,092
Total assets classified as held for sale	**-**	3,454,092

8 OTHER ASSETS

	2021 KD	*2020 KD*
Accrued income	**1,079,484**	871,383
Other receivables *	**7,906,266**	8,682,567
Prepayments	**189,344**	142,074
	9,175,094	9,696,024

The below analysis shows the gross carrying amount of other assets and corresponding expected credit loss:

	2021 KD	*2020 KD*
Other assets	**12,104,539**	12,709,235
Provision for expected credit loss	**(2,929,445)**	(3,013,211)
	9,175,094	9,696,024

Provision for Expected credit loss movement:

	2021 KD	*2020 KD*
Opening balance	**3,013,211**	1,275,730
Transfer from assets classified as held for sale	**-**	1,722,788
(Recovery) charge during the year (Note 16)	**(80,204)**	18,607
Write off during the year	**(3,562)**	(3,914)
	2,929,445	3,013,211

* Other receivables include an amount of KD 786,110 (2020: KD 1,595,980) which is due from one of the portfolios' clients.

The provision formed against this amount is KD 786,110 (2020: KD 907,127) (Note 24).

Additionally, other receivables include an amount of KD 6,590,731 (2020: KD 4,710,344) which represents part of the promissory note equivalent to the fair value of the investment properties acquired as a result of the asset swap agreement since the title deed of these investment properties has not been transferred to the Group as of the reporting date (Note 7). The Group has pledged collaterals representing quoted and unquoted securities by KD 7,770,934 against such amount.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

9 INVESTMENTS IN ASSOCIATES

Name	Incorporation	Activity	Ownership% 2021	Ownership% 2020	Carrying value 2021	Carrying value 2020
Calhoun Equity Company Ltd.	Cayman Islands	**Real estate investments**	**27.21%**	27.21%	**1,160,374**	1,163,251
Calhoun Debt Company Ltd.	Cayman Islands	**Real estate investments**	**26.49%**	26.49%	**937,627**	939,952
					2,098,001	2,103,203

The following table provides summarised information of the Group's investment in associates

31 December 2021	***Calhoun Equity Co Ltd. KD***	***Calhoun Debt Co Ltd. KD***
Assets	**4,264,657**	**3,539,391**
Equity	**4,264,657**	**3,539,391**
Proportion of the Group's ownership	**27.21%**	**26.49%**
Total carrying value	**1,160,374**	**937,627**
Dividends received during the year	**61,278**	**394,798**
Income	**61,214**	**394,390**
Profit for the year	**61,214**	**394,390**
Group's share in profit for the year	**16,648**	**104,479**

31 December 2020	*Calhoun Equity Co Ltd. KD*	*Calhoun Debt Co Ltd. KD*
Assets	4,275,231	3,548,166
Equity	4,275,231	3,548,166
Proportion of the Group's ownership	27.21%	26.49%
Total carrying value	1,163,251	939,952
Dividends received during the year	62,165	400,519
Income	62,137	400,334
Profit for the year	62,137	400,334
Group's share in profit for the year	22,283	137,065

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

10 INVESTMENT PROPERTIES

Following is the movement on investment properties:

	2021 KD	*2020 KD*
As at 1 January	**3,636,000**	3,800,000
Additions*	**5,849,130**	-
Change in the fair value (Note 15)	**(557,388)**	(164,000)
Foreign currency translation differences	**(1,966)**	-
As at 31 December	**8,925,776**	3,636,000

Investment properties with carrying amount of KD 3,640,000 (2020: KD 3,636,000) are pledged against borrowings (Note 12).

*Additions of the investment properties represent the settlement of other assets. (Note 7).

The fair value of investment properties has been determined by independent valuers who are specialized in valuing such type of properties. The valuers have used the following methods:

- Some properties have been valued using the income capitalization approach assuming full capacity of the property.
- Other properties have been valued using the market approach based on recent transactions for properties with characteristics and location similar to those of the Group's properties.

As at 31 December 2021, the Group has investment properties amounting to KD 5,615,000 (2020: KD 3,636,000) which generate rental income. The significant assumptions made relating to valuation of such properties are set out below:

	2021	*2020*
Total area available for rent (sqm)	**2,880**	1,880
Average monthly rent per sqm (KD)	**14**	12
Average yield rate	**8.3%**	7.5%
Occupancy rate	**79%**	95%

Sensitivity analysis

Significant increases (decreases) in estimated price per square metre, estimated rental value and rent growth per annum, in isolation would result in a significantly higher (lower) fair value on a linear basis. Significant increases (decreases) in occupancy rate and yield rate in isolation would result in a significantly lower (higher) fair value.

11 INTANGIBLE ASSETS

	2021 KD	*2020 KD*
As at 1 January	**9,057,299**	9,057,299
Impairment losses	**(981,843)**	-
Balance as of 31 December	**8,075,456**	9,057,299

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

11 INTANGIBLE ASSETS (CONTINUED)

Intangible assets represent a brokerage license in the Group's subsidiary, KFIC Financial Brokerage K.S.C.C. with indefinite useful life. The recoverable amount is determined using a value in use determined by using discounted cash flow model, which uses inputs that consider features of the brokerage business and its regulatory environment. The recoverable amount is calculated by estimating streams of free cash flows available to shareholders over the next five years, discounted to their present values. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth-year profit, the applicable cost of equity is 6.38% (2020: 6.72%) and the long-term growth rate 2.7% (2020: 1.9%) after applying a further illiquidity discount of 15% (2020: 15%).

The model used to determine the recoverable amount is most sensitive to changes in the forecast free cash flows available to shareholders in years one to five, the cost of equity and to changes in the long-term growth rate. The applied long-term growth rate is based on real growth rates and expected inflation. Free cash flows available to shareholders are estimated on the basis of forecast results, which take into account business initiatives and planned capital investments.

The Group has tested the impairment of the brokerage license and recorded impairment losses of KD 981,843 (2020: Nil).

12 BORROWINGS

Borrowings include local term loans and Murabaha which bear a floating interest rate between 2% to 2.5% per annum above CBK rate (2020: 2% to 3% per annum above CBK rate).

Following is the classification of borrowings based on their maturity:

	2021 KD	*2020 KD*
Current	**666,667**	2,300,000
Non-current	**7,333,333**	6,238,126
Total	**8,000,000**	8,538,126

On 23 December 2021, the Parent Company obtained new facility with an amount of KD 6 million from an Islamic bank with a tenor of 7 years including a grace period of 1 year and a profit rate of 2.5% per annum above CBK discount rate to be repaid on quarterly instalments after the grace period.

The Parent Company utilized KD 5,609,985 to fully settle the syndicated existing borrowings with the creditors banks which were maturing with the coming 4 years with interest rate reaches 4% at maturity date above CBK discount rate.

Also, during the year, the Parent Company signed a new credit facility agreement with an amount of KD 2,000,000 with a floating interest rate of 2.25% per annum above CBK discount rate. The Parent Company utilized KD 1,000,000 of such facility.

The Parent Company has met all the borrowings covenant as of the reporting date.

Borrowings obtained by the Group are in Kuwaiti Dinars.

13 OTHER LIABILITIES

	2021 KD	*2020 KD*
Due to suppliers and others	**919,521**	2,418,211
Employees' leave and end of service benefits	**1,459,523**	1,282,735
Lease liabilities	**333,035**	524,757
Accrued expenses and other payables	**1,877,251**	2,357,518
	4,589,330	6,583,221

14 EQUITY

14.1 Share capital

	Authorised and issued capital		*Paid capital*	
	2021	*2020*	***2021***	*2020*
Capital (KD)	**32,249,138**	32,249,138	**32,249,138**	32,249,138
Capital (shares)	**322,491,383**	322,491,383	**322,491,383**	322,491,383
Nominal value (fils)	**100**	100	**100**	100

Capital of the Parent Company has been paid in cash.

14.2 Statutory reserve

In accordance with the Companies' Law and the Parent Company's Articles of Association, a minimum of 10% of the profit for the year before contribution to Kuwait Foundation for Advancement of Sciences, directors' remuneration, National Labor Support Tax and Zakat expense shall be transferred to the statutory reserve based on the recommendation of the Parent Company's board of directors. The annual general assembly of the Parent Company 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 of 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.

The Parent Company's Board of Directors has proposed to transfer an amount of KD 60,000 to statutory reserve for the year 2021 (2020: KD 75,000).

14.3 Voluntary reserve

In accordance with Companies' Law and the Parent Company's Article of Association, the Board of Directors may propose appropriation from the profit for the year to the voluntary reserve. The Parent Company's Board of Directors has not proposed to transfer any amount to the voluntary reserve for the year 2021 (2020: KD Nil).

14.4 Treasury shares

	2021	*2020*
Number of shares	**13,648,042**	13,648,042
Percentage of the issued share capital (%)	**4.23**	4.23
Market value (Average) - KD	**1,110,299**	602,653

Reserves and retained earnings amounting to KD 3,145,214 (2020: KD 3,145,214) which are equivalent to cost of treasury shares are not available for distribution.

Treasury shares are free from any encumbrance.

14.5 Dividends

The Board of Directors of the Parent Company did not propose dividends distribution for the year 2021 (2020: Nil). This proposal is subject to the shareholders' approval at the Annual General Assembly meeting.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

15 INVESTMENT INCOME

	2021	*2020*
	KD	*KD*
Financial assets at fair value through profit or loss		
Cash dividends	**55,101**	8,276
Net realised gain on sale	**217,690**	2,687,185
Unrealised gain	**254,137**	58,525
	526,928	2,753,986
Financial assets at fair value through other comprehensive income		
Cash dividends	**9,610**	-
	9,610	-
Investment in associates		
Gain (loss) on sale of investment in associates	**1,782,762**	(191,912)
	1,782,762	(191,912)
Financial assets - amortised cost		
Income from financial assets	**80,448**	73,505
	80,448	73,505
Investment properties		
Change in the fair value (Note 10)	**(557,388)**	(164,000)
	(557,388)	(164,000)
	1,842,360	2,471,579

16 RECOVERY (CHARGE) OF EXPECTED CREDIT LOSS

	2021	*2020*
	KD	*KD*
Provision for expected credit loss recovery (charge) for finance receivables (Note 6c)	**284,771**	(1,563,225)
Provision for expected credit loss recovery (charge) for other assets (Note 8)	**80,204**	(18,607)
	364,975	(1,581,832)

17 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic EPS are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

17 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (CONTINUED)

	2021	*2020*
Profit for the year attributable to equity holders of the Parent Company (KD)	**470,273**	447,312
Weighted average of issued shares	**322,491,383**	322,491,383
Weighted average of treasury shares	**(13,648,042)**	(13,648,042)
Weighted average number of outstanding ordinary shares	**308,843,341**	308,843,341
Earnings per share attributable to equity holders of the Parent Company (fils)	**1.5**	1.4

18 SUBSIDIARIES

Following are the Parent Company's subsidiaries:

			Ownership (%)	
Subsidiary Name	***Activity***	***Incorporation***	***2021***	*2020*
KFIC Financial Brokerage – K.S.C.C.	Brokerage	Kuwait	**100**	100
Al Watheb for Management Consultants Company – S.P.C.	Consultancy	Kuwait	**100**	100
Al-Wasm Fund	Investment	Kuwait	**65.78**	65.45
KFIC Real Estate Company – S.P.C.	Real Estate	Kuwait	**100**	99
KFIC Buy and Sell Cars Company– S.P.C.	Cars Trade	Kuwait	**100**	100
KFIC for Third Party Amicable Fund Collection Company – S.P.C.	Collection	Kuwait	**100**	100
Smart Car for Rental and Leasing Company – S.P.C. (a)	Car Rental & Leasing	Kuwait	**100**	-
Carolina Agriculture Company – K.S.C.C. (b)	Agricultural Production	Kuwait	-	96
Riffa District for Shares and Securities – W.L.L. (c)	Real Estate	Bahrain	**100**	-
Al Salbookh Al Oula for General Trading – S.P.C. (c)	General Trading	Kuwait	**100**	-
Al Takmilia Al Oula Holding Company. – S.P.C. (d)	Holding	Kuwait	**100**	-
Jadwa International Marketing Consulting Company – S.P.C. (e)	Consultancy	Kuwait	**100**	-

a- During the year, the Parent Company acquired 100% of the share capital of Smart Car for Rental and Leasing Company – S.P.C. for a total consideration of KD 4,000 from a third party. As a result, Smart Car for Rental and Leasing Company – S.P.C. became a subsidiary of the Group.

b- During the year, the Group completed the transfer of its ownership in Carolina Agriculture Company K.S.C.C. and its associate Al Salbookh Trading Co. K.S.C.P. as part of the irrevocable agreement signed on 29 December 2020 (Note7).

c- During the year, the Group acquired the share capital of Riffa District for Shares and Securities – W.L.L. and Al Salbookh Al Oula for General Trading – S.P.C. from a third party as part of the irrevocable agreement signed on 29 December 2020 (Note 7).

d- During the year, the Group established new subsidiary "Al Takmilia Al oula Holding Company – S.P.C" which is not operating as of the reporting date.

e- During the year, the Group established new subsidiary (Jadwa International Marketing Consulting Company – S.P.C").

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

18 SUBSIDIARIES (CONTINUED)

During the year, the Group has established a new subsidiary "KFIC for Financing Services Company K.S.C. (Closed)" which is not operating as of the reporting date and is currently under regulatory approval for incorporation (Note 4).

Subsidiaries pledged

Portion of Investment in Al-Wasm Fund with a net book value of KD 1,377,023 as of 31 December 2021 (2020: KD Nil) is pledged against borrowings (Note 12).

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

Proportion of equity interest held by non-controlling interests:

	2021	*2020*
Al-Wasm Fund	**34.22%**	34.55%

Accumulated balances of non-controlling interests:

	2021 KD	*2020 KD*
Al-Wasm Fund	**861,200**	714,849

The summarized financial information of this material subsidiary is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of comprehensive income of Al Wasm Fund:

	2021 KD	*2020 KD*
Revenues	**523,668**	(847,839)
Expenses	**(64,885)**	(34,612)
Profit (loss) for the year	**458,783**	(882,451)
Total comprehensive income (loss)	**458,783**	(882,451)
Net profit (loss) attributable to non-controlling interests	**157,141**	(303,797)

Summarized statement of financial position of Al Wasm Fund:

	2021 KD	*2020 KD*
Total assets	**2,557,225**	2,079,729
Total liabilities	**(40,273)**	(10,770)
Total equity	**2,516,952**	2,068,959
Attributable to non-controlling interests	**861,200**	714,849

19 RELATED PARTIES

Related parties represent shareholders who have representation in the Parent Company's Board of Directors and their close relatives, directors and key management personnel of the Parent Company, and associate entities, and entities controlled, jointly controlled or significantly influenced by such parties. All related parties' transactions are carried out on terms approved by Parent Company's management.

The related parties' balances and transactions included in the consolidated financial statements are as follows:

	2021 KD	*2020 KD*
Related parties' balances (Shareholders)		
Bank balances and cash	**1,317,501**	4,421,236
Finance receivables at amortised cost – net	**502,598**	502,415
Financial assets at amortised cost – net	-	372,111
Other assets	**122**	5,475
Borrowings	-	(3,294,625)

	2021 KD	*2020 KD*
Transactions with related parties (Shareholders)		
Finance income	**22,548**	22,641
Management and advisory fees	**78,968**	79,394
Financial assets at amortized cost income	**80,448**	73,505
Finance costs	**(105,313)**	(212,557)
Provision for expected credit losses recovery	**1,506**	20,855

Fiduciary assets	***2021 KD***	*2020 KD*
Investments and funds managed in a fiduciary capacity (Shareholders)	**27,917,420**	53,054,971

Key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The aggregate value of transactions related to key management personnel were as follows:

	2021 KD	*2020 KD*
Key management compensation		
Salaries, other short-term benefits and end of services indemnity	**(522,272)**	(509,789)

20 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers (i.e. the Executive Committee) in order to allocate resources to the segments and to assess their performance. The Group's main activities are organized and managed through four major segments as follows:

Finance

This segment provides consumer loans to individuals and commercial loans to corporate entities and individual customers.

Asset management

This segment provides services of portfolio management and custody services for clients, as well as management of mutual funds.

Investment and corporate finance

This segment monitors the Parent Company's direct investments and also provides investment banking services as well as financial consultancy services for clients.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

20 SEGMENT INFORMATION (CONTINUED)

Financial brokerage and online trading

This segment provides the brokerage and online trading services to the clients.

The following table presents revenue, results for the year, total assets and total liabilities information regarding the Group's reportable segments.

2021	***Finance KD***	***Asset management KD***	***Investment & corporate finance KD***	***Financial brokerage & online trading KD***	***Total KD***
Revenues	**1,934,788**	**1,249,742**	**812,728**	**2,024,799**	**6,022,057**
Expenses	**(1,783,010)**	**(833,553)**	**(397,380)**	**(1,135,280)**	**(4,149,223)**
Impairment of intangible assets	-	-	-	**(981,843)**	**(981,843)**
Segment results	**151,778**	**416,189**	**415,348**	**(92,324)**	**890,991**
Unallocated revenues					**9,895**
Unallocated expenses					**(273,472)**
Profit for the year					**627,414**
Segment assets	**17,768,154**	**3,597,344**	**9,169,333**	**21,567,761**	**52,102,592**
Unallocated assets					**2,765,091**
Total assets					**54,867,683**
Segment liabilities	4,455,622	341,810	751,363	407,656	**5,956,451**
Unallocated liabilities					**6,632,879**
Total liabilities					**12,589,330**

2020	*Finance KD*	*Asset management KD*	*Investment & corporate finance KD*	*Financial brokerage & online trading KD*	*Total KD*
Revenues	2,226,643	(92,189)	341,578	4,743,542	7,219,574
Expenses	(3,348,285)	(910,297)	(582,477)	(1,414,826)	(6,255,885)
Segment results	(1,121,642)	(1,002,486)	(240,899)	3,328,716	963,689
Unallocated revenues					97,470
Unallocated expenses					(917,644)
Profit for the year					143,515
Segment assets	14,798,276	2,930,276	12,155,013	22,621,619	52,505,184
Unallocated assets					4,492,218
Total assets					56,997,402
Segment liabilities	6,233,429	229,306	320,043	1,063,229	7,846,007
Unallocated liabilities					7,275,340
Total liabilities					15,121,347

21 FAIR VALUE MEASURMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the fair value measurement hierarchy of the Group's financial assets recorded at fair value:

2021	***Level 1 KD***	***Level 2 KD***	***Level 3 KD***	***Total fair value KD***
Financial assets at fair value through profit or loss	**2,544,161**	**-**	**2,047,701**	**4,591,862**
Financial assets at fair value through other comprehensive income	-	**179,385**	**4,843**	**184,228**
Finance receivable at fair value through other comprehensive income	-	**-**	**10,433,382**	**10,433,382**
Investment properties	-	**3,310,776**	**5,615,000**	**8,925,776**

2020	*Level 1 KD*	*Level 2 KD*	*Level 3 KD*	*Total fair value KD*
Financial assets at fair value through profit or loss	1,358,968	-	2,047,701	3,406,669
Financial assets at fair value through other comprehensive income	77,593	51,788	4,826	134,207
Finance receivable at fair value through other comprehensive income	-	-	10,388,032	10,388,032
Investment properties	-	-	3,636,000	3,636,000

The valuation method used in Level 3 for equity instruments is the net book value method adjusted for illiquidity discounts by 20%. Increase /decrease in discount rate by 5% would change the fair value by KD 20,477.

The valuation method used in Level 3 for finance receivables at fair value through other comprehensive income is the discounted cash flow method. Increase /decrease in discount rate by 5% would change the fair value by KD 29,871.

The fair value of the financial assets and liabilities other than those mentioned above are not materially different than their carrying value.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

21 FAIR VALUE MEASURMENTS (CONTINUED)

The following table represents the changes in Level 3 for the years ended 31 December 2021 and 2020:

	As at 1 January 2021	***Change in fair value***	***Additions / Settlements***	***Transfer from assets classified as held for sale***	***Net losses in the consolidated statement of income***	***As at 31 December 2021***
	KD	***KD***	***KD***	***KD***	***KD***	***KD***
Financial assets at fair value through profit or loss	**2,047,701**	**-**	**-**	**-**	**-**	**2,047,701**
Financial assets at fair value through other comprehensive income	**4,826**	**17**	**-**	**-**	**-**	**4,843**
Financial receivables at fair value through other comprehensive income	**10,388,032**	**(82,065)**	**137,449**	**-**	**(10,034)**	**10,433,382**
Investment properties	**3,636,000**	**121,000**	**1,858,000**	**-**	**-**	**5,615,000**
	16,076,559	**38,952**	**1,995,449**	**-**	**(10,034)**	**18,100,926**

	As at 1 January 2020	*Change in fair value*	*Additions / settlements*	*Transfer from assets classified as held for sale*	*Net losses in the consolidated statement of income*	*As at 31 December 2020*
	KD	*KD*	*KD*	*KD*	*KD*	*KD*
Financial assets at fair value through profit or loss	2,047,701	-	(904,643)	904,643	-	2,047,701
Financial assets at fair value through other comprehensive income	4,911	(85)	-	-	-	4,826
Financial receivables at fair value through other comprehensive income	9,211,627	168,706	1,045,383	-	(37,684)	10,388,032
Investment properties	3,800,000	(164,000)	-	-	-	3,636,000
	15,064,239	4,621	140,740	904,643	(37,684)	16,076,559

There were no transfers between Level 1 and Level 2 fair value measurements during the year, and no transfers into or out of Level 3 fair value measurements during the year.

22 FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. Market risk is being subdivided into foreign currency risk, equity price risk, interest rate risk and prepayment risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

The Group has a risk management division whereby risks are identified, measured and monitored.

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

Following is the general framework of the risk management policies applied in the Group.

Risk management structure

Board of Directors

The Board of Directors of the Parent Company is responsible for developing the overall risk management framework, and approving risk management strategies.

The Board has established a Risk Committee (the 'RC') comprising of members from the Board, to set the framework and monitor the Group's Risks and Control related requirements covering all risk types like credit, market, liquidity risks and operational risk. The Risk Committee is assisted in these functions by the Head of Risk Management Division.

The Board has also established an Audit Committee (the 'AC'), as required by the regularities parties, which, amongst other functions, is also required to monitor adherence with the Group's Risk Management principles, policies and procedures. The Group's Audit Committee is assisted in these functions by the Head of Internal Auditor Division.

Risk management and reporting system

Monitoring of risks is managed through reports provided by Risk Management division and through limits set by the Board of Directors. These limits reflect the Group's business strategy and market conditions and the environment in which the Group is operating.

Risk management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and ensure adherence to the risk appetite limits. Risk management policies are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Group.

22.1 Market risk

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as foreign exchange rates, equity prices, interest rates and prepayment whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

(a) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Group is exposed to foreign exchange risk arising from currency exposures mainly with US Dollar, Bahrain Dinar, Saudi Riyal, United Arab Emirates Dirham and Qatari Riyal.

Foreign currency risk management framework

The Group monitors foreign currency exposure on an ongoing basis, appropriate decisions are taken to minimize the exposure to a specific currency when required.

Had the exchange rate of the following currencies increased/ decrease by 5% against the Kuwaiti Dinar, with all other variables held constant, the Group's consolidated statement of income and other comprehensive would have been shifted by the following amounts:

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 Market risk (continued)

(a) Foreign currency risk (continued)

Currency	***2021***		*2020*	
	Impact on the consolidated statement of income KD	***Impact on consolidated OCI KD***	*Impact on the consolidated statement of income KD*	*Impact on consolidated OCI KD*
USD	**171,937**	**2,771**	190,339	2,589
BHD	**179,382**	**6,200**	7,663	-
SAR	**318**	**-**	6,845	-
AED	**717**	**-**	3,334	-
QAR	**431**	**-**	3,916	-
Others	**(39)**	**235**	747	236

(b) Equity price risk

Equity price risk is the risk that the fair values of equity investments will fluctuate as a result of changes in the level of equity indices or the value of the individual share prices. The Group is exposed to equity price risk arising from financial assets that are classified as "investments at fair value through other comprehensive income", or "at fair value through profit or loss".

Equity price risk management framework

To manage this risk, the Group diversifies its investments in various segments to avoid concentration risk. Furthermore, the Group has its own policies in terms of studying and evaluating investment opportunities. These policies are implemented through the authority matrix approved by the Board of Directors.

For unquoted investments, the Group prepares on a regular basis studies to determine the fair value of this investment.

The table below summarizes the impact of an increase in the various stock exchange indexes on the Group's consolidated statement of income and on other comprehensive income. The following analysis is based on the assumption that the equity indexes would increase/decrease by 5% with all other variables held constant.

Description	***Impact on the consolidated Statement of income***		***Impact on consolidated other comprehensive income***	
	2021 KD	*2020 KD*	***2021 KD***	*2020 KD*
Kuwait stock exchange	**128,703**	81,666	**128,703**	86,233
Other	**20,360**	15,989	**20,360**	15,989
Total	**149,063**	97,655	**149,063**	102,222

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate financial assets and financial liabilities. Further, the Group's policy is to manage its interest cost by availing competitive credit facilities from local financial institutions and constantly monitoring interest rate fluctuations.

Interest rate risk management framework

The Group manages this risk by monitoring the changes in the interest rates and studying the effects on its cash flows.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.1 Market risk (continued)

(c) *Interest rate risk (continued)*

Had interest rates increased by 50 basis points of the interest rate applied, the net profit for the year of the Group would have decreased by KD 38,637 for the year ended 31 December 2021 (2020: KD 40,257).

(d) *Prepayment risk*

Prepayment risk is the risk that the Group will incur a financial loss because its clients and counterparties repay or request to repay the loans earlier; for example for loans which have fixed interest rate during the periods of witnessing a decline in interest rate. The Group is not significantly exposed to prepayment risk.

22.2 Credit risk

Credit risk is the risk that the counter party will cause a financial loss to the Group by failing to discharge an obligation. This includes the risk of decline in the credit standing of the customer. While such decline does not imply default, it increases the probability of the customer defaulting. Financial instruments that are exposed to credit risk are bank balances, finance receivables at fair value through other comprehensive income, finance receivables at amortised cost, financial assets at amortised cost and other assets.

The Group manages the credit risk related to bank balances and cash in investment portfolios through dealing with local and foreign financial institutions, which have a good credit reputation, while for the finance receivables (FVOCI and amortised cost) the Group established credit policies to mitigate the credit risk of such receivables.

Credit risk management framework

The Group has placed credit policy to define the criteria of credit granting which is approved by the Board of Directors. Any amendment to that policy has to be approved by the Board of Directors. Furthermore, authority matrix in credit granting has been set as part of the credit policy. The Board has also approved the Executive Committee (the 'EC') Charter. Moreover, the role of the Executive Committee includes the decision on granting credit that exceeds a specific limit. The Board of Directors has the ultimate authority to grant credit if the credit amount is above the authority limit of the Executive Committee.

The Risk Management Department provides independent opinion and assessment of risk for every financing and investment proposal presented to the approving authorities for decision making.

The Group manages its credit facilities portfolio with the objective of ensuring that it is well diversified and it earns a level of return commensurate with the risks it assumes, at the same time, seeks to ensure the quality of the credit portfolio.

In addition, the Group endeavors to manage the credit exposure by obtaining collaterals where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Group's credit risk exposure.

As required by the CBK, the Group has established an internal Credit Provisioning Committee (CPC) at the executive level, which is primarily responsible for the study and evaluation of the existing credit facilities of the Group, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/ potential impairment of assets.

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:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss
- All rescheduled facilities
- Retail facilities from commencement of legal recourse

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Assessment of expected credit losses (continued)

Definition of default and cure (continued)

Any credit impaired or stressed facility that has been restructured during the year would also be considered as in default.

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
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Group considers financial assets as "cured" (i.e no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, there would require to complete the moratorium period (if any) and meet the scheduled payments for at least 1 year (except for retail facilities) or as determined by the Group for consideration for classifying the facility in stage 2/stage 1.

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.

All financial assets, except retail finance (consumer and housing loans), 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 don't indicate a significant increase in credit risk. Retail finance (consumer and housing loans) however, migrate to stage 2 based on more than 60 days past due movement.

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 interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

The Group in estimating ECL for credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD
- Deemed maturity for exposures in stage 2

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 has its internal model that are then leveraged for PD estimation process

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through-the cycle (TTC) PDs are generated from the model based on the internal credit assumptions. The Group converts the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through days past due. The retail portfolio is further segmented statistically and risk pools with shared risk characteristics.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Assessment of expected credit losses (continued)

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. EAD is estimated taking into consideration the contractual terms such as interest rates, frequency, maturity, pre-payment options, amortization schedule, etc.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

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. Key economic variables include, Gross Domestic Product and Unemployment rate. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (base, best and worst) of forecasts of macro-economic data separately for each 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 maximum exposure to credit risk as at the reporting date is the carrying values of the financial assets net of impairment recorded in the consolidated financial statements that are subject to credit risk without considering any collaterals.

Bank balances are neither past due nor impaired and are placed with high credit rating institutions.

Hereunder, the assets exposed to credit risk without considering the collateral.

	2021 KD	*2020 KD*
Bank balances and cash	**7,657,272**	10,666,514
Finance receivables – FVOCI	**10,433,382**	10,388,032
Finance receivables – amortised cost	**2,948,688**	3,267,648
Financial assets – amortised cost *	**-**	372,111
Other assets – excluding prepayments	**8,985,750**	9,553,950
	30,025,092	34,248,255

* Financial assets at amortised costs represents gross amount of KD 31,781 (2020: KD 462,916) offset by ECL provision of KD 31,781 (2020: KD 90,805).

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 give rise in the future as a result of changes in value.

Risk concentrations of the maximum exposure to credit risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. The Group is not significantly exposed to risk concentration.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

Credit risk mitigation

Credit risk mitigation techniques that the Group is permitted to use are obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Group's management of risks to an exposure.

Collaterals

Commercial finance receivables are secured against investments in quoted and unquoted securities, real estate properties, bank guarantees and vehicles. Management monitors the market value of collaterals and may request additional collaterals in accordance with the underlying agreement, during its review of the adequacy of the provision for credit losses.

As of 31 December 2021, the finance receivables, which are fully covered by collaterals, represent 9% (2020: 8%) of the gross balance of finance receivables less deferred income.

Credit quality per class of financial assets

The table below shows the credit quality and the maximum exposure to credit risk for the year ended 31 December 2021 and 2020 based on year-end stage allocation for consolidated statement of financial position lines by class of assets. The amounts presented are gross of impairment allowances.

2021	**Stage 1 KD**	**Stage 2 KD**	**Stage 3 KD**	**Total KD**
Bank balances and cash	**7,657,272**	-	-	**7,657,272**
Finance receivables – FVOCI	**7,724,711**	**606,467**	**2,057,627**	**10,388,805**
Finance receivables – Amortised cost	**1,920,860**	**306,639**	**2,471,368**	**4,698,867**
Financial assets – Amortised cost	-	-	**31,781**	**31,781**
Other assets	**8,985,750**	-	**2,929,445**	**11,915,195**
As of 31 December 2021	**26,288,593**	**913,106**	**7,490,221**	**34,691,920**
2020	Stage 1 KD	Stage 2 KD	Stage 3 KD	Total KD
Bank balances and cash	10,666,514	-	-	10,666,514
Finance receivables - FVOCI	7,363,025	1,050,634	1,837,697	10,251,356
Finance receivables – Amortised cost	2,684,270	14,272	2,691,010	5,389,552
Financial assets – Amortised cost	372,111	-	90,805	462,916
Other assets	9,553,950	-	3,013,211	12,567,161
As of 31 December 2020	30,639,870	1,064,906	7,632,723	39,337,499

The Group internally classified the various credit risk exposure which are neither past due nor impaired into two categories of credit quality (high quality and Standard quality).

The Group classifies its regular commercial clients for which collaterals are obtained according to risk exposure as the following:

- **High Quality:** Regular exposures with a normal risk covered fully by securities and real estate collaterals in excess of 100% of the outstanding amount.
- **Standard Quality:** All other regular exposures.

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (continued)

The following is the degree of exposure to the credit risk for the finance receivables at amortised cost as of 31 December 2021:

	Regular commercial clients		
	High quality KD	***Standard quality KD***	***Total KD***
Finance receivables:			
Commercial finance	**1,390,076**	**699,613**	**2,089,689**
	1,390,076	**699,613**	**2,089,689**

The following is the degree of exposure to the credit risk for the finance receivables at amortised cost as of 31 December 2020:

	Regular commercial clients		
	High quality KD	*Standard quality KD*	*Total KD*
Finance receivables:			
Commercial finance	1,417,395	1,281,147	2,698,542
	1,417,395	1,281,147	2,698,542

22.3 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due.

Liquidity risk management framework

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. To provide liquidity, the Group is managing its assets to provide the required liquidity and monitoring the cash flows on regular basis by estimating the future cash flows and keeping liquid assets at a minimum 10% from its liabilities.

The table below analyses the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the consolidated financial statements. Balances due within 12 months from reporting date equal their carrying balances, as the impact of discounting is not significant.

2021	***Up to 3 months KD***	***3 - 6 months KD***	***6 months – 1 year KD***	***1 – 3 years KD***	***Over 3 years KD***	***Total KD***
Assets						
Bank balances and cash	**7,123,272**	-	**534,000**	-	-	**7,657,272**
Financial assets at fair value through profit or loss	-	-	**2,544,156**	**2,047,706**	-	**4,591,862**
Finance receivables at FVOCI	**1,101,587**	**852,250**	**1,629,373**	**4,367,563**	**1,053,195**	**9,003,968**
Finance receivable at amortised cost	**209,953**	**1,129,514**	**670,989**	**1,192,261**	**45,882**	**3,248,599**
Financial assets at fair value through other comprehensive income	-	-	-	**184,228**	-	**184,228**
Other assets	**8,985,750**	-	-	-	-	**8,985,750**
	17,420,562	**1,981,764**	**5,378,518**	**7,791,758**	**1,099,077**	**33,671,679**
Liabilities						
Borrowings	**193,658**	**193,045**	**585,869**	**3,628,706**	**4,508,949**	**9,110,227**
Other liabilities	**3,090,127**	**41,503**	**84,627**	**1,373,073**	-	**4,589,330**
	3,283,785	**234,548**	**670,496**	**5,001,779**	**4,508,949**	**13,699,557**

Kuwait Finance and Investment Company - K.S.C. (Public) and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2021

22 FINANCIAL RISK MANAGEMENT (CONTINUED)

22.3 Liquidity risk (continued)

2020	*Up to 3 months KD*	*3 - 6 months KD*	*6 months – 1 year KD*	*1 – 3 years KD*	*Over 3 years KD*	*Total KD*
Assets						
Bank balances and cash	9,892,514	200,000	34,000	540,000	-	10,666,514
Financial assets at fair value through profit or loss	-	-	1,287,075	2,119,594	-	3,406,669
Finance receivables at FVOCI	1,118,513	830,301	1,559,340	4,480,611	1,178,747	9,167,512
Finance receivable at amortised cost	354,902	277,165	2,007,887	1,628,083	58,370	4,326,407
Financial asset at amortised cost	-	505,920	-	-	-	505,920
Financial asset at FVOCI	-	-	77,593	56,614	-	134,207
Assets classified as held for sale	3,454,092	-	-	-	-	3,454,092
Other assets	6,927,445	2,626,505	-	-	-	9,553,950
	21,747,466	4,439,891	4,965,895	8,824,902	1,237,117	41,215,271
Liabilities						
Borrowings	680,428	685,690	1,189,992	3,967,167	2,773,221	9,296,498
Other liabilities	4,992,008	51,709	88,433	1,424,147	26,924	6,583,221
	5,672,436	737,399	1,278,425	5,391,314	2,800,145	15,879,719

22.4 Capital risk management

The Parent Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. To maintain or change the capital structure, the Parent Company may adjust the dividends paid to the shareholders, or return the capital, or issue new shares or sell assets to reduce its debts. In order to maintain or adjust the capital structure, as followed by other companies in the same business, the Group monitors capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less bank balances and cash. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt.

The gearing ratio as of 31 December is as follows:

	2021 KD	*2020 KD*
Total borrowings	**8,000,000**	8,538,126
(Less) Bank balances and cash	**(7,657,272)**	(10,666,514)
Net debt	**342,728**	(2,128,388)
Total equity	**42,278,353**	41,876,055
Total capital	**42,621,081**	39,747,667
Gearing ratio	**0.80%**	(5.35%)

23 FIDUCIARY ASSETS

Portfolios, funds, finance portfolios and other portfolios under the management of the Parent Company amounted to KD 256,249,464 (2020: KD 250,219,348).

Management fee related to these fiduciary assets amounted to KD 647,611 for the year ended 31 December 2021 (2020: KD 700,692).

24 CONTINGENT LIABILITIES

The Group has outstanding legal cases with one of the client's portfolios, where the client claims an amount of KD 2 Million, while the Group claims an amount of KD 1.9 Million. A preliminary verdict has been issued in the Group's favour and rejected the client's claim. The client appealed on 13 July 2017 and the appeal court has transferred the case to the Experts department.

On 16 May 2020, a final verdict has been issued in the Group's favour and rejected the client claim. The Group believes, there is no need to take any additional provision based on the current legal status of the legal case.

During the year, the Group received a partial settlement of KD 809,870 as a result of the executive actions which have been taken by the Group to liquidate the pledged assets.

The Group has provided 100% provisions against the remaining amounts due from the client (Note 8).

25 COVID-19 IMPACT

The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. In response, governments and central banks have launched economic support and relief measures (including payment reliefs) to minimize the impact on individuals and corporates. In light of the rapidly escalating situation, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the consolidated financial statements.

2021 consumer and other instalments loans deferral scheme

CBK announced postponement of payment of consumer and instalment loans to eligible customer, upon their request, in accordance with circular No. 2/BS/IBS/IS/IIS/FS/4762021/ dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 ("the Law") regarding the deferral of the financial obligations for a six-month period with cancellation of interest and profits resulting from this deferral ("the 2021 scheme"). The cost of the instalment deferrals is fully borne by the Government of Kuwait in accordance with the Law.

The Group implemented the 2021 scheme by postponing the instalments for a six-month period from the customer request date with the corresponding extension of the facility tenure. The instalment deferral will result in a loss to the Group arising from the modification of contractual cash-flows at KD 11,104 in accordance with IFRS 9. This loss will be offset by an equivalent amount receivable from Government of Kuwait as Government Grant in accordance with the Law.

Expected Credit Loss (ECL) estimates

In the determination of expected credit losses estimates, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the COVID-19 pandemic. The uncertainties caused by COVID-19 required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs").

The Group has re-assessed the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses. In making estimates, the Group assessed a range of possible outcomes by stressing the previous basis, before COVID-19, (that includes best, based case and worst scenarios) and changed weightings for each scenario. The probability of the worst scenario was increased from 10% to 80% and the probability of the best scenario and base case scenario was reduced from 10% to 5% and 80% to 15% respectively.

The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to COVID-19.

Uncertainty relating to COVID-19

The uncertainties caused by COVID-19 have also required the Group to reassess the inputs and assumptions used for the determination of fair value of financial assets. The Group has considered potential impacts of the current economic volatility in determination of the reported amounts of the Group's financial assets, and these are considered to represent Management's best assessment based on observable information.

Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations. The impact of such uncertain economic environment is judgmental, and the Group will continue to reassess its position and the related impact on a regular basis.