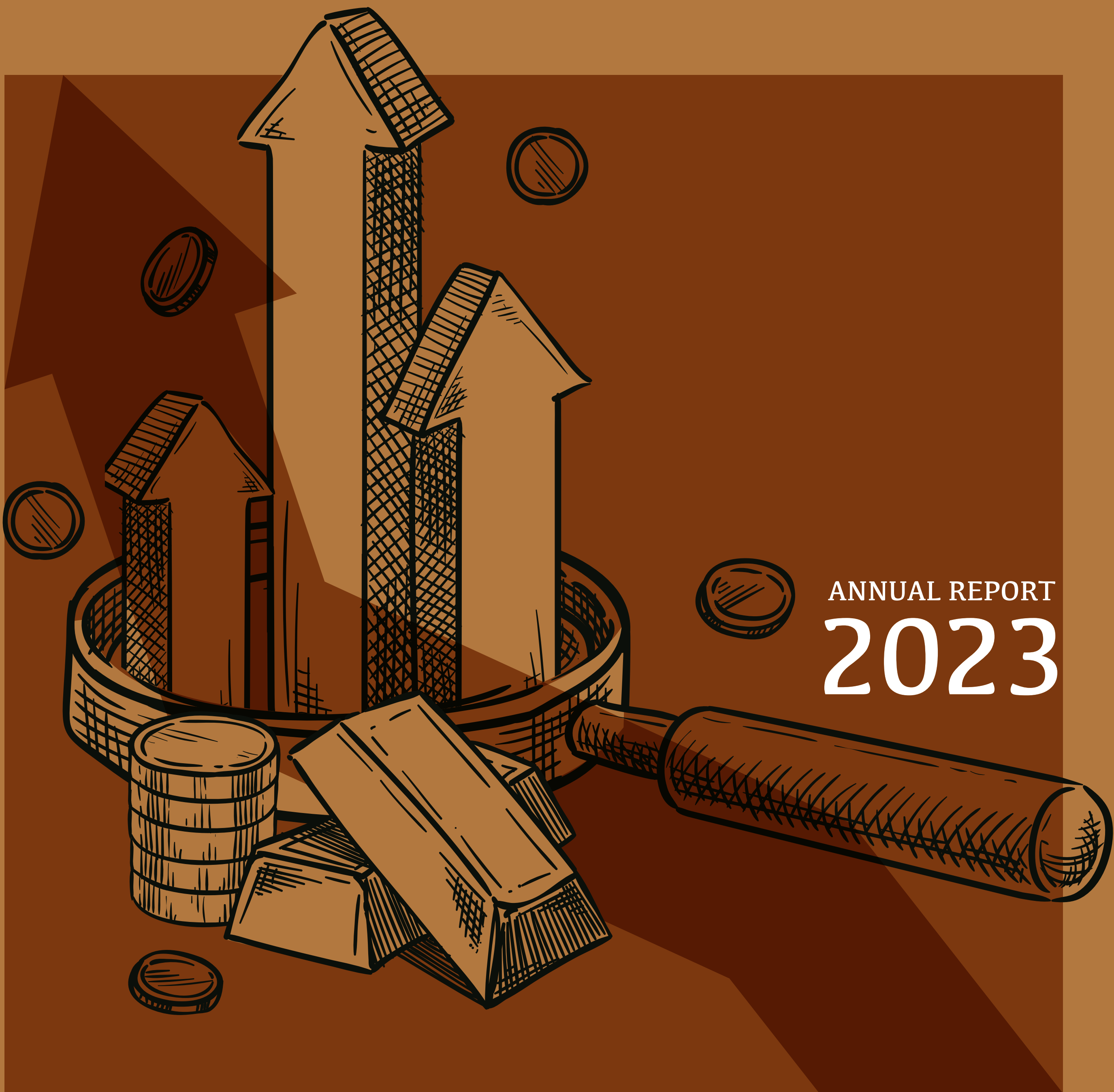
KFIC كفيك

INVEST إنفست



ANNUAL REPORT 2023

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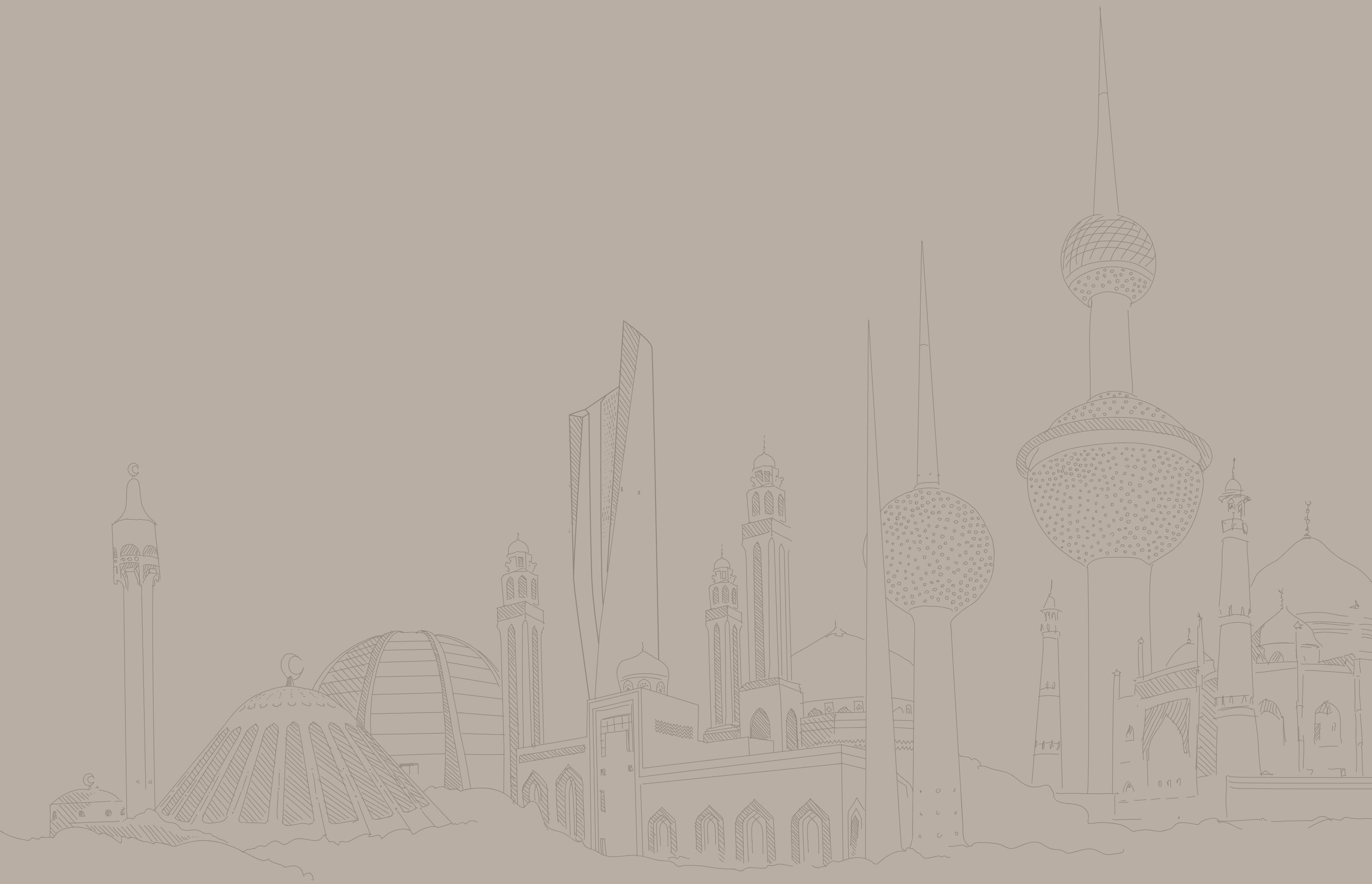
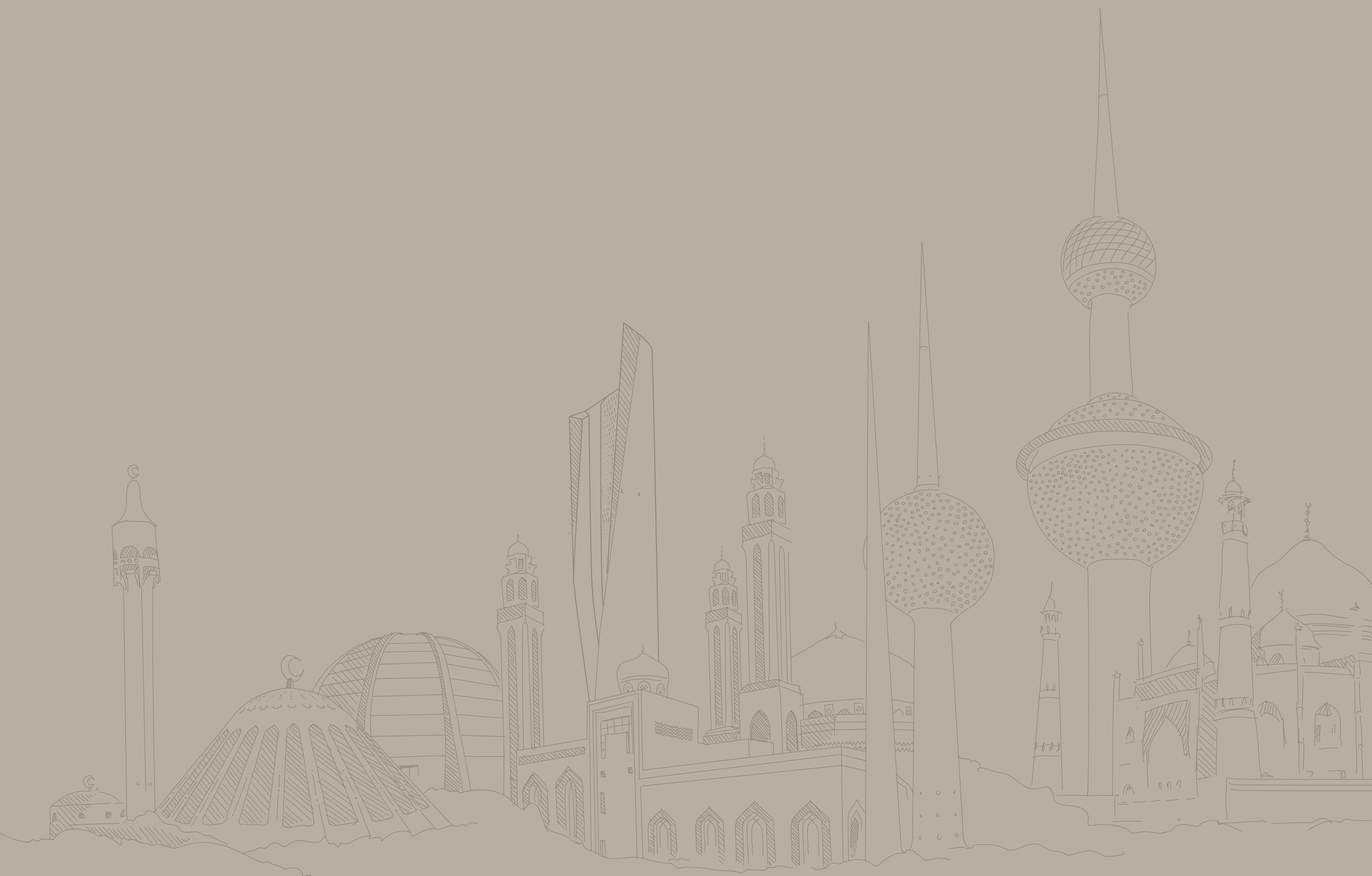


H. H. SHAIKH

MISHAL AL-AHMAD AL-JABER AL-SABAH

The Amir of the State of Kuwait



H. H. SHAIKH

Sabah Khaled Al-Hamad Al-Sabah

Crown Prince Of The State Of Kuwait

Board of Directors

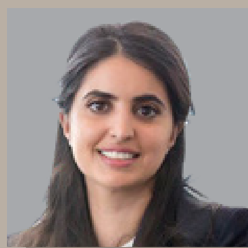
Mr. Sulaiman Khaled AlFulaij
Chairman

Tareq Mishari Al-Bahar
Vice Chairman & CEO

Mr. Abdullah Khaled Al-Terkait
Board Member (Independent)

Mr. Ahmad Hamad Al-Humaidhi
Board Member

Mr. Hamad Falah Al-Hajeri
Board Member



Mrs. Nouriya Imad Al-Sagar
Board Member

Mr. Abdullateef Abdulwahab AlTammar
Board Member

Mr. Falah Al-Hajeri
Board Member

CHAIRMAN LETTER

Mr. Sulaiman Khaled AlFulaij
Chairman

Dear Shareholders,
After greetings,
It gives me a pleasure, on my own behalf and on behalf of the members of the Board of Directors and executive management, to present the annual report of **KFIC Invest "the Group"** for the year **2023**, in which we present the results of **the Group** activities and its financial position for this year.

Global Economy and Kuwait

The year **2023** witnessed weak growth in the global economy, a new set of economic challenges has existed which affected the region and globally economic performance. In addition to financial and credit weaknesses associated with the increase in inflation and interest rate. High inflation rates remain in many countries and the Central Bank's stringent monetary policies on the path to inflation, in addition to that, the volatility of financial markets around the world continues to overshadow economic performance in many regions of the world. The world's economy continues to recover, but the experts describe it as slow and fragile.

On the level of Kuwait economy, despite a decline in crude oil prices of about 17% for the year, the Kuwaiti economy is expected to grow positively, and non-oil activities maintain growth in accordance with the estimate of 3.8% as per the International Monetary Fund (IMF). The Central Bank of Kuwait's prudent policies have also continued to play a key role in neutralizing the effects of economic volatility on Kuwait's banking and financial sectors, the Central Bank of Kuwait "CBK" raised its benchmark discount rate several times in **2023**, reaching a rate of 4.25% as at the end of the year, in order to alleviate global inflation, which has cast an effect over Kuwait's economy.

The Kuwaiti dinar also witnessed a slight decline against the US dollar during the year **2023**, as the price of the dinar against the US dollar reached **0.3068** as on **31 December 2023** against **0.3063** as on **31 December 2022**.

2023 Results

During **2023**, and due to significant declining in Boursa Kuwait performance and trading values during the year compared to comparative year by **29 %** (Trading values in Boursa Kuwait during **2023** of approximately **KD 10.4 billion** compared to **2022** of **KD 14.7 billion**), which resulted to a significant decrease in Group investment income and brokerage commission by **KD 1.5 Million** compared to **2022**,reaching an investment income and brokerage commission of approximately **KD 122 Thousand** during the year **2023** compared to approximately **KD 1.6 Million** during **2022**, which resulted in a significant decrease in Group total revenues by approximately **25%**, where the revenues decreased by **KD 1.2 Million** reaching a revenue of approximately **KD 3.7 Million** during the year **2023** compared to approximately **KD 4.9 Million** during **2022**.

Such significant decrease in revenues resulted in a negative effect on KFIC Invest results, as the **Group** achieved losses from recurring operations before impairment losses of intangible assets, Provisions, Board remuneration and Taxes of approximately **KD 999 Thousand** in **2023** compared to profit of approximately **KD 307 Thousand** in **2022** with a decrease of approximately **KD 1.3 Million**, also the **Group** achieved a net losses of approximately **KD 11.2 Million** in **2023** compared to net profit of approximately **KD 511 Thousand** in **2022** with a decrease of approximately **KD 11.7 Million**, where the Parent Company achieved a net losses amounted to approximately **KD 11.1 Million** with a loss of **36.1 fils** per share in **2023**, compared to a net profit of **KD 445 Thousand** with a profit of **1.4 fils** per share for **2022**.

Below summary shows the results of the Group's business sectors in **2023** compared to **2022**:

2022	Finance	Asset management	Investment & corporate finance	Financial brokerage online & trading	Total
	KD	KD	KD	KD	KD
Revenues	**2,502,136**	**623,646**	**226,368**	**343,874**	**3,696,024**
Expenses	**(1,822,395)**	**(1,353,030)**	**(1,222,488)**	**(2,490,381)**	**(6,888,294)**
Impairment of intangible assets	**-**	**-**	**-**	**(7,581,522)**	**(7,581,522)**
Segment results	**679,741**	**(729,384)**	**(996,120)**	**(9,728,029)**	**(10,773,792)**
Unallocated revenues					**34,558**
Unallocated expenses					**(431,980)**
Loss for the year					**(11,171,214)**
Segment assets	**16,859,274**	**3,336,847**	**8,771,902**	**11,669,447**	**40,637,470**
Unallocated assets					**909,192**
Total assets					**41,546,662**
Segment liabilities	**4,283,272**	**347,316**	**624,865**	**567,734**	**5,823,187**
Unallocated liabilities					**5,698,038**
Total liabilities					**11,521,225**

2022	Finance	Asset management	Investment & corporate finance	Financial brokerage online trading &	Total
	KD	KD	KD	KD	KD
Revenues	1,821,997	1,109,028	605,787	1,400,605	4,937,417
Expenses	(1,585,554)	(937,688)	(393,604)	(974,563)	(3,891,409)
Impairment of intangible assets	-	-	-	(241,966)	(241,966)
Segment results	236,443	171,340	212,183	184,076	804,042
Unallocated revenues					30,214
Unallocated expenses					(323,434)
Profit for the year					510,822
Segment assets	17,761,416	3,877,460	9,585,093	22,064,234	53,288,203
Unallocated assets					1,948,498
Total assets					55,236,701
Segment liabilities	5,201,650	379,616	498,178	582,330	6,661,774
Unallocated liabilities					6,831,957
Total liabilities					13,493,731

During **2023**, **KFIC Invest** recorded an impairment loss in of intangible assets by **KD 7.6 Million** compared to losses of **KD 242 Thousand** for year **2022** represents in brokerage license. Impairment losses recorded during the year is mainly due to the significant decrease in KFIC Brokerage's actual income during current year, which impacted the forecasted free cash flows.

The year **2023** witnessed an increase in finance costs by approximately **18%**, although KFIC Invest reduced its borrowings over the year with total amount of **KD 2.2 Million,** while such increase in finance cost is mainly due to increase in Central Bank of Kuwait Discount Rate (CBKDR) during the year reaching to **4.25%** as of December **2023** compared to **3.50%** as of December **2022**.

2023 also witnessed a decrease in wages and salaries costs by **4%**, while other operating expenses increased by **3%.**

During **2023**, **KFIC Invest Group** recorded a provision for other assets of approximately **KD 2.2 Million** which mainly represents the following:

- Provision of approximately **KD 1.5 Million** recorded in Group's subsidiary "KFIC Financial Brokerage Company K.S.C.C" on the remaining amount due from third party by **KD 6.7 Million** net of collateral with fair value of **KD 5.2 Million** as of December 2023, which was resulted from the irrevocable agreement signed in 2020 and its amendments. **The Group** has a promissory note of **KD 12.5 Million** equal the total value of the transaction. On 22 January 2023, the Group's subsidiary "KFIC Financial Brokerage Company K.S.C.C" filed a legal case against the other party claiming an amount of **KD 6.6 million**.
- Provision of approximately **KD 0.6 Million** recorded in KFIC Invest (Parent Company) represents the remaining balance from sale transaction of certain assets during December 2019. **The Group** has pledged collaterals representing unquoted securities and cash against such receivable in addition to a promissory note of **KD 0.6 million**, the Group assessed the fair value of the pledged collaterals of unquoted securities and have provided a provision for the full amount of **KD 0.6 million**. On 3 May 2023, the Parent Company filed a legal case against the other party claiming an amount of **KD 0.6 million**.

Below is a comparative summary of expenses of **the Group** for the years **2023** and **2022**.

	2023	2022
Finance cost	**461,835**	390,458
Wages and salaries	**2,610,181**	2,725,504
Other operating expenses	**1,219,830**	1,179,903
Depreciation	**437,806**	364,970
Impairment losses of intangible assets	**7,581,522**	241,966
Charge / (Recovery) of credit losses provisions for finance receivables	**160,685**	(503,572)
Charge of credit losses provisions on other assets	**2,223,086**	18,896
Charge of provision for expected liabilities	**187,051**	-
	14,881,996	4,418,125

Below is a brief overview of the Group's Business Sectors

Finance Services Sector

This sector achieved positive results during this year, where the net profit reached **KWD 680 Thousand** approximately in year **2023** compared to a net profit of approximately **KD 236 Thousand** in **2022.** The carrying value of finance portfolio increases by **10%** to approximately **KWD 12.3 Million** compared to approximately **KWD 11.2 Million** in **2022** with an increase of approximately **KWD 1.1 Million**.

The finance sector managed to increase its level of annual revenues by approximately **37%,** where the revenues increase by **KD 680 Thousand** reaching a revenue of approximately **KD 2.5 Million** during the year **2023** compared to approximately **KD 1.8 Million** in **2022**.

The finance portfolios managed by **the Group** on behalf of local banks reached an amount of approximately **KD 11.4 Million** in **2023** compared to approximately **KD 10.4 Million** in **2022**, with a increase of **10%**.

The finance service sector reduces non-performing loans by approximately **KD 2 Million** from approximately **KD 3.3 Million** as of **2022** to approximately **KD 1.3 Million** during the year **2023**.

The plans of this sector through **KFIC Financing Services Company** geared towards expanding and increasing market share by targeting customers with good credit solvency and offering new products and services, 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.

Asset Management Sector

As the global equity markets experienced a marked decline in performance affecting the sector's performance, the funds managed and those held in trust amounted to approximately **KD 206.6 Million** in **2023** compared to approximately **KD 228.3 Million** in **2022**, with a decrease of **10%**, which resulted in a decrease in management fees by approximately **KD 182 Thousand**, with a decrease of **22%**. The sector also recorded losses of approximately **KD 729 Thousand** in **2023** compared to profits of approximately **KD 171 Thousand** in **2022**, which is mainly due to the decrease in the market value of the portfolios which is linked to the decline in the stock markets. The performance of the Al-Wasam Fund during **2023** was negatively affected, as the Al-Wasam Fund **(dedicated to investing in listed shares on the Boursa Kuwait)** recognized losses of approximately **KD 89 Thousand** in **2023**, compared to profits of approximately **KD 169 Thousand** in **2022**.

During **2023**, KFIC Invest's management decided to dispose off its entire share in Al Wasm Fund, which is expected to be completed in 2024.On 06 March 2024 the annual general assembly meeting of the Fund unit holders approved to liquidate the fund.

The Asset Management Division has been supported by the necessary specialized human resources specialized in international and local markets to be able to provide better services to our clients and to attract new funds to achieve growth in performance.

Investment and Corporate Finance Sector

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 Invest** strategic partners in the Arab Gulf region.

The main reason behind the decline in the performance of the sector in the current year compared to prior year as the sector recorded losses of approximately **KD 996 Thousand** in **2023** compared to profits of approximately **KD 212 Thousand** in **2022**, which is mainly due to the provision for other assets recorded in current year by **KD 607 thousand** as a resulted from legal case raised by the KFIC Invest against the other party claiming an amount of **KD 0.6 million** which did not exist during **2022**, in addition to the revaluation losses of investment properties amounted to **KD 16 Thousand** in **2023** compared to revaluation gain amounted to **KD 183 Thousand** in **2022**.

On **3 May 2023**, the Parent Company filed a legal case against the other party claiming an amount of **KD 0.6 million**, which represents the remaining balance from sale transaction of certain assets during **December 2019**. The case was registered in the Commercial Division and the date of the first session is scheduled on **25 May 2023**. On that date, the session has been postponed to **6 September 2023** then on that date the case was suspended for one month. On **7 October 2023**, the suspension was cancelled, and a new session was scheduled on **8 November 2023**. On **8 November 2023**, a new session is scheduled on **15 November 2023** for judgement. On **15 November 2023** the judgement was rendered in the case and considered as never existed. On **30 November 2023**, a new case was filed and its first hearing was scheduled on **20 February 2024**, as of that date the case has been postponed to **5 March 2024** and then **16 April 2024**.During the year, the Group assessed the fair value of the pledged collaterals of unquoted securities and have provided a provision for the full amount of **KD 0.6 million**.

Financial Brokerage and Online Trading Sector

The brokerage revenues of this sector witnessed major decline in year **2023** compared to year **2022** due to the decline in the trading value in Boursa Kuwait, where the trading value decreased from approximately **KWD 14.7 Billion** in **2022** to approximately **KWD 10.4 Billion** in **2023,** with a decrease of approximately **29%**, in addition to that, the average market share of the sector decreased from **3.26%** during **2022** to **2.58%** during **2023** and with an average decrease of **21%**, this has negatively impacted the business results of this division, where brokerage and commission revenues of this sector in **2023** amounted to **KD 438 Thousand** compared to **KD 844 Thousand** in **2022**, with a decrease of **48%**.

Also, in addition to the revaluation losses of investment properties amounted to **KD 271 Thousand** in **2023** compared to revaluation gain of investment properties amounted to **KD 331 Thousand** in **2022**. 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 **KD 7.6 Million** in **2023** compared to **KD 242 thousand** in **2022**. Impairment losses recorded during the year is mainly due to the significant decrease in the subsidiary's actual income during current year, which impacted the forecasted free cash flows.

On **22 January 2023**, KFIC Financial Brokerage Co. filed a legal case against another party claiming an amount of **KWD 6.6 Million** representing the value of properties that had not yet been transferred to the **Group** and other remaining balances as a result of the irrevocable agreement signed in **2020** and its amendments. The case was registered in the Commercial Division of the Regional Court and the date of the first session is scheduled on **6 March 2023**. On the date of the first session, the case was postponed to a session on **20 March 2023** then on that date the case was suspended for two months. On **18 June 2023**, the suspension was cancelled, and a new session was scheduled on **31 July 2023**. On **31 July 2023**, a new hearing session is scheduled on **30 October 2023** to present the supporting documents. On **30 October 2023**, a new session is scheduled on **27 November 2023** for judgement. On **27 November 2023**, the court dismissed the case as a preliminary judgement on the basis that the original promissory note was not submitted. The preliminary judgement was appealed and a hearing session was scheduled on **24 January 2024** in front of the Court of Appeal, where the original promissory note will be presented. On that date, the case has been postponed to **6 March 2024** and then later postposed to **15 May 2024**. Furthermore, this deal has been transferred to the Public Prosecution as referred by the Capital Markets Authority.

During the year, the Group assessed the fair value of the pledged collaterals and have provided a provision of **KD 1.5 million**, which did not exist during **2022,** without taking in consideration the promissory note.

Group's Financial Position

The total assets amounted to approximately **KWD 41.5 Million** as of **31 December 2023** with a decrease of **25%** compared to the total assets amounting to approximately **KWD 55.2 Million** as of **31 December 2022.** Also, total liabilities amounted to approximately **KWD 11.5 Million** as of **31 December 2023** with a decrease of approximately **15%** compared to the total liabilities amounting to approximately **KWD 13.5 Million** as of **31 December 2022**.

The equity of the Parent Company, **KFIC Invest**, decreased by **28%**, to approximately **KD 29.3 Million** as of **2023**, compared to approximately **KD 40.9 Million** as of **2022**.

Below are the key indicators of the **Group** financial position as of **31 December 2023** compared to **31 December 2022**.

Index	2023	2022
Debt ratios	% 2.71	% (2.13)
Liabilities: Equity	0.38 times	0.32 times
Liquidity percentage	46%	68%

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

The Board of Directors of the Parent Company proposed to distribute non-cash dividend in the form of treasury shares at the rate of **4.42%** (2022: Nil). The non-cash dividend will be recorded as a reduction in treasury shares with a corresponding adjustment to voluntary reserve and the statutory reserves amounting to KD 3,145,214. This proposal is subject to the approval of regulatory parties and at the Annual General Assembly meeting.

Conclusion

I would like to extend sincere thanks and appreciation to all **KFIC Invest** shareholders for their support to the company as well as to **KFIC Invest**'s clients for their valued confidence in **KFIC Invest** 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 Invest**'s strategy and objectives.

May God make us successful!

Sulaiman Khaled AlFulaij

Chairman

Audit Committee Report
KFIC Invest Company
(K.S.C.P)
For the year ended «2023»

Mr. Abdullah Khaled Al-Terkait
Board Member (Independent)

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 **'KFIC Invest Company (KFIC Invest)'** for the year **2023** 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

1. Audit Committee's Goals:

Assisting the Board in its obligation with regards to the integrity of the financial reports, internal control 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 by ensuring compliance with the regulatory guidelines **(CBK, CMA and Ministries).**

2. Formalization of the Audit Committee:

#	Board Member Name	Membership in the Board	Membership in the Audit Committee
1	Mr. Abdullah Khaled Al-Tarkait	Board Member (Independent)	Chairman
2	Mr. Hamad Falah Al-Hajeri*	Board Member (Non-Executive)	Member
3	Mr. Abdullateef Abdulwahab Al-Tammar	Board Member (Non-Executive)	Member

*** Mr. Falah Hamad Al-Hajri sold all his shares represented by Mr. Falah Hamad Al-Hajri and Mr. Hamad Falah on 23 November 2023**

3. Committee's Key Tasks :

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

1. Review of periodical financial reports, prior to presenting them to the board of directors, as well as expressing an opinion, providing a recommendation, and endorsing it.
2. Recommending appointment or re-appointment of external auditors to the Board of Directors, as well as determining their fees, ascertaining their independence, and reviewing their engagement letter.
3. Evaluation of the sufficiency of the internal control systems that are applied within the company and preparation of a report that includes the committee's ev ndorsements concerning it.
4. Supervision of the internal audit functions, including evaluating its performance.
5. Ensuring the company's compliance with internal policies, as well as regulatory guidelines.
6. Endorsing the estimated Company's budget for the year 2024 and recommending to the Board for approval.

4. 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		
Date of Meeting / Board Member Name	12 Jan	13 Mar.	19 Mar.	30 Mar.	14 May	14 Aug.	14 Nov.	21 Dec.	Total	%
Mr. Abdullah K. Al-Terkait	✓	✓	✓	✓	✓	✓	✓	✓	8	100%
Mr. Hamad Falah Al-Hajeri*	✓	✓	✓	✓	✓	×	×	*	5/7	71%
Mr. Abdullateef Abdulwahab Al-Tammar	✓	×	✓	✓	✓	✓	✓	✓	7	88%

*** Mr. Falah Hamad Al-Hajri sold all his shares represented by Mr. Falah Hamad Al-Hajri and Mr. Hamad Falah on 23 November 2023.**

5. Audit Committee Achievements:

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

1. Periodical review of financial statements and reports to ensure fairness and transparency.
2. Provide Recommendations to the Board of Directors concerning matters related to External Auditors.

3. Supervision of Internal Audit Division and ensure its effectiveness.
4. Approved the Budget for the year 2024 and provide the committee recommendation to the Board of Directors.
5. Review and Approval the following:-

a. The annual internal audit plan for the year 2024.

b. The periodical internal audit reports and status.

c. CMA Reports:

i. Anti-Money Laundering (AML) Report.

ii. Internal Controls Report (ICR) for the year ended 2022.

6. Ensuring Company compliance with the instructions and decisions of the concerned regulatory authorities, viz. CMA, CBK, and Ministries.

6. Auditor fees for audit and other service engagements:

a. Audit Fees:-

Audit fees includes the auditor fees for audit of the Group consolidated financial statements on which the auditors express an opinion.

	2023 KD	2022 KD
The Parent Company	**20,750**	18,000
Consolidated Controlling Entities	**29,300**	10,583
Total Audit Fees	**50,050**	**28,583**

b. Other Services Fees:-

Other services fees include the auditor fees for other assurance and non-assurance services to the Group and its controlled entities, such as, reviews, as well as agreed upon procedure services provided to the Group and its controlled entities.

	2023 KD	2022 KD
The Parent Company	**4,000**	4,000
Consolidated Controlling Entities	**7,000**	2,000
Total Other Fees	**11,000**	**6,000**

Signatures:

Member's Name	Signature
Mr. Abdallah Khaled Al-Tarkait Audit Committee Chairman	
Mr. Abdullateef Abdulwahab Al-Tammar Audit Committee Member	

KFIC Invest Company K.S.C. (Public)
and its subsidiaries

Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2023

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of KFIC Invest 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 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, 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.

Emphasis of Matter

We draw attention to Note 7 to the consolidated financial statements which describes the latest updates on the legal case filed by the Group's subsidiary against the counterparty claiming the remaining balance due to the Group in relation to the irrevocable agreement signed in 2020. Our Opinion is not modified is respect to this matter.

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT INVEST COMPANY K.S.C. (PUBLIC) (CONTINUED)

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

Key Audit Matters (continued)

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. The results 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 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.

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 inflationary pressure and high interest rate environment.

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 inflationary pressure and high interest rate environment.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT INVEST COMPANY K.S.C. (PUBLIC) (CONTINUED)

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

Key Audit Matters (continued)

Measurement of 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, 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 representing a brokerage license for which management assessed as having an indefinite useful life as detailed in Note 10 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. 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).

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT INVEST 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 10 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 8,832,696 representing 21% 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. Given 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 considered the methodology and the appropriateness of the valuation models and inputs used to value the investment properties. We have challenged the appropriateness of the properties' related data supporting the external appraisers' valuations. We performed additional procedures for areas of risk and estimation. This included, where relevant, comparison of judgements made to current 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 9 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT INVEST COMPANY K.S.C. (PUBLIC) (continued)

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

Other information included in the Group's 2023 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2023 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.

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT INVEST COMPANY K.S.C. (PUBLIC) (continued)

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

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 2023 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. 7 of 2010 concerning establishment of Capital Markets Authority "CMA" and organization of security activity and its executive regulations, as amended during the year ended 31 December 2023 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

28 March 2024
Kuwait

KFIC Invest Company K.S.C. (Public) and its subsidiaries

Consolidated Financial Statements and Independent Auditor’s Report for the year ended 31 December 2023

KFIC INVEST COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	2023 KD	2022 KD
ASSETS			
Bank balances and cash	4	**5,247,753**	9,118,868
Financial assets at fair value through profit or loss	5	**4,552,979**	4,652,227
Financial assets at fair value through other comprehensive income		**123,844**	172,861
Finance receivables at fair value through other comprehensive income	6a	**7,983,391**	8,898,971
Finance receivables at amortized cost	6b	**4,293,719**	2,260,056
Other assets	7	**6,714,832**	9,028,841
Investments in associates	8	**2,275,020**	2,124,357
Investment properties	9	**8,832,696**	9,482,411
Property and equipment		**1,270,460**	1,664,619
Intangible assets	10	**251,968**	7,833,490
TOTAL ASSETS		**41,546,662**	55,236,701
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	11	**6,083,333**	8,250,000
Other liabilities	12	**5,437,892**	5,243,731
Total Liabilities		**11,521,225**	13,493,731
Equity			
Share capital	13.1	**32,249,138**	32,249,138
Statutory reserve	13.2	**2,431,535**	2,431,535
Voluntary reserve	13.3	**750,000**	750,000
Treasury shares	13.4	**(3,145,214)**	(3,145,214)
Fair value reserve		**267,264**	739,846
Foreign currency translation reserve		**77,444**	75,360
Equity transactions reserve		**1,156,426**	1,156,426
Accumulated losses) / retained earnings)		**(4,466,626)**	6,732,789
Equity attributable to the equity holders of the Parent Company		**29,319,967**	40,989,880
Non-controlling interests		**705,470**	753,090
Total Equity		**30,025,437**	41,742,970
TOTAL LIABILITIES AND EQUITY		**41,546,662**	55,236,701

Sulaiman Khaled AlFulaij
Chairman

Tareq Meshari AlBahar
Vice Chairman

The attached nots from 1 to 22 form part of these consolidated financial statements.

KFIC Invest Company K.S.C. (Public) and its subsidiaries
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2023

	Notes	2023 KD	2022 KD
REVENUES			
Finance income	14	**2,027,391**	1,482,312
Management and advisory fees		**1,006,488**	1,084,065
Brokerage commissions		**438,488**	866,365
Investment (loss) income	15	**(316,316)**	753,309
Rental income		**379,369**	368,728
Share of result of associates		**(85,477)**	123,071
Foreign currency gain		**15,339**	70,790
Other income		**265,300**	218,991
		3,730,582	4,967,631
EXPENSES			
Finance costs		**(461,835)**	(390,458)
Staff costs		**(2,610,181)**	(2,725,504)
General, administrative and marketing expenses		**(1,219,830)**	(1,179,903)
Depreciation		**(437,806)**	(364,970)
		(4,729,652)	(4,660,835)
LOSS) PROFIT BEFORE IMPAIRMENT LOSSES,) PROVISIONS, BOARD OF DIRECTORS' REMUNERATION AND TAXES		**(999,070)**	306,796
Impairment losses of intangible assets	10	**(7,581,522)**	(241,966)
Provision (charge) recovery for expected credit losses for finance receivables	6c	**(160,685)**	503,572
Provision charge for expected credit losses on other assets	7	**(2,223,086)**	(18,896)
Provision charge for expected liability		**(187,051)**	-
LOSS) PROFIT BEFORE BOARD OF DIRECTORS') REMUNERATION AND TAXES		**(11,151,414)**	549,506
Board of directors' remuneration		**(19,800)**	(18,000)
National labour support tax		-	(14,774)
Zakat		-	(5,910)
LOSS) PROFIT FOR THE YEAR)		**(11,171,214)**	510,822
:Attributable to			
Equity holders of the Parent Company		**(11,135,469)**	445,283
Non-controlling interests		**(35,745)**	65,539
LOSS) PROFIT FOR THE YEAR)		**(11,171,214)**	510,822
LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO) EQUITY (HOLDERS OF THE PARENT COMPANY (fils	16	**(36.1)**	1.4

The attached nots from 1 to 22 form part of these consolidated financial statements.

KFIC Invest Company K.S.C. (Public) and its subsidiaries
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023

	Notes	2023 KD	2022 KD
(Loss) profit for the year		**(11,171,214)**	510,822
Other comprehensive loss:			
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		**(18,205)**	(181,398)
Fair value reserve transferred to consolidated statement of income on sale of finance receivable at fair value through other comprehensive income		**110,415**	(8,658)
Net charge (reversal) in provision for expected credit losses of finance receivables at fair value through other comprehensive income	6c	**478,536**	(731,539)
Write-off of finance receivables at fair value through other comprehensive income	6a	**(1,090,087)**	(568)
Exchange differences on translation of foreign operations		**2,084**	67,562
		(517,257)	(854,601)
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		**(17,396)**	(11,367)
Other comprehensive loss for the year		**(534,653)**	(865,968)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(11,705,867)**	(355,146)
Attributable to:			
Equity holders of the Parent Company		**(11,669,913)**	(421,273)
Non-Controlling interests		**(35,954)**	66,127
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(11,705,867)**	(355,146)

The attached nots from 1 to 22 form part of these consolidated financial statements.

KFIC Invest Company K.S.C. (Public) and its subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	Attributable to equity holders of the Parent Company										
	Share capital KD	*Statutory reserve KD*	*Voluntary reserve KD*	*Treasury shares KD*	*Fair value reserve KD*	*Foreign currency translation reserve KD*	*Equity transactions reserve KD*	*Accumulated) losses)/retained earnings KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
As at 1 January 2023	**32,249,138**	**2,431,535**	**750,000**	**(3,145,214)**	**739,846**	**75,360**	**1,156,426**	**6,732,789**	**40,989,880**	**753,090**	**41,742,970**
Loss for the year	-	-	-	-	-	-	-	**(11,135,469)**	**(11,135,469)**	**(35,745)**	**(11,171,214)**
Other comprehensive (loss) income for the year	-	-	-	-	**(536,528)**	**2,084**	-	-	**(534,444)**	**(209)**	**(534,653)**
Total comprehensive (loss) income for the year	-	-	-	-	**(536,528)**	**2,084**	-	**(11,135,469)**	**(11,669,913)**	**(35,954)**	**(11,705,867)**
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	**63,946**	-	-	**(63,946)**	-	-	-
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	**(11,666)**	**(11,666)**
As at 31 December 2023	**32,249,138**	**2,431,535**	**750,000**	**(3,145,214)**	**267,264**	**77,444**	**1,156,426**	**(4,466,626)**	**29,319,967**	**705,470**	**30,025,437**
As at 1 January **2022**	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
Profit for the year	-	-	-	-	-	-	-	445,283	445,283	65,539	510,822
Other comprehensive (loss) income for the year	-	-	-	-	(934,118)	67,562	-	-	(866,556)	588	(865,968)
Total comprehensive (loss) income for the year	-	-	-	-	(934,118)	67,562	-	445,283	(421,273)	66,127	(355,146)
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	(180,237)	(180,237)
Transfer to statutory reserve (Note 13.2)	-	60,000	-	-	-	-	-	(60,000)	-	-	-
As at 31 December 2022	32,249,138	2,431,535	750,000	(3,145,214)	739,846	75,360	1,156,426	6,732,789	40,989,880	753,090	41,742,970

The attached nots from 1 to 22 form part of these consolidated financial statements.

KFIC Invest Company K.S.C. (Public) and its subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	2023 KD	2022 KD
OPERATING ACTIVITIES			
(Loss) profit for the year		**(11,171,214)**	510,822
Adjustments to reconcile (loss) profit for the year to net cashflows:			
Dividend income		**(151,150)**	(127,979)
Share of results of associates		**85,477**	(123,071)
Change in fair value of investment properties	15	**286,843**	(514,461)
Loss on sale of investment properties	15	**32,790**	-
Finance costs		**461,835**	390,458
Depreciation		**437,806**	364,970
Impairment losses of intangible assets	10	**7,581,522**	241,966
Charge (recovery) for expected credit losses for finance receivables	6c	**160,685**	(503,572)
Provision charge for expected credit losses on other assets	7	**2,223,086**	18,896
Provision charge for expected liability		**187,051**	-
Provision for employees' end of service benefits		**207,376**	211,764
		342,107	469,793
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		**99,248**	(60,365)
Finance receivables at fair value through other comprehensive income	6a	**(82,297)**	1,343,787
Finance receivables at amortised cost	6b	**(1,715,812)**	460,665
Other assets		**85,314**	127,381
Other liabilities		**(11,220)**	(45,438)
Cash flows (used in) from operations		**(1,282,660)**	2,295,823
Employees' end of service benefits paid		**(180,422)**	(123,156)
Net cash flows (used in) from operating activities		**(1,463,082)**	2,172,667
INVESTING ACTIVITIES			
Net movement of property and equipment		**(43,647)**	(648,052)
Additions to investment properties	9	**(15,800)**	(800)
Proceeds from sale of investment properties		**351,617**	-
Dividends received		**151,150**	127,979
Proceed from sale of equity instruments at fair value through other comprehensive income		**31,739**	-
Dividends received from associates		**22,774**	122,879
Purchase of additional shares in associate		**(257,074)**	-
Fixed deposits with original maturity greater than three months (placed) withdrawn		**(98)**	539,904
(Placement) release of restricted cash at banks		**(64,154)**	3,939,079
Net cash flows from investing activities		**176,507**	4,080,989
FINANCING ACTIVITIES			
Proceeds from borrowings		-	1,000,000
Repayments of borrowings		**(2,166,667)**	(750,000)
Finance costs paid		**(470,459)**	(382,840)
Net movement in non-controlling interests		**(11,666)**	(180,237)
Net cash flows used in financing activities		**(2,648,792)**	(313,077)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(3,935,367)**	5,940,579
Cash and cash equivalents as at 1 January		**7,882,057**	1,941,478
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	4	**3,946,690**	7,882,057

The attached nots from 1 to 22 form part of these consolidated financial statements.

KFIC INVEST COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2023

1 INCORPORATION AND ACTIVITIES

KFIC Invest 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 was replaced by Law No. 1 of 2016 (New Companies' Law). The Parent Company is regulated by the Capital Markets Authority (CMA) as an investment company.

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

The Parent Company's registered office is at AL Khaled Tower, Al Qebla, 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 KFIC Invest Company K.S.C. (Public) (the "Parent Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2023 were authorised for issue by the Board of Directors on ------2024 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 2022 were approved by the Parent Company's shareholders at the annual general assembly meeting ("AGM") held on 20 April 2023.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION

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 IFRS 9 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 by CBK 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.

The Group presents its consolidated statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in Note 21.3.

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 2022, except for the adoption of new standards effective as of 1 January 2023. 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.

Definition of Accounting Estimates - Amendments to IAS 8
The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.2 Changes in accounting policies (continued)

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

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
The amendments to IAS 1 and IFRS Practice Statement 2 "Making Materiality Judgements" provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

2.3 New standards issued but not yet effective

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

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback
In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7
In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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.

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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.5 Business combinations and goodwill (continued)

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.

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 less restricted cash, 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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.7 Financial instruments (continued)

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

Business model assessment (continued)

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

Assessment of whether contractual cash flows are solely payments of principal and 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 and bank balances.

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.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.7 Financial instruments (continued)

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

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

(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.

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.

2- 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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.7 Financial instruments (continued)

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

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.

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. Equity investments are not subject to Expected Credit Losses.

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').

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 MATERIAL ACCOUNTING POLICY INFORMATION (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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (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.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (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)

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%

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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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.

2.10 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.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

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.

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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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.

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.

2BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.18 Leases (continued)

Operating lease (continued)

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.

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 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.

2.20 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.

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2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

2.21 Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) is calculated at 1% of the profit attributable to shareholders of the Parent Company in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, and transfer to statutory reserve until the reserve reaches 50% of share capital should be excluded from the profit for the year base when determining the contribution. The contribution to KFAS is payable in full before the AGM is held in accordance with the Ministerial Resolution (184/2022).

2.22 National Labor Support Tax (NLST)

National Labor Support Tax (NLST) is calculated at 2.5% of the profit attributable to the shareholders of the Parent Company before contribution to KFAS, NLST, Zakat, and Board of Directors' remuneration, and after deducting the Parent Company's share of profit from associates listed in Boursa Kuwait, share of NLST paid by subsidiaries listed in Boursa Kuwait, and cash dividends received from companies listed in Boursa Kuwait in accordance with Law No. 19 of 2000 and Ministerial resolution No. 24 of 2006 and their Executive Regulations.

2.23 Zakat

Zakat is calculated at 1% of the profit attributable to the shareholders of the Parent before contribution to KFAS, Zakat, and Board of Directors' remuneration, and after deducting the Group's share of profit from Kuwaiti shareholding associates and subsidiaries, share of Zakat paid by Kuwaiti shareholding subsidiaries and cash dividends received from Kuwaiti shareholding companies in accordance with Law No. 46 of 2006 and Ministerial resolution No. 58 of 2007 and their Executive Regulations.

2.24 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 19).

2.25 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:

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Uncertainty of accounting estimates (continued)

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 9).

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.

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3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Uncertainty of accounting estimates (continued)

Impairment losses on financing receivables – as per CBK guidelines

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

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).

4 CASH AND CASH EQUIVALENTS

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

	2023 KD	2022 KD
Cash at banks and on hand	**3,003,420**	3,926,552
Cash in investment portfolios	**2,437**	391
Fixed deposits	**2,241,896**	5,191,925
Bank balances and cash	**5,247,753**	9,118,868
Fixed deposits with a maturity greater than three months from the date of placement	**(7,896)**	(7,798)
Fixed deposit blocked	**(734,000)**	(734,000)
Cash at banks blocked	**(559,167)**	(495,013)
Total cash and cash equivalents	**3,946,690**	7,882,057

Fixed deposits duration varies from one to twelve months and carry an average effective interest rate of 4.3% per annum as at 31 December 2023 (2022: 3%) per annum.

Bank balances and cash amounting to KD 734,000 are pledged against borrowings which contain fixed deposits with a maturity greater than three months from the date of placement (2022: KD 734,000) (Note 11).

Cash at banks disclosed above include restricted bank balances of KD 559,167 (2022: KD 495,013) 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).

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5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 KD	2022 KD
Quoted equity	**2,505,278**	2,604,526
Unquoted equity	**2,047,701**	2,047,701
	4,552,979	4,652,227

The hierarchy for determining and disclosing the fair value of financial instruments by valuation technique are presented in (Note 20).

6 FINANCE RECEIVABLES

The provisions computed as per IFRS 9 according to the CBK guidelines relating to finance receivables carried at fair value through other comprehensive income and finance receivables at amortised cost amount to KD 1,546,179 (2022: KD 3,565,936), which is higher (2022: lower) than the provisions computed as per CBK instructions as at 31 December 2023 amounted to KD 1,533,397 (2022: KD 3,594,863). Hence, the provision for credit losses against the finance receivables is based on IFRS 9 according to the CBK guidelines in 2023, compared to CBK instructions in 2022.

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

	2023 KD	2022 KD
Gross finance receivables	**9,175,855**	9,807,927
Less: deferred income	**(1,139,195)**	(763,477)
	8,036,660	9,044,450
Fair value adjustment (Net)	**(53,269)**	(145,479)
	7,983,391	8,898,971

The movement in the provision of credit losses for finance receivable carried at fair value through other comprehensive income is as follows:

	2023 KD	2022 KD
Opening balance calculated under CBK instructions (2022: calculated under (IFRS 9 as per CBK guidelines	**(1,616,717)**	(2,348,824)
(Charge) recovery during the year (Note 6c)	**(478,536)**	731,539
Write off during the year	**1,090,087**	568
Ending balance calculated under IFRS 9 as per CBK guidelines (2022: (calculated under CBK instructions	**(1,005,166)**	(1,616,717)

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6 FINANCE RECEIVABLES (CONTINUED)

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

The below analysis shows the provision for credit losses as per CBK instructions:

	General		Specific		Total	
	2023	2022	**2023**	2022	**2023**	2022
	KD	KD	**KD**	KD	**KD**	KD
As at the beginning of the year	**(73,316)**	(83,048)	**(1,543,401)**	(1,641,153)	**(1,616,717)**	(1,724,201)
Recovery (charge) of provision during the year	**1,593**	9,732	**(144,692)**	97,184	**(143,099)**	106,916
Write off during the year	**-**	-	**1,090,087**	568	**1,090,087**	568
As at the end of the year	**(71,723)**	(73,316)	**(598,006)**	(1,543,401)	**(669,729)**	(1,616,717)

The below analysis shows the changes in the carrying amount in relation to finance receivables carried at FVOCI:

2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KD	**KD**	**KD**	**KD**
Carrying value as at 1 January 2023	**7,027,877**	**334,210**	**1,682,363**	**9,044,450**
New assets originated net of repayments, selling and repurchase portfolios during the year	**119,480**	**(87,243)**	**50,060**	**82,297**
Transfer between stages	**(129,253)**	**(48,533)**	**177,786**	**-**
Write off during the year	**-**	**-**	**(1,090,087)**	**(1,090,087)**
As at 31 December 2023	**7,018,104**	**198,434**	**820,122**	**8,036,660**

The below analysis shows the changes of expected credit losses computed under IFRS 9 in accordance with CBK guidelines in relation to finance receivables carried at FVOCI:

2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	KD	**KD**	**KD**	**KD**
Expected credit losses as at 1 January 2023	**(153,210)**	**(65,838)**	**(1,682,363)**	**(1,901,411)**
Charge during the year	**(118,671)**	**(32,336)**	**(42,835)**	**(193,842)**
Impact due to transfer between stages	**134,678**	**50,333**	**(185,011)**	**-**
Write off during the year	**-**	**-**	**1,090,087**	**1,090,087**
As at 31 December 2023	**(137,203)**	**(47,841)**	**(820,122)**	**(1,005,166)**

6 FINANCE RECEIVABLES (CONTINUED)

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

The below analysis shows the changes in the carrying amount in relation to finance receivables carried at FVOCI:

2022	Stage 1 KD	Stage 2 KD	Stage 3 KD	Total KD
Carrying value as at 1 January 2022	7,724,711	606,467	2,057,627	10,388,805
New assets originated net of repayments and selling portfolios during the year	(588,711)	(254,931)	(500,145)	(1,343,787)
Transfer between stages	(108,123)	(17,326)	125,449	-
Write off during the year	-	-	(568)	(568)
As at 31 December 2022	7,027,877	334,210	1,682,363	9,044,450

The below analysis shows the changes of expected credit losses computed under IFRS 9 in accordance with CBK guidelines in relation to finance receivables carried at FVOCI:

2022	Stage 1 KD	Stage 2 KD	Stage 3 KD	Total KD
Expected credit losses as at 1 January 2023	(158,107)	(133,090)	(2,057,627)	(2,348,824)
(Charge) recovery during the year	(122,448)	10,104	560,325	447,981
Impact due to transfer between stages	127,345	57,148	(184,493)	-
Write off during the year	-	-	(568)	(568)
As at 31 December 2022	(153,210)	(65,838)	(1,682,363)	(1,901,411)

As of 31 December 2023, finance receivables of KD 820,122 (2022: KD 1,682,363) were impaired and provided for. The related provision for those receivables amounted to KD 820,122 as of 31 December 2023 (2022: KD 1,543,401).

As of 31 December 2023, finance receivables amounting to KD 7,216,538 (2022: KD 7,362,087) 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 152,164 as of 31 December 2023 (2022: KD 222,267). These receivables are not considered impaired. Following is the aging of finance receivables installments which are past due but not impaired:

	2023 KD	2022 KD
One month	**112,654**	149,814
More than one month till two months	**32,767**	55,587
More than two months till three months	**6,743**	16,866
	152,164	222,267

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6 FINANCE RECEIVABLES (CONTINUED)

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

Finance receivables carried at fair value through other comprehensive income are mortgaged against borrowings by simple assignment of right (Note 11).

The hierarchy for determining and disclosing the fair value of finance receivables by valuation techniques are in (Note 20).

b - Finance receivables carried at amortised cost

	2023 KD	2022 KD
Gross finance receivables	**5,549,288**	4,531,980
Less: deferred income	**(714,556)**	(293,778)
	4,834,732	4,238,202
Less: Expected credit losses	**(541,013)**	-
Less: General provision	-	(324,945)
Less: Specific provision	-	(1,653,201)
	4,293,719	2,260,056

The movement of provision for credit losses for finance receivable carried at amortised cost is as follows:

	2023 KD	2022 KD
Opening balance calculated under CBK instructions (2022: calculated under IFRS 9 as per CBK guidelines)	**(1,978,146)**	(1,750,179)
Recovery (charge) during the year (Note 6c)	**317,851**	(227,967)
Write off during the year	**1,119,282**	-
Ending balance calculated under IFRS 9 as per CBK guidelines (2022: calculated under CBK instructions)	**(541,013)**	(1,978,146)

6 FINANCE RECEIVABLES (CONTINUED)

b - Finance receivables carried at amortised cost (continued)

The below analysis shows the provision for credit losses as per CBK instructions:

	General		Specific		Total	
	2023	2022	**2023**	2022	**2023**	2022
	KD	KD	**KD**	KD	**KD**	KD
As at the beginning of the year	**(324,945)**	(321,536)	**(1,653,201)**	(1,569,989)	**(1,978,146)**	(1,891,525)
(Charge) recovery of provision during the year	**(17,225)**	(3,409)	**12,421**	(83,212)	**(4,804)**	(86,621)
Write off during the year	**-**	-	**1,119,282**	-	**1,119,282**	-
As at the end of the year	**(342,170)**	(324,945)	**(521,498)**	(1,653,201)	**(863,668)**	(1,978,146)

The below analysis shows the changes in the carrying amount in relation to finance receivables carried at amortised cost:

2023	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Carrying value as of 1 January 2023	**2,509,098**	**73,783**	**1,655,321**	**4,238,202**
New assets originated net of repayments during the year	**1,804,123**	**(11,948)**	**(76,363)**	**1,715,812**
Transfer between stages	**(36,231)**	**(25,591)**	**61,822**	**-**
Write off during the year	**-**	**-**	**(1,119,282)**	**(1,119,282)**
As at 31 December 2023	**4,276,990**	**36,244**	**521,498**	**4,834,732**

The below analysis shows the changes of expected credit losses computed under IFRS 9 in accordance with CBK guidelines in relation to finance receivables carried at amortised cost:

2023	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Expected credit losses as of 1 January 2023	**(5,469)**	**(5,203)**	**(1,653,853)**	**(1,664,525)**
(Charge) recovery during the year	**(11,702)**	**(2,176)**	**18,108**	**4,230**
Impact due to transfer between stages	**235**	**4,800**	**(5,035)**	**-**
Write off during the year	**-**	**-**	**1,119,282**	**1,119,282**
As at 31 December 2023	**(16,936)**	**(2,579)**	**(521,498)**	**(541,013)**

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6 FINANCE RECEIVABLES (CONTINUED)

The below analysis shows the changes in the carrying amount in relation to finance receivables carried at amortised cost:

2022	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Carrying value as of 1 January 2022	1,920,860	306,639	2,471,368	4,698,867
New assets originated net of repayments during the year	588,238	(110,292)	(938,611)	(460,665)
Transfer between stages	-	(122,564)	122,564	-
As at 31 December 2022	2,509,098	73,783	1,655,321	4,238,202

The below analysis shows the changes of expected credit losses computed under IFRS 9 in accordance with CBK guidelines in relation to finance receivables carried at amortised cost:

2022	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Expected credit losses as of 1 January 2022	(5,560)	(9,879)	(1,734,740)	(1,750,179)
Recovery (charge) during the year	91	(4,405)	89,968	85,654
Impact due to transfer between stages	-	9,081	(9,081)	-
As at 31 December 2022	(5,469)	(5,203)	(1,653,853)	(1,664,525)

As of 31 December 2023, finance receivables of KD 521,498 (2022: KD 1,655,321) were impaired and provided for. The related provision for those receivables amounted to KD 521,498 as of 31 December 2023 (2022: KD 1,653,201).

As of 31 December 2023, finance receivables amounting to KD 4,313,234 (2022: KD 2,582,881) were performing. Included in these receivables are finance receivables instalments that are classified as past due for less than three months but not impaired amounting to KD 13,817 as of 31 December 2023 (2022: KD 16,387). These receivables are not considered impaired. Following is the aging of finance receivables instalments which are past due but not impaired:

	2023	2022
	KD	KD
One month	**10,952**	6,303
More than one month till two months	**1,684**	2,587
More than two months till three months	**1,181**	7,497
	13,817	16,387

The fair value of collaterals held against finance receivables, before CBK instruction for IFRS 9 haircut amounting to KD 3,371,540 as of 31 December 2023 (2022: KD 2,239,427), is KD 5,815,519 (2022: KD 5,172,597).

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6 FINANCE RECEIVABLES (CONTINUED)

b - Finance receivables carried at amortised cost (continued)

The fair value of finance receivables as of 31 December 2023 is KD 4,270,345 (2022: KD 2,640,899) was determined by using current discount market rates prevailing at the end of the reporting year.

Finance receivables carried at amortised cost are mortgaged against borrowings by simple assignment of right (Note 11).

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

	2023 KD	2022 KD
Kuwaiti Dinar	**3,387,796**	1,291,531
US Dollar	**905,923**	968,525
	4,293,719	2,260,056

c - Finance receivables credit loss

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

	2023 KD	2022 KD
Provision (charge) recovery for finance receivables carried at FVOCI (Net)	**(478,536)**	731,539
Provision recovery (charge) for finance receivables carried at amortised cost (Net)	**317,851**	(227,967)
	(160,685)	503,572

7 OTHER ASSETS

	2023 KD	2022 KD
Accrued income	**1,093,364**	1,143,133
Other receivables*	**5,505,455**	7,718,516
Prepayments	**116,013**	167,192
	6,714,832	9,028,841

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

	2023 KD	2022 KD
Other assets	**10,219,940**	10,402,967
Provision for expected credit loss	**(3,505,108)**	(1,374,126)
	6,714,832	9,028,841

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7 OTHER ASSETS (CONTINUED)

Provision for Expected credit loss movement:

	2023 KD	2022 KD
Opening balance	**1,374,126**	1,356,807
Charge during the year	**2,223,086**	18,896
Write off during the year	**(92,104)**	(1,577)
	3,505,108	1,374,126

* Other receivables include an amount of KD 786,110 (2022: KD 786,110) which is due from one of the portfolios' clients. The provision formed against this amount is KD 786,110 (2022: KD 786,110). The Group claims an amount of KD 1.9 million where 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.

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

During 2021, 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.

* As at 31 December 2023, other assets include other receivables amounting to KD 6.7 million (2022: 6.6 million) which represents three properties that have not been yet transferred to the Group as of the reporting date and other remaining balances as a result of the irrevocable agreement signed in 2020 and its amendments. The irrevocable agreement in 2020 was signed to acquire real estate properties with total fair value of KD 12,500,000 in exchange for some of the Group's assets. The Group has pledged collaterals representing quoted and unquoted securities against such receivable in addition to a promissory note of KD 12,500,000 as a collateral to proportionally cover the non-transferred assets. The Group has executed their part of the agreement and has transfer all the assets. The other party has transferred investment properties amounting to KD 6,463,665 and the remaining balance is recorded as other assets in the Group subsidiary books.

On 22 January 2023, the Group's subsidiary "KFIC Financial Brokerage Company K.S.C.C" filed a legal case against the other party claiming an amount of KD 6.6 million. The case was registered in the Commercial Division of the Regional Court and the date of the first session is scheduled on 6 March 2023. On the date of the first session, the case was postponed to a session on 20 March 2023 then on that date the case was suspended for two months. On 18 June 2023, the suspension was cancelled, and a new session was scheduled on 31 July 2023. On 31 July 2023, a new hearing session is scheduled on 30 October 2023 to present the supporting documents. On 30 October 2023, a new session is scheduled on 27 November 2023 for judgement.

On 27 November 2023, the court dismissed the case as a preliminary judgement on the basis that the original promissory note was not submitted. The preliminary judgement was appealed and a hearing session was scheduled on 24 January 2024 in front of the Court of Appeal, where the original promissory note will be presented. On that date, the case has been postponed to 6 March 2024 and then later postposed to 15 May 2024.

During the year, the Group assessed the fair value of the pledged collaterals and have provided a provision of KD 1.5 million without taking in consideration the promissory note.

Furthermore, this deal has been transferred to the Public Prosecution as referred by the Capital Markets Authority.

* Other receivables also include an amount of KD 0.6 million (31 December 2022: KD 0.6 million) which represents the remaining balance from sale transaction of certain assets during December 2019. The Group has pledged collaterals representing unquoted securities and cash against such receivable in addition to a promissory note of KD 0.6 million.

On 3 May 2023, the Parent Company filed a legal case against the other party claiming an amount of KD 0.6 million. The case was registered in the Commercial Division and the date of the first session is scheduled on 25 May 2023. On that date, the session has been postponed to 6 September 2023 then on that date the case was suspended for one month.

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7 OTHER ASSETS (CONTINUED)

On 7 October 2023, the suspension was cancelled, and a new session was scheduled on 08 November 2023. On 08 November 2023, a new session is scheduled on 15 November 2023 for judgement. On 15 November 2023 the judgement was rendered in the case and considered as never existed.

On 30 November 2023, a new case was filed and its first hearing was scheduled on 20 February 2024, as of that date the case has been postponed to 5 March 2024 and then 16 April 2024.

During the year, the Group assessed the fair value of the pledged collaterals of unquoted securities and have provided a provision for the full amount of KD 0.6 million.

8 INVESTMENTS IN ASSOCIATES

Name	Incorporation	Activity	Ownership % 2023	Ownership % 2022	Carrying value 2023 KD	Carrying value 2022 KD
Calhoun Equity Company Ltd.	Cayman Islands	Real estate investments	**28.69**	27.21	**1,025,450**	1,174,951
Calhoun Debt Company Ltd.	Cayman Islands	Real estate investments	**32.35**	26.49	**1,249,570**	949,406
					2,275,020	**2,124,357**

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

31 December 2023	Calhoun Equity Co Ltd. KD	Calhoun Debt Co Ltd. KD
Assets	**3,585,790**	**3,917,830**
Liabilities	**(6,584)**	**(41,748)**
Equity	**3,579,206**	**3,876,082**
Proportion of the Group's ownership	**28.69%**	**32.35%**
Total carrying value	**1,025,450**	**1,249,570**
Dividends declared during the year	**64,684**	**416,795**
(Loss) profit for the year	**(727,460)**	**400,960**
Group's share in (loss) profit for the year	**(200,180)**	**114,703**

During the year, the Parent Company subscribed 100% of a preferred shares issuance by Calhoun Equity Co. Ltd. of 153 shares for a consideration of KD 46,858.

During the year, the Parent Company subscribed 100% of a preferred shares issuance by Calhoun Debt Co. Ltd. of 985 shares for a consideration of KD 303,167.

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8 INVESTMENTS IN ASSOCIATES (CONTINUED)

31 December 2022	Calhoun Equity Co Ltd. KD	Calhoun Debt Co Ltd. KD
Assets	4,318,223	3,583,853
Equity	4,318,223	3,583,853
Proportion of the Group's ownership	27.21%	26.49%
Total carrying value	1,174,951	949,406
Dividends declared during the year	62,094	400,073
Profit for the year	62,199	400,688
Group's share in profit for the year	16,924	106,147

9 INVESTMENT PROPERTIES

Following is the movement on investment properties:

	2023 KD	2022 KD
As at 1 January	**9,482,411**	8,925,776
Additions	**15,800**	800
Disposals	**(384,407)**	-
Change in the fair value (Note 15)	**(286,843)**	514,461
Foreign currency translation differences	**5,735**	41,374
As at 31 December	**8,832,696**	9,482,411

Investment properties with carrying amount of KD 3,824,000 (2022: KD 3,824,000) are pledged against borrowings (Note 11).

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.
- 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.

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9 INVESTMENT PROPERTIES (CONTINUED)

As at 31 December 2023, the Group has investment properties amounting to KD 6,074,000 (2022: KD 6,074,000) which generate rental income. The significant assumptions made relating to valuation of such properties are set out below:

	2023	2022
Total area available for rent (sqm)	**2,880**	2,880
Average monthly rent per sqm (KD)	**14**	14
Average yield rate	**5.9%**	**5.7%**
Occupancy rate	**82%**	**100%**

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation:

	Changes in valuation assumptions	Impact on (loss) profit for the year	
		2023 KD	2022 KD
Average monthly rent (per sqm)	+5 %	**303,700**	303,700
Average yield rate	-5 %	**319,684**	319,684
Occupancy rate	-5 %	**(303,700)**	(303,700)

10 INTANGIBLE ASSETS

	2023 KD	2022 KD
As at 1 January	**7,833,490**	8,075,456
Impairment losses	**(7,581,522)**	(241,966)
Balance as of 31 December	**251,968**	7,833,490

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 10.52% (2022: 13.35%) and the long-term growth rate 3% (2022: 2.1%) after applying a further illiquidity discount of 20% (2022: 20%).

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 7,581,522 (2022: KD 241,966). Impairment losses recorded during the year is mainly due to the significant decrease in the subsidiary's actual income during current year, which impacted the forecasted free cash flows.

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11 BORROWINGS

Borrowings include local term loans and Murabaha which bear a floating interest rate between 2% to 2.5% per annum above CBK discount rate (2022: 2% to 2.5% per annum above CBK discount rate).

Following is the classification of borrowings based on their maturity:

	2023 KD	2022 KD
Current	**1,666,667**	2,166,667
Non-current	**4,416,666**	6,083,333
Total	**6,083,333**	8,250,000

The Parent Company has met all the borrowings covenants as of the reporting date. Borrowings obtained by the Group are in Kuwaiti Dinars and are collateralised against bank balances (Note 4), finance receivables at fair value through other comprehensive income (Note 6a), finance receivables at amortised cost (Note 6b), investment properties (Note 9) and investment in a subsidiary (Note 17).

12 OTHER LIABILITIES

	2023 KD	2022 KD
Due to suppliers and others	**1,877,353**	1,322,579
Employees' leave and end of service benefits	**1,608,082**	1,568,038
Lease liabilities	**687,785**	928,048
Accrued expenses and other payables	**1,153,737**	1,363,390
KFAS payables	**110,935**	61,676
	5,437,892	5,243,731

13 EQUITY

13.1 Share capital

	Authorised and issued capital		Paid capital	
	2023	2022	2023	2022
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 had been paid in cash.

13 EQUITY (CONTINUED)

13.2 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.

During the year, there was no transfer made to statutory reserve since the Group incurred losses (2022: a transfer of KD 60,000 to statutory reserve was made).

13.3 Voluntary reserve

In accordance with the 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 2023 (2022: KD Nil).

13.4 Treasury shares

	2023	2022
Number of shares	**13,648,042**	13,648,042
Percentage of the issued share capital (%)	**4.23%**	4.23%
Market value (Average) - KD	**862,415**	975,667

Reserves and retained earnings amounting to KD 3,145,214 (2022: KD 3,145,214) which are equivalent to cost of treasury shares are not available for distribution.

Treasury shares are free from any encumbrance.

13.5 Dividends

The Board of Directors of the Parent Company proposed to distribute non-cash dividend in the form of treasury shares at the rate of 4.42% (2022: Nil). The non-cash dividend will be recorded as a reduction in treasury shares with a corresponding adjustment to voluntary reserve and the statutory reserves amounting to KD 3,145,214. This proposal is subject to the approval of regulatory parties and at the Annual General Assembly meeting.

14 FINANCE INCOME

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2023 KD	2022 KD
Type of service		
Interest income	**761,899**	626,860
Other fee income	**1,265,492**	855,452
	2,027,391	1,482,312
Geographical markets		
Kuwait	**2,027,391**	1,482,312
	2,027,391	1,482,312
Timing of revenue recognition		
Services transferred over time	**761,899**	626,860
Services transferred at a point in time	**1,265,492**	855,452
	2,027,391	1,482,312

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15 INVESTMENT (LOSS) INCOME

	2023 KD	2022 KD
Financial assets at fair value through profit or loss		
Cash dividends	**100,783**	116,301
Net realized loss on sale	**(45,360)**	(3,558)
Unrealised (loss) gain	**(102,473)**	114,383
	(47,050)	227,126
Financial assets at fair value through other comprehensive income		
Cash dividends	**50,367**	11,678
Financial assets - amortised cost		
Income from financial assets	**-**	44
Investment properties		
Loss on sale investment property	**(32,790)**	-
Change in the fair value (Note 9)	**(286,843)**	514,461
	(319,633)	514,461
	(316,316)	753,309

16 (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

Basic (loss) earnings per share are calculated by dividing the (loss) 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 (loss) earnings per share are calculated by dividing the (loss) 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.

	2023	2022
(Loss) profit for the year attributable to equity holders of the Parent Company (KD)	**(11,135,469)**	445,283
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
(Loss) earnings per share attributable to equity holders of the Parent Company (fils)	**(36.1)**	1.4

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17 SUBSIDIARIES

Following are the Parent Company's subsidiaries:

Subsidiary Name			Ownership %	
	Activity	Incorporation	**2023**	2022
KFIC Financial Brokerage Company – K.S.C.C.	Brokerage	Kuwait	**100**	100
KFIC For Financing Services Company – K.S.C.C. (a)	Financing	Kuwait	**99.96**	99.96
KFIC for Administrative Consultation Company – S.P.C	Consultancy	Kuwait	**100**	100
Al-Wasm Fund (b)	Investment	Kuwait	**70.95**	70.60
KFIC Real Estate Company – S.P.C.	Real Estate	Kuwait	**100**	100
KFIC for Selling and Buying 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
KFIC Rental and Leasing Company – S.P.C.	Car Rental & Leasing	Kuwait	**100**	100
Riffa District for Shares and Securities – W.L.L.	Real Estate	Bahrain	**100**	100
Al Salbookh Al Oula for General Trading – S.P.C.	General Trading	Kuwait	**100**	100
Al Takmilia Al Oula Holding Company. – S.P.C. (c)	Holding	Kuwait	**100**	100
Jadwa International Marketing Consulting Company – S.P.C.	Consultancy	Kuwait	**100**	100

a- During the year, the Parent Company agreed to give a corporate guarantee in favor of a local bank of KD 1 million to cover 10% of the value of the purchased finance portfolio from KFIC For Financing Services Company K.S.C.C.

b - During the year, the Parent Company's management decided to dispose off its entire share in Al Wasm Fund, which is expected to be completed in 2024.On 06 March 2024 the annual general assembly meeting of the Fund unit holders approved to liquidate the fund.

c- Al Takmilia Al Oula Holding Company – S.P.C is not operating as of the reporting date.

Subsidiaries pledged

Portion of investment in Al-Wasm Fund with a net net value of KD 1,419,114 as of 31 December 2023, (2022: KD 1,463,073) is pledged against borrowings (Note 11), The Parent Company is in the process of releasing the pledged portion of Al-Wasm Fund.

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

Proportion of equity interest held by non-controlling interests:

	2023	2022
Al-Wasm Fund	**29.05%**	29.40%

Accumulated balances of non-controlling interests:

	2023 KD	2022 KD
Al-Wasm Fund	**698,821**	746,405

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

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17 SUBSIDIARIES (CONTINUED)

Summarized statement of comprehensive income of Al Wasm Fund:

	2023 KD	2022 KD
Revenues	(50,534)	211,796
Expenses	(38,241)	(42,886)
(Loss) profit for the year	(88,775)	168,910
Total comprehensive (loss) income	(88,775)	168,910
Net (loss) profit attributable to non-controlling interests	(35,918)	65,442

Summarized statement of financial position of Al Wasm Fund:

	2023 KD	2022 KD
Total assets	2,417,467	2,518,566
Total liabilities	(12,284)	(12,941)
Total equity	2,405,183	2,505,625
Attributable to non-controlling interests	698,821	746,405

18 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:

	2023 KD	2022 KD
Related parties' balances		
Bank balances and cash	387,474	721,384
Finance receivables at amortised cost – net	432,550	514,055
Other assets	519,943	425,455
Other liabilities	(540,095)	(604,569)

18 RELATED PARTIES (CONTINUED)

	2023 KD	2022 KD
Transactions with related parties		
Finance income	**38,407**	31,309
Management and advisory fees	**140,824**	129,162
Financial assets at amortized cost income	**-**	44
Provision for expected credit losses (charge) recovery	**(17,457)**	468

	2023 KD	2022 KD
Fiduciary assets		
Investments and funds managed in a fiduciary capacity	**28,270,713**	28,661,906

During the year, the Parent Company has secured a loan from its subsidiary, "KFIC for Financing Services K.S.C.C.", classified as financing receivables at amortised cost. The loan amount is KD 2,200,000 and carries an interest rate of 1% per annum above the CBK discount rate, the finance receivables have no effect on the consolidated financial statement.

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 Parent Company.

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

	2023 KD	2022 KD
Key management compensation		
Salaries, other short-term benefits and end of services indemnity	**(399,567)**	(484,329)

19 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.

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19 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.

2023	Finance	Asset management	Investment & corporate finance	Financial brokerage & online trading	Total
	KD	*KD*	*KD*	*KD*	*KD*
Revenues	2,502,136	623,646	226,368	343,874	3,696,024
Expenses	(1,822,395)	(1,353,030)	(1,222,488)	(2,490,381)	(6,888,294)
Impairment of intangible assets	-	-	-	(7,581,522)	(7,581,522)
Segment results	679,741	(729,384)	(996,120)	(9,728,029)	(10,773,792)
Unallocated revenues					34,558
Unallocated expenses					(431,980)
Loss for the year					(11,171,214)
Segment assets	16,859,274	3,336,847	8,771,902	11,669,447	40,637,470
Unallocated assets					909,192
Total assets					41,546,662
Segment liabilities	4,283,272	347,316	624,865	567,734	5,823,187
Unallocated liabilities					5,698,038
Total liabilities					11,521,225

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19 SEGMENT INFORMATION (CONTINUED)

2022	Finance	Asset management	Investment & corporate finance	Financial brokerage & online trading	Total
	KD	KD	KD	KD	KD
Revenues	1,821,997	1,109,028	605,787	1,400,605	4,937,417
Expenses	(1,585,554)	(937,688)	(393,604)	(974,563)	(3,891,409)
Impairment of intangible assets	-	-	-	(241,966)	(241,966)
Segment results	236,443	171,340	212,183	184,076	804,042
Unallocated revenues					30,214
Unallocated expenses					(323,434)
Profit for the year					510,822
Segment assets	17,761,416	3,877,460	9,585,093	22,064,234	53,288,203
Unallocated assets					1,948,498
Total assets					55,236,701
Segment liabilities	5,201,650	379,616	498,178	582,330	6,661,774
Unallocated liabilities					6,831,957
Total liabilities					13,493,731

20 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.

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20 FAIR VALUE MEASURMENTS (CONTINUED)

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

2023	Level 1	Level 2	Level 3	Total fair value
	KD	KD	KD	KD
Financial assets at fair value through profit or loss	**2,505,278**	-	**2,047,701**	**4,552,979**
Financial assets at fair value through other comprehensive income	-	**119,127**	**4,717**	**123,844**
Finance receivable at fair value through other comprehensive income	-	-	**7,983,391**	**7,983,391**
Investment properties	-	**2,758,696**	**6,074,000**	**8,832,696**

2022	Level 1	Level 2	Level 3	Total fair value
	KD	KD	KD	KD
Financial assets at fair value through profit or loss	2,604,526	-	2,047,701	4,652,227
Financial assets at fair value through other comprehensive income	-	168,283	4,578	172,861
Finance receivable at fair value through other comprehensive income	-	-	8,898,971	8,898,971
Investment properties	-	3,408,411	6,074,000	9,482,411

The valuation method used in Level 3 for equity instruments is the net book value method adjusted for illiquidity discounts by 20%. An increase /decrease in the discount rate by 5% would change the fair value by KD 20,477 (2022: 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. An increase /decrease in the discount rate by 5% would change the fair value by KD 48,742 (2022: KD 34,033).

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

20 FAIR VALUE MEASURMENTS (CONTINUED)

The following table represents the changes in Level 3 for the years ended 31 December 2023 and 2022:

	As at 1 January 2023	Change in fair value	Additions / Settlements	Net results in the consolidated statement of income	As at 31 December 2023
	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	**4,578**	**139**	-	-	**4,717**
Financial receivables at fair value through other comprehensive income	**8,898,971**	**(18,205)**	**(1,007,790)**	**110,415**	**7,983,391**
Investment properties	**6,074,000**	-	-	-	**6,074,000**
	17,025,250	**(18,066)**	**(1,007,790)**	**110,415**	**16,109,809**

	As at 1 January 2022	Change in fair value	Additions / Settlements	Net results in the consolidated statement of income	As at 31 December 2022
	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	4,843	(265)	-	-	4,578
Financial receivables at fair value through other comprehensive income	10,433,382	(181,398)	(1,344,355)	(8,658)	8,898,971
Investment properties	5,615,000	459,000	-	-	6,074,000
	18,100,926	277,337	(1,344,355)	(8,658)	17,025,250

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.

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21 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.

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.

21.1 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 and Bahrain Dinar.

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.

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21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.1 Market risk (continued)

(a) Foreign currency risk (continued)

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 comprehensive income would have been shifted by the following amounts:

Currency	2023		2022	
	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	**+/- 186,017**	**+/- 1,190**	+/- 176,890	+/- 3,065
BHD	**+/- 138,134**	**+/- 4,920**	+/- 170,386	+/- 5,507

(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 . 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	
	2023 KD	2022 KD
Kuwait stock exchange	**+/- 134,189**	+/- 154,339

(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 borrowings and financing receivables 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.

Had interest rates increased by 50 basis points of the interest rate applied, the net loss for the year of the Group would have increased by KD 21,740 for the year ended 31 December 2023 (2022: KD 49,562).

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21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.1 Market risk (continued)

(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.

21.2 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

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

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.2 Credit risk

Assessment of expected credit losses (continued)

Definition of default and cure (continued)
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.

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.

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21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.2 Credit risk (continued)

Assessment of expected credit losses (continued)

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.

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%

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

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.

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.2 Credit risk (continued)

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

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

	2023 KD	2022 KD
Bank balances and cash – excluding cash on hand	**5,242,529**	9,114,018
Finance receivables at FVOCI	**7,983,391**	8,898,971
Finance receivables at amortised cost	**4,293,719**	2,260,056
Other assets – excluding prepayments	**6,598,819**	8,861,649
	24,118,458	29,134,694

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, except for exposure of KD 5.1 million (2022: KD 6.6 million) to certain counter party included in other assets (Note 7).

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 2023, the finance receivables, which are fully covered by collaterals, represent 22% (2022: 13%) 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 2023 and 2022 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.

2023	Stage 1 KD	Stage 2 KD	Stage 3 KD	Total KD
Bank balances and cash	**5,242,529**	-	-	**5,242,529**
Finance receivables at FVOCI	**7,018,104**	**198,434**	**820,122**	**8,036,660**
Finance receivables at amortised cost	**4,276,990**	**36,244**	**521,498**	**4,834,732**
Financial assets at amortised cost	-	-	**30,660**	**30,660**
Other assets	**1,383,873**	-	**8,720,054**	**10,103,927**
As of 31 December 2023	**17,921,496**	**234,678**	**10,092,334**	**28,248,508**

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21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.2 Credit risk (continued)

Credit quality per class of financial assets (continued)

2022	Stage 1	Stage 2	Stage 3	Total
	KD	KD	KD	KD
Bank balances and cash	9,114,018	-	-	9,114,018
Finance receivables at FVOCI	7,027,877	334,210	1,682,363	9,044,450
Finance receivables at amortised cost	2,509,098	73,783	1,655,321	4,238,202
Financial assets at amortised cost	-	-	30,797	30,797
Other assets	8,861,649	-	1,374,126	10,235,775
As of 31 December 2022	27,512,642	407,993	4,742,607	32,663,342

Financial assets at amortised costs represents gross amount of KD 30,660 (2022: KD 30,797) offset by ECL provision of KD 30,660 (2022: KD 30,797).

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.

The following is the degree of exposure to the credit risk for the finance receivables at amortised cost as of 31 December 2023:

	Regular commercial clients		
	High quality	**Standard quality**	**Total**
	KD	**KD**	**KD**
Finance receivables:			
Commercial finance	**3,063,388**	**1,116,616**	**4,180,004**
	3,063,388	**1,116,616**	**4,180,004**

The following is the degree of exposure to the credit risk for the finance receivables at amortised cost as of 31 December 2022:

	Regular commercial clients		
	High quality	**Standard quality**	**Total**
	KD	**KD**	**KD**
Finance receivables:			
Commercial finance	1,716,052	661,163	2,377,215
	1,716,052	661,163	2,377,215

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21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.3 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. Finance receivables at FVOCI and finance receivable at amortised cost represents only performing loans (neither past due or impaired).

2023	Up to 3 months	3 - 6 months	6 months – 1 year	1 – 3 years	Over 3 years	Total
	KD	KD	KD	KD	KD	KD
Assets						
Bank balances and cash	5,013,753	200,000	34,000	-	-	5,247,753
Financial assets at fair value through profit or loss	-	-	2,505,278	2,047,701	-	4,552,979
Finance receivables at FVOCI	552,142	594,222	1,158,267	4,079,451	1,895,328	8,279,410
Finance receivable at amortised cost	195,307	269,133	547,949	3,270,601	722,389	5,005,379
Financial assets at fair value through other comprehensive income	-	-	-	123,844	-	123,844
Other assets (excluding prepayments)	1,383,873	-	-	5,214,946	-	6,598,819
	7,145,075	1,063,355	4,245,494	14,736,543	2,617,717	29,808,184
Liabilities						
Borrowings	519,484	512,307	1,003,981	2,850,565	2,151,921	7,038,258
Other liabilities	3,479,917	69,728	127,496	1,808,214	9,340	5,494,695
	3,999,401	582,035	1,131,477	4,658,779	2,161,261	12,532,953

KFIC INVEST COMPANY K.S.C. (PUBLIC) AND ITS SUBSIDIARIES
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AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2023

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

2022	Up to 3 months	3 - 6 months	6 months – 1 year	1 – 3 years	Over 3 years	Total
	KD	KD	KD	KD	KD	KD
Assets						
Bank balances and cash	8,584,868	-	534,000	-	-	9,118,868
Financial assets at fair value through profit or loss	-	-	2,604,521	2,047,706	-	4,652,227
Finance receivables at FVOCI	1,064,998	818,127	1,503,612	3,750,587	837,102	7,974,426
Finance receivable at amortised cost	778,098	356,452	478,443	1,138,757	44,480	2,796,230
Financial assets at fair value through other comprehensive income	-	-	-	172,861	-	172,861
Other assets (excluding prepayments)	8,861,649	-	-	-	-	8,861,649
	19,289,613	1,174,579	5,120,576	7,109,911	881,582	33,576,261
Liabilities						
Borrowings	663,846	656,173	1,288,743	3,637,864	3,292,480	9,539,106
Other liabilities	3,072,606	70,278	140,556	2,024,366	22,044	5,329,850
	3,736,452	726,451	1,429,299	5,662,230	3,314,524	14,868,956

21.4 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:

	2023	2022
	KD	KD
Total borrowings	**6,083,333**	8,250,000
Less: Bank balances and cash	**(5,247,753)**	(9,118,868)
Net deficit (surplus) debt	**835,580**	(868,868)
Total equity	**30,025,437**	41,742,970
Total capital	**30,861,017**	40,874,102
Gearing ratio	**2.71%**	-2.13%

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong and healthy capital ratios in order to support its business and maximize shareholders' value.

21 FINANCIAL RISK MANAGEMENT (CONTINUED)

21.4 Capital risk management (continued)

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Capital Markets Authority in supervising the Group.

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2023 and 31 December 2022 are calculated in accordance with provisions of Module seventeen (Capital Adequacy Regulations for Licensed Persons) of the Executive Bylaws of Law No. (7) of 2010 and their amendments thereto.

	2023	2022
Available (eligible) regulatory Capital (KD)	**29,766,000**	33,904,000
Required regulatory capital (KD)	**13,020,000**	13,437,000
Capital adequacy ratio (%)	**229%**	252%

22 FIDUCIARY ASSETS

Portfolios, funds, finance portfolios and other portfolios under the management of the Parent Company amounted to KD 219,331,502 (2022: KD 245,247,363).

Management fee related to these fiduciary assets amounted to KD 804,332 for the year ended 31 December 2023 (2022: KD 924,074).