

**GULF BANK K.S.C.P.**

**INTERIM CONDENSED FINANCIAL INFORMATION  
(UNAUDITED)**

**31 MARCH 2021**



Building a better  
working world

Einst & Young  
Al Aiban Al Osaimi & Partners  
P.O. Box 74  
18-20th Floor, Baitak Tower  
Ahmed Al Jaber Street  
Safat Square 13001, Kuwait

Tel: +965 2295 5000  
Fax: +965 2245 6419  
kuwait@kw.ey.com  
ey.com/mena

# Deloitte.

**Deloitte & Touche  
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq  
Dar Al-Awadi Complex, Floors 7 & 9  
P.O. Box 20174, Safat 13062  
Kuwait

Tel : + 965 22408844, 22438060  
Fax: + 965 22408855, 22452080  
www.deloitte.com

## **REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GULF BANK K.S.C.P.**

### *Introduction*

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C.P. (the "Bank") as at 31 March 2021, and the related interim condensed statement of income, interim condensed statement of comprehensive income, interim condensed statement of cash flows and interim condensed statement of changes in equity for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

### *Scope of Review*

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

### *Conclusion*

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

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

Furthermore, based on our review, the interim condensed financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the three months period ended 31 March 2021 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM AL SAMDAN  
LICENCE NO. 208 A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

TALAL YOUSEF AL-MUZAINI  
LICENCE NO. 209 A  
DELOITTE & TOUCHE  
AL-WAZZAN & CO.

27 April 2021  
Kuwait

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Income**  
**(Unaudited)**  
PERIOD ENDED 31 MARCH 2021

	<i>Note</i>	<i>3 months ended 31 March 2021 KD 000's</i>	<i>3 months ended 31 March 2020 KD 000's</i>
Interest income		45,256	58,024
Interest expense		12,648	29,131
<b>Net interest income</b>		<b>32,608</b>	<b>28,893</b>
Net fees and commissions		6,907	6,757
Net gains from dealing in foreign currencies and derivatives		1,882	2,069
Dividend income		-	352
Other income		122	244
<b>Operating income</b>		<b>41,519</b>	<b>38,315</b>
Staff expenses		12,232	11,507
Occupancy costs		674	733
Depreciation		1,690	1,938
Other expenses		5,860	4,568
<b>Operating expenses</b>		<b>20,456</b>	<b>18,746</b>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>		<b>21,063</b>	<b>19,569</b>
Charge of provisions:			
- specific		10,127	8,267
- general		81	3,299
Loan recoveries, net of write-off		(1,815)	(919)
Net provision on other financial assets		119	(79)
<b>OPERATING PROFIT</b>		<b>12,551</b>	<b>9,001</b>
Directors' remuneration		15	-
Contribution to Kuwait Foundation for the Advancement of Sciences		126	91
National Labour Support Tax		311	223
Zakat		126	91
<b>PROFIT FOR THE PERIOD</b>		<b>11,973</b>	<b>8,596</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	<b>3</b>	<b>4</b>	<b>3</b>

The attached notes 1 to 14 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Comprehensive Income**  
**(Unaudited)**  
PERIOD ENDED 31 MARCH 2021

	<i>3 months ended 31 March 2021 KD 000's</i>	<i>3 months ended 31 March 2020 KD 000's</i>
<b>Profit for the period</b>	11,973	8,596
<b>Other comprehensive income</b>		
<i>Items that will not to be reclassified subsequently to interim condensed statement of income:</i>		
Net changes in fair value of investment securities-equity	(459)	(3,852)
<b>Other comprehensive loss for the period</b>	(459)	(3,852)
<b>Total comprehensive income for the period</b>	11,514	4,744

The attached notes 1 to 14 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Financial Position**

	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2021</i>	<i>2020</i>	<i>2020</i>
<i>Notes</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>ASSETS</b>			
Cash and cash equivalents	1,101,752	1,105,925	1,012,476
Kuwait Government treasury bonds	108,500	108,500	187,500
Central Bank of Kuwait bonds	280,864	280,724	279,357
Deposits with banks and other financial institutions	75,701	3,033	164,071
Loans and advances to banks	14 184,771	192,063	200,438
Loans and advances to customers	14 4,226,862	4,116,537	4,268,248
Investment securities	166,909	174,855	166,391
Other assets	12 93,357	97,018	118,571
Premises and equipment	33,390	34,053	36,119
<b>TOTAL ASSETS</b>	<b>6,272,106</b>	<b>6,112,708</b>	<b>6,433,171</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	590,312	550,543	477,848
Deposits from financial institutions	664,816	705,337	924,467
Customer deposits	4,177,868	4,033,719	4,143,886
Subordinated Tier 2 bonds	100,000	100,000	100,000
Other liabilities	102,427	85,745	148,012
<b>TOTAL LIABILITIES</b>	<b>5,635,423</b>	<b>5,475,344</b>	<b>5,794,213</b>
<b>EQUITY</b>			
Share capital	4 304,813	304,813	304,813
Statutory reserve	42,135	42,135	39,106
Share premium	153,024	153,024	153,024
Property revaluation reserve	18,169	18,169	18,425
Treasury share reserve	-	-	22,926
Fair valuation reserve	3,227	3,686	3,670
Retained earnings	133,472	140,073	167,576
	654,840	661,900	709,540
Treasury shares	5 (18,157)	(24,536)	(70,582)
<b>TOTAL EQUITY</b>	<b>636,683</b>	<b>637,364</b>	<b>638,958</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>6,272,106</b>	<b>6,112,708</b>	<b>6,433,171</b>

  
**Jassim Mustafa Boodai**  
*(Chairman)*

  
**Antoine Daher**  
*(Chief Executive Officer)*

The attached notes 1 to 14 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Cash Flows**  
**(Unaudited)**  
**PERIOD ENDED 31 MARCH 2021**

	<i>3 months ended</i> <i>31 March</i> <i>2021</i> <i>KD 000's</i>	<i>3 months ended</i> <i>31 March</i> <i>2020</i> <i>KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	11,973	8,596
Adjustments:		
Effective interest rate adjustment	-	(16)
Dividend income	-	(352)
Depreciation	1,690	1,938
Loan loss provisions	10,208	11,566
Net provision on other financial assets	119	(79)
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>23,990</b>	<b>21,653</b>
<i>(Increase)/decrease in operating assets:</i>		
Kuwait Government treasury bonds	-	44,500
Central Bank of Kuwait bonds	(140)	(682)
Deposits with banks and other financial institutions	(72,684)	(35,634)
Loans and advances to banks	7,527	12,559
Loans and advances to customers	(119,436)	(54,922)
Other assets	4,770	(6,479)
<i>Increase/(decrease) in operating liabilities:</i>		
Due to banks	39,769	79,135
Deposits from financial institutions	(40,521)	(94,020)
Customer deposits	144,149	193,985
Other liabilities	294	1,785
<b>NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES</b>	<b>(12,282)</b>	<b>161,880</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities	(19,698)	(5,452)
Proceeds from sale of investment securities	25,973	7,708
Purchase of premises and equipment	(1,027)	(1,393)
Dividend income received	-	14
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>5,248</b>	<b>877</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from sale of treasury shares	2,861	1,838
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>2,861</b>	<b>1,838</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,173)</b>	<b>164,595</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>1,105,925</b>	<b>847,881</b>
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>	<b>1,101,752</b>	<b>1,012,476</b>
<i>Additional cash flows information</i>		
Interest received	42,744	53,948
Interest paid	17,473	25,748

The attached notes 1 to 14 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Changes in Equity**  
**(Unaudited)**

PERIOD ENDED 31 MARCH 2021

	RESERVES								Total KD 000's	
	Share capital KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury share reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Subtotal reserves KD 000's		Treasury shares KD 000's
At 1 January 2020	304,813	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
Profit for the period	-	-	-	-	-	-	8,596	8,596	-	8,596
Other comprehensive loss for the period	-	-	-	-	-	(3,852)	-	(3,852)	-	(3,852)
Total comprehensive (loss) income for the period	-	-	-	-	-	(3,852)	8,596	4,744	-	4,744
Dividend (Note 6)	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Sale of treasury shares	-	-	-	-	-	-	-	-	3,023	3,023
Loss on sale of treasury shares	-	-	-	-	(1,185)	-	-	(1,185)	-	(1,185)
At 31 March 2020	304,813	39,106	153,024	18,425	22,926	3,670	167,576	404,727	(70,582)	638,958
At 1 January 2021	304,813	42,135	153,024	18,169	-	3,686	140,073	357,087	(24,536)	637,364
Profit for the period	-	-	-	-	-	-	11,973	11,973	-	11,973
Other comprehensive loss for the period	-	-	-	-	-	(459)	-	(459)	-	(459)
Total comprehensive (loss) income for the period	-	-	-	-	-	(459)	11,973	11,514	-	11,514
Dividend (Note 6)	-	-	-	-	-	-	(15,056)	(15,056)	-	(15,056)
Sale of treasury shares	-	-	-	-	-	-	-	-	6,379	6,379
Loss on sale of treasury shares	-	-	-	-	-	-	(3,518)	(3,518)	-	(3,518)
At 31 March 2021	304,813	42,135	153,024	18,169	-	3,227	133,472	350,027	(18,157)	636,683

The attached notes 1 to 14 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2021

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**1. INCORPORATION AND REGISTRATION**

Gulf Bank K.S.C.P. (the “Bank”) is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. The Bank’s shares are listed on Kuwait Stock Exchange. Its registered office is at Mubarak Al Kabir Street, P.O. Box 3200, 13032 Safat, Kuwait City.

The interim condensed financial information of the Bank for the three months period ended 31 March 2021 was authorised by the Board of Directors for issue on 18 April 2021.

The principal activities of the Bank are described in Note 7.

**2. BASIS OF PRESENTATION**

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

The annual financial statements for the year ended 31 December 2020 were prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, including the recently issued CBK circulars on regulatory measures in response to Covid-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:

- Expected credit loss (“ECL”) on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- Recognition of modification losses on financial assets (consumer and instalment loans and credit cards receivables) arising from payment holidays to customers in response to Covid-19 to be recognized in retained earnings, instead of income statement as required by IFRS 9 (note 13).

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

The accounting policies used in the preparation of the interim condensed financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2020.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, financial position or performance of the Bank.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Bank’s annual financial statements for the year ended 31 December 2020. Further, operating results for the three months period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

This interim condensed financial information has been presented in Kuwaiti Dinars (“KD”) which is the Bank’s functional currency, rounded off to the nearest thousand (KD 000’s), except when otherwise indicated.



**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2021

**3. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share are based on the weighted average number of shares outstanding during the period, which is as follows:

	<i>3 months ended 31 March 2021 KD 000's</i>	<i>3 months ended 31 March 2020 KD 000's</i>
Profit for the period	<u>11,973</u>	<u>8,596</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	<u>3,000,509,254</u>	<u>2,901,151,706</u>
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>3</u>

**4. SHARE CAPITAL**

	<i>(Unaudited) 31 March 2021 KD 000's</i>	<i>(Audited) 31 December 2020 KD 000's</i>	<i>(Unaudited) 31 March 2020 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2020: 3,048,127,898 and 31 March 2020: 3,048,127,898) shares of 100 fils	<u>304,813</u>	<u>304,813</u>	<u>304,813</u>

**5. TREASURY SHARES**

	<i>(Unaudited) 31 March 2021</i>	<i>(Audited) 31 December 2020</i>	<i>(Unaudited) 31 March 2020</i>
Number of treasury shares	<u>37,000,000</u>	<u>50,000,000</u>	<u>143,833,407</u>
Percentage of treasury shares	<u>1.21%</u>	<u>1.64%</u>	<u>4.72%</u>
Cost of treasury shares (KD 000's)	<u>18,157</u>	<u>24,536</u>	<u>70,582</u>
Weighted average market value of treasury shares (KD 000's)	<u>8,066</u>	<u>11,450</u>	<u>39,267</u>

The balance in the treasury share reserve of **KD Nil** (31 December 2020: KD Nil and 31 March 2020: KD 22,926 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium and retained earnings through out the holding period of treasury shares.

**6. DIVIDEND**

The shareholders at the Annual General Meeting (AGM) held on 27 March 2021 approved a cash dividend of **5 fils** per share (2019: 11 fils) for the year ended 31 December 2020. The cash dividend was recorded and will be paid subsequently.

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2021

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**7. SEGMENTAL ANALYSIS**

**By Business Unit**

Commercial Banking      Acceptance of deposits from individuals, corporate and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and other credit facilities to corporate and institutional customers.

Treasury & Investments      Providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of Kuwait Government treasury bonds, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the Investments unit.

Segmental information for the three months period ended 31 March is as follows:

	<b>Commercial Banking</b>		<b>Treasury &amp; Investments</b>		<b>Total</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>
Operating income (excluding unallocated income provided below)	<u>34,139</u>	<u>34,538</u>	<u>3,585</u>	<u>(479)</u>	<u>37,724</u>	<u>34,059</u>
Segment result	<u>19,167</u>	<u>19,909</u>	<u>3,141</u>	<u>(692)</u>	<u>22,308</u>	<u>19,217</u>
Unallocated income					<u>3,795</u>	<u>4,256</u>
Unallocated expense					<u>(14,130)</u>	<u>(14,877)</u>
<b>Profit for the period</b>					<u><u>11,973</u></u>	<u><u>8,596</u></u>
Segment assets	<u>4,506,340</u>	<u>4,568,586</u>	<u>1,698,450</u>	<u>1,782,721</u>	<u>6,204,790</u>	<u>6,351,307</u>
Unallocated assets					<u>67,316</u>	<u>81,864</u>
<b>Total Assets</b>					<u><u>6,272,106</u></u>	<u><u>6,433,171</u></u>
Segment liabilities	<u>3,246,809</u>	<u>2,902,086</u>	<u>2,227,482</u>	<u>2,690,741</u>	<u>5,474,291</u>	<u>5,592,827</u>
Unallocated liabilities and equity					<u>797,815</u>	<u>840,344</u>
<b>Total Liabilities and Equity</b>					<u><u>6,272,106</u></u>	<u><u>6,433,171</u></u>

**GULF BANK K.S.C.P.**  
Notes to the Interim Condensed Financial Information  
(Unaudited)

31 March 2021

**8. RELATED PARTY TRANSACTIONS**

Certain related parties (major shareholder, Board members and executive management of the Bank, their families and companies of which they are principal owners) were customers of the Bank in the ordinary course of business. The terms of these transactions were approved as per the Bank's policies.

The transaction and balances included in the interim condensed statement of income and interim condensed financial information are as follows:

	<i>Number of Board Members or executive management (Audited)</i>		<i>Number of related parties (Audited)</i>		<i>Number of related parties (Audited)</i>		<i>KD 000's</i>	
	<i>31 March 2021</i>	<i>31 March 2020</i>	<i>31 March 2021</i>	<i>31 March 2020</i>	<i>31 March 2021</i>	<i>31 March 2020</i>	<i>31 March 2021</i>	<i>31 March 2020</i>
<b>Board members:</b>								
<b>Balances</b>								
Loans and advances	1	1	8	12	12	12	160,906	152,896
Credit cards	2	2	5	4	4	4	19	19
Deposits	8	7	72	72	68	68	30,411	30,774
Commitments/derivatives								
Guarantees /letter of credit	-	-	9	9	7	7	9,798	7,454
<b>Transactions</b>								
Interest income	1	2	13	22	17	17	1,000	5,783
Interest expense	4	5	10	20	16	16	53	412
Net fees and commissions	-	-	8	11	6	6	19	51
Other expenses	-	-	11	12	11	11	193	1,654
Purchase of equipment	-	-	2	3	2	2	17	231
<b>Executive management:</b>								
<b>Balances</b>								
Loans and advances	4	3	-	-	-	-	175	83
Credit cards	11	10	-	-	-	-	20	19
Deposits	14	14	-	-	-	-	2,072	1,695
<b>Transactions</b>								
Interest income	4	3	-	-	-	-	1	3
Interest expense	14	16	-	-	-	-	5	21

## GULF BANK K.S.C.P.

### Notes to the Interim Condensed Financial Information (Unaudited) 31 March 2021

#### 8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2.25% to 5.5%** (2020: 2.25% to 6%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 31 March 2021 was **KD 105,724 thousand** (31 December 2020: KD 106,708 thousand and 31 March 2020: KD 58,357 thousand).

Compensation for key management, including executive management, comprises the following:

	<i>3 months ended 31 March 2021 KD 000's</i>	<i>3 months ended 31 March 2020 KD 000's</i>
Salaries and other benefits	1,176	1,087
End of service/termination benefits	78	62
	1,254	1,149

#### 9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 31 March 2021 KD 000's</i>	<i>(Audited) 31 December 2020 KD 000's</i>	<i>(Unaudited) 31 March 2020 KD 000's</i>
Guarantees	1,119,334	1,135,900	1,234,082
Letters of credit and acceptances	241,142	243,879	196,808
Undrawn irrevocable commitments	66,253	23,947	31,965
Undrawn revocable commitments	1,040,090	958,082	823,356
	2,466,819	2,361,808	2,286,211

The contractual terms entitle the Bank to withdraw undrawn revocable facilities at any time.

#### 10. DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair value of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the period end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
<b>At 31 March 2021:</b>					
<b>Derivatives instruments held as:</b>					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	62	(67)	75,114	73,283	1,831

## GULF BANK K.S.C.P.

### Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2021

#### 10. DERIVATIVES (continued)

At 31 December 2020:	<i>Notional amounts by term to maturity</i>				
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	<u>25</u>	<u>(28)</u>	<u>5,235</u>	<u>3,257</u>	<u>1,978</u>
At 31 March 2020:	<i>Notional amounts by term to maturity</i>				
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	<u>1,187</u>	<u>(126)</u>	<u>106,982</u>	<u>86,776</u>	<u>20,206</u>

#### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximate to their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 March 2021:

	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	11,659	654	25,410	37,723
Debt securities	-	201	-	201
	<u>11,659</u>	<u>855</u>	<u>25,410</u>	<u>37,924</u>

The amortized cost and fair value of investment securities at amortised cost as at 31 March 2021 were **KD 128,985 thousand** (31 December 2020: KD 136,493 thousand; 31 March 2020: KD 136,260 thousand) and **KD 128,460 thousand** (Level 1) (31 December 2020: KD 118,551 thousand; 31 March 2020: KD 112,869 thousand) and **KD 3,000 thousand** (Level 2) (31 December 2020: KD 20,800 thousand; 31 March 2020: KD 20,800 thousand) respectively.

## GULF BANK K.S.C.P.

### Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2021

#### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2020:

	<i>Level 1</i> <i>KD 000's</i>	<i>Level 2</i> <i>KD 000's</i>	<i>Level 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	12,104	642	25,415	38,161
Debt securities	-	201	-	201
	12,104	843	25,415	38,362

At 31 March 2020:

	<i>Level 1</i> <i>KD 000's</i>	<i>Level 2</i> <i>KD 000's</i>	<i>Level 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	11,989	796	17,145	29,930
Debt securities	-	201	-	201
	11,989	997	17,145	30,131

The following table analyses the movement in level 3 of financial assets:

	At 1 January KD 000's	Change in fair value KD 000's	Additions KD 000's	Exchange rate movements KD 000's	At 31 March KD 000's
<i>Financial assets at FVOCI:</i>					
Equity securities					
2021	25,415	-	-	(5)	25,410
2020	17,128	-	-	17	17,145

The fair value of the above investment securities classified under Level 1, Level 2 and Level 3 is categorised as per the policy on fair value measurement in note to the annual financial statements. During the period, there were no transfers between any of the fair value hierarchy levels.

The positive and negative fair values of forward foreign exchange contracts are valued using significant inputs of observable market data (Level 2). Refer Note 10.

Other financial assets and liabilities are carried at amortized cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

#### 12. OTHER ASSETS

	<i>(Unaudited)</i> <i>31 March</i> <i>2021</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>31 March</i> <i>2020</i> <i>KD 000's</i>
Accrued interest receivable	16,992	14,480	26,263
Sundry debtors and others	16,933	22,300	19,482
Repossessed collaterals (refer movement below)	59,432	60,238	72,826
	93,357	97,018	118,571

# GULF BANK K.S.C.P.

## Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2021

### 12. OTHER ASSETS (continued)

*Movement in repossessed collaterals:*

	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2021</i>	<i>2020</i>	<i>2020</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Beginning balance	60,238	72,826	72,826
Disposals	(806)	(12,216)	-
Impairment loss	-	(372)	-
	59,432	60,238	72,826
Closing balance	59,432	60,238	72,826

Investment securities amounting to **KD Nil** (31 December 2020: KD 806 thousand and 31 March 2020: KD 2,894 thousand) are fair valued using quoted market prices (Level 1). The fair values of the real estate properties are not materially different from their carrying values.

### 13. COVID-19 IMPACT

#### COVID-19 Pandemic 2020

The coronavirus (Covid-19) has brought about uncertainties in the global economic environment. The Covid-19 pandemic has resulted in authorities implementing numerous measures attempting to contain the spread and impact of Covid-19, such as travel bans and restrictions, quarantines, and limitations on business activities, including full and partial closures. Covid-19 could continue to negatively impact businesses, the Bank's counterparties and customers, and the Kuwait and/or global economy for a longer period of time.

#### Business continuity

In response to the pandemic, the Bank has implemented workplace return protocols and controls to prioritize the health of its customers, employees and community partners by keeping the working environment as safe as possible. These measures include: opening branches under strict safety guidelines, allowing staff to work remotely, leveraging our online platforms and business continuity plans, and pre-planned contingency strategies for critical site-based operations. These capabilities have allowed us to continue to service our customers. The Bank will continue to manage the increased operational risk related to the execution of our business continuity plans in accordance with Risk Management policies.

#### Consumer and instalment loans deferral

In response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals are considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42,212 thousand arising from the modification of contractual cash-flows, as on 1 April 2020. The modification loss is charged to retained earnings in accordance with the Bank's accounting policy as stated in Note 2.

#### Other impacted non-retail customers

*Deferral of instalments:* Based on CBK instructions, the Bank has provided an option for other impacted non-retail customers to defer the payment of instalments for a period of 6 months, without any penalties and charges. The Bank has also communicated to these customers that interest at existing contractual rates would continue to accrue during the grace period and this was paid after completion of the grace period September 2020.

*New soft loans:* In line with CBK guidelines on soft loans for clients negatively affected by Covid-19 pandemic to cover the cash flow deficit, the Bank has granted loans to SME and Corporate customers. The tenor of loans is maximum of 3 years with one-year grace period at a fixed interest rate of 2.5% per annum. The interest cost in full for the first year and 50% of interest cost for the second year will be borne by the State of Kuwait Government.

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2021

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**13. COVID-19 IMPACT (continued)**

**Support measures on COVID-19**

On April 2, 2020, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. Below are the measures valid up to 30 June 2021:

- Decrease the Liquidity Coverage Ratio from 100% to 80%
- Decrease the Net Stable Financing Ratio from 100% to 80%
- Decrease the regulatory Liquidity Ratio from 18% to 15%
- Increase the maximum limits of the negative cumulative gap for liquidity across various time bands
- Increase the maximum limits available for finance from 90% to 100% of deposits
- Release the Capital Conservation Buffer of 2.5% of risk-weighted assets in the form of CET1
- Decrease the risk weights for lending to SMEs from 75% to 25% for the purposes of Capital Adequacy
- Increase the loan-to-value limits for loans granted to individuals for the purpose of purchasing and/or developing properties

**Expected Credit Loss updates**

The Bank has considered the potential impact of the uncertainties caused by the COVID-19 pandemic while estimating the Expected Credit Loss (ECL) requirements for the period ended 31 March 2021.

*Significant increase in credit risk*

The Bank takes into account their historic experience of losses updated to reflect current conditions as well as forecasts of future economic conditions to assess if there is significant increase in credit risk or objective evidence of impairment in the light of Covid-19 situation. Key areas that the Bank has given focus for ECL computation for the period ended 31 March 2021 to reflect the increased level of risk are as under:

- Staging review based on sector impact
- PD and LGD model update with macroeconomic scenarios
- Temporary financial difficulties of the borrowers versus longer-term or permanent impact
- Sector analysis of retail loans that have increase likelihood of job losses and pay cuts; Expatriates unable to return to the country and some cases where their residency expired
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available
- Deferral of instalments will not automatically trigger significant increase in credit risk

The above assessment has resulted in staging downgrade of certain exposures and corresponding increase in ECL.

*Staging review*

A key indicator of changes in the credit quality of loan portfolio is how much of it has been moved between stages, as this indicates whether the loan portfolio has undergone a significant increase in credit risk. With this view in mind, the Bank done a qualitative review of the portfolio to reflect the increased credit risk on clients engaged in the severely impacted sectors. A qualitative review of clients in the grade '6' and where the sector impact is severe has been identified and moved to Stage 2 to reflect the increased credit risk.

*Macro-economic factors*

As the IFRS 9 impairment model is forward-looking, the Bank is required to consider a range of possible future economic scenarios and their probability to calculate ECL. During the prior year 2020, the economies were impacted due to shutdowns and with uncertainties creeping into economic activities, the Bank faced challenges to quantify the impact with the existing forward-looking models in place. Therefore, based on expert credit judgement, adjustments to models as appropriate were carried out.



## GULF BANK K.S.C.P.

### Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2021

#### 13. COVID-19 IMPACT (continued)

Nevertheless, the Bank has undertaken the exercise of updating the PD and LGD models used for ECL calculation with historical experience to derive links between changes in economic conditions and customer behaviour. The Bank has applied the latest macroeconomic overlays to reflect the present economic conditions in the PD and LGD model. The Bank has also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays are reflected in the ECL requirements for the period ended 31 March 2021.

Notwithstanding the above, ECL requirements for credit facilities estimated as at 31 March 2021 continue to be lower than the provisions required as per CBK instructions (Note 14). In accordance with Bank's accounting policy, the higher amount being provision required as per CBK instructions is recognized as provisions for credit losses on credit facilities.

#### 14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent amounts paid to banks and customers.

	<i>(Unaudited)</i> 31 March 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 31 March 2020 KD 000's
Gross loans and advances to banks	185,693	193,220	201,499
Less: Provision for impairment	(922)	(1,157)	(1,061)
Loans and advances to banks	<u>184,771</u>	<u>192,063</u>	<u>200,438</u>
Gross loans and advances to customers	4,502,125	4,384,072	4,561,021
Less: Provision for impairment	(275,263)	(267,535)	(292,773)
Loans and advances to customers	<u>4,226,862</u>	<u>4,116,537</u>	<u>4,268,248</u>

Provision for non-cash facilities of **KD 16,738 thousand** (31 December 2020: KD 15,406 thousand and 31 March 2020: KD 14,133 thousand) is included under other liabilities.

#### Comparison between total provisions and IFRS 9 ECL on credit facilities:

	<i>(Unaudited)</i> 31 March 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 31 March 2020 KD 000's
Provision on cash facilities	276,185	268,692	293,834
Provision on non-cash facilities	16,738	15,406	14,133
<b>Total provisions on credit facilities</b>	<u>292,923</u>	<u>284,098</u>	<u>307,967</u>
IFRS 9 ECL on credit facilities	196,687	171,978	206,520
Excess of total provisions over IFRS 9 ECL on credit facilities	96,236	112,120	101,447
Excess provisions as a percentage of total provisions	<u>33%</u>	<u>39%</u>	<u>33%</u>

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2021

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**14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (continued)**

An analysis of the carrying amounts of Credit Facilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

**At 31 March 2021:**

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans and advances to banks and customers	4,338,300	276,598	72,920	4,687,818
Contingent liabilities and commitments (Note 9)	2,323,753	123,780	19,286	2,466,819
IFRS 9 ECL on credit facilities	40,340	77,999	78,348	196,687

**At 31 December 2020:**

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans and advances to banks and customers	4,246,664	278,077	52,551	4,577,292
Contingent liabilities and commitments (Note 9)	2,221,223	122,196	18,389	2,361,808
IFRS 9 ECL on credit facilities	40,972	75,196	55,810	171,978

**At 31 March 2020:**

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans and advances to banks and customers	4,312,909	377,849	71,762	4,762,520
Contingent liabilities and commitments (Note 9)	2,138,290	137,784	10,137	2,286,211
IFRS 9 ECL on credit facilities	34,639	104,416	67,465	206,520