



Annual Report
2013



H.H. Sheikh
Nawaf Al Ahmed Al Jaber Al Sabah
(The Crown Prince)



H.H. Sheikh
Sabah Al Ahmed Al Jaber Al Sabah
(The Amir of the State of Kuwait)



H.H. Sheikh
Jaber Al Mubarak Al Hamad Al Sabah
(The Prime Minister)

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Chairman's Message





Omar Kutayba Alghanim
Chairman

Chairman's Message

To our valued shareholders,

It is a great pleasure to report on your Bank's financial performance and the progress made during 2013. This is the first time I have the privilege of addressing you as Chairman and, in doing so, I am very pleased to advise you that in 2013 we have both continued to financially strengthen the Bank, and deliver on our promise to provide customers with the best and fastest banking services in Kuwait.

The Bank is now strongly positioned for growth. During the past year, we introduced new strategic directions that will develop and broaden our offering and build on the solid foundations we have created in previous years. The focus is strongly on the needs of our customers, investment in our staff, and the development of our customer base. At the same time, we have started to develop exciting new opportunities which will allow us to further grow in corporate and consumer banking services. Of course, all of these initiatives are placed against the requirements of enhancing the Bank's reserves and financial capacity.

Gulf Bank's results in 2013 reflected its steady progress and normalized operating profits grew to KD99.6 million (excluding KD 9.8 million of non-recurring income) from KD 96.1 million (excluding KD25.3 million on non-recurring income) in the prior year. Continuing our strategy to build a fortress balance sheet, the Bank increased its precautionary general provisions to KD 158 million. The net profit at KD32.2 million in 2013 was up 4.1% against KD30.9 million in 2012. As of 31 December 2013, the Bank's total assets were KD5,064.8 million, deposits stood at KD4,086.1 million and total shareholders' equity was KD483.1 million.

The Board of Directors are pleased to recommend distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2013, which is subject to approval

of shareholders at the Annual General Meeting (AGM).

During the year, we witnessed a significant 38% reduction in non-performing loans (i.e., NPL) and a continued increase in the general precautionary reserves. The Bank has maintained its aggressive efforts to reduce the NPL ratio, driving it from 10.9% in 2012 to 6.5% by December 2013. Decreasing the NPL ratio is a strategic objective and of the highest priority for management. Further improving our credit strength, the Bank has increased the total coverage ratio of non-performing loans to over 185%.

As we move into 2014, we are committed to successfully executing our growth strategy, and providing both corporate and retail customers with an exciting alternative in the Kuwait market. The Bank has continued to invest in its infrastructure to ensure it has both the robust internal controls and the ability to deliver the quality of services that our customers and regulators demand and deserve. It is particularly pleasing to note that earlier in 2013, Gulf Bank successfully completed the implementation of its Corporate Governance mandate as required by the Central Bank of Kuwait, which will ensure accountability, fairness, and transparency in our relationships with all our stakeholders.

I am proud to add that we have increased our branch network to 57 branches across Kuwait. In doing so, we will be closer to our customers, and better able to ensure that they receive the best possible banking services and that these are delivered both swiftly and efficiently.

We will also continue to support our community through our Corporate Social Responsibility programs, concentrating on the development of our youth and supporting entrepreneurship. During 2013 we sponsored a number of activities in this area,

including the INJAZ regional competition which was held in Kuwait for the first time with over 7,000 students from high schools and universities participating, representing 14 countries, the Global Management Challenge, NUKS, as well as job shadowing programs. Over the year, Gulf Bank had over 135 staff volunteers working together with our youth on various development programs in this area.

Gulf Bank received numerous awards in various disciplines across the Bank including: 'Best Bank in Kuwait' by The Banker, a leading Financial Times owned publication, 'Bank of the Year' from Arabian Business Magazine, 'Best Retail Bank' by Asian Banker, and 'Best Domestic Bank' by Banker Middle East.

I hope that I have been able to effectively communicate the significant accomplishments of this past year toward the recovery of the Bank, as well as the excitement and importance of this coming year. We have shifted our focus

for 2014 towards growth – through a relentless focus on the needs of our customers, investments in our staff, and a competitive drive in the marketplace. In parallel, we hope to finish the job of financial recovery, making sure stakeholders' interests are well protected.

In closing, I would like to thank our staff, customers, shareholders & our Board of Directors for their continued support and loyalty as we continue our development.

On behalf of Gulf Bank's Board of Directors, I also want to express my sincere gratitude to His Highness, the Amir Sheikh Sabah Al Ahmed Al Jaber Al Sabah, H.H. the Crown Prince Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, and H.H. the Prime Minister Sheikh Jaber Al Mubarak Al Hamad Al Sabah, for their benevolent leadership and guidance. A special thanks to H.E. the Governor of the Central Bank of Kuwait Dr. Mohammad Al Hashel and his team for their support throughout the year.



Omar Kutayba Alghanim
Chairman

The Award Winning Bank

- 'Best Retail Bank in Kuwait' Award - Asian Banker
- 'Best Retail Customer Service' Award - Banker Middle East
- 'Straight Through Processing (STP) on USD Dollar Payments' Award - Citi Performance Excellence Awards
- 'STP award payments in Euros' Award - Deutsche Bank
- 'Best Risk Management' Award - Banker Middle East
- 'Most Innovative Company Of The Year in MENA' Award silver category - stevie awards
- 'Best Domestic Bank' Award - Banker Middle East
- 'Best Commercial Bank in Kuwait' Award - Capital Finance International
- 'Bank of the Year' Award - Arabian Business
- 'Businessman of the Year' Award - Arabian Business
- 'GB STP' Award - Citibank Award
- 'The Customer Delight' Award 2013 - Middle East & North Africa
- 'Top 50 CMO's' Award - CMO Asia
- 'Marketing Campaign of the Year' Award - CMO Asia
- 'Gulf Bank product TVCs in the TV category' Award - Arab Media Forum-Advertising Creativity Award
- 'Gulf Bank interactive youtube banner' Award - Arab Media Forum-Advertising Creativity Award 2013





Board of Directors

Board of Directors



Omar Kutayba Alghanim
Chairman



Ali Morad Behbehani
Deputy Chairman



Farouk Ali Bastaki
Board Member



Sayer Bader Al-Sayer
Board Member



Omar Hamad Yousef Al-Essa
Board Member



Bader Nasser Al-Kharafi
Board Member



Ahmed Abdel Latif Al-Hamad
Board Member




Jasem Mustafa Boodai
Board Member





Bader Abdulmohsen El-Jeaan
Board Member


The Board is constituted of elected members whose skills and experience are selected to ensure an appropriate mix having regard to matters such as specialist skill representation, Board experience, age spread, and diversity in industries and geographic experience. Other matters for explicit consideration are personal qualities, communication capabilities, ability and commitment to devote appropriate time to the task, the complementary nature of the distinctive contribution each director might make, professional reputation and community standing.


	<p>Omar Kutayba Alghanim Chairman, Board of Directors, Gulf Bank K.S.C.P.</p>
<p>Date of Appointment:</p>	<p>Chairman, Gulf Bank - March 16, 2013 - present Deputy Chairman - March 17, 2012 - March 15, 2013 Board Member - April 11, 2009 - March 16, 2012</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - Master of Business Administration, June 2002, Harvard Business School, Harvard University, Boston, MA, USA - Bachelor of Business Administration, June 1997, Stern School of Business, New York University, NY, USA
<p>Experience:</p>	<ul style="list-style-type: none"> - Alghanim Industries, Kuwait Chief Executive Officer, 2005 – present Executive Director, 2004 – 2005 General Manager, 2002 – 2005 - Morgan Stanley, London Financial Analyst, ME Coverage, 1999 – 2000 Financial Analyst, M&A, 1998 – 1999 - Asiya Investments, Kuwait Chairman, 2005 – 2013 Member, Investment Committee, 2005 – 2013 - Al International, New York Board Member, 2002 – present - Perella Weinberg Partners, New York Founding Member, 2006 – present - INJAZ, Kuwait Founder and Chairman of the Board, 2005 – present - INJAZ AL-ARAB, Jordan Board Member, 2005 – present

	Ali Morad Behbehani
	Deputy Chairman
Date of Appointment:	April 11, 2009
Academic Qualifications:	BA, English Literature, Kuwait University
Experience:	<ul style="list-style-type: none"> - Board Member - Kuwait Insurance Company - Board Member - National Industries Company - President of Morad Yousuf Behbehani Company - Formerly Board Member of Kuwait National Cinema Company (S.A.K.), Kuwait - Formerly Board Member of Kuwait Pipe Industries Company

	Farouk Ali Akbar Bastaki
	Board Member Chairman of the Audit Committee
Date of Appointment:	April 11, 2009
Academic Qualifications:	Bachelor of Science in Industrial Engineering, University of Miami, USA
Experience:	<ul style="list-style-type: none"> - Executive Director- Alternative Investments Sector, Kuwait Investment Authority - Formerly Chairman of Sassoon Holdings Pte. Ltd, Singapore - Formerly Chairman of St. Martin Property Corporation, United Kingdom - Formerly Director of the Board of Livestock Transport & Trading Co., Kuwait - Formerly Director of the Board of HomePlace of America, USA - Formerly Director of the Board of Kuwait Consulting & Investment Company - Formerly Director of the Board of Autobar Group Limited, United Kingdom - Formerly Director of the Board of C.I.T.A, France

	<p>Sayer Bader Al-Sayer</p> <p>Board Member</p>
<p>Date of Appointment:</p>	<p>March 17, 2012</p>
<p>Academic Qualifications:</p>	<p>Degree in Engineering, Scotland</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Chief Executive Officer of Al Sayer Group of Companies, Kuwait - Owner and Chairman of Astrolabe W.L.L-Kuwait - Vice Chairman of Al Farabi Investment Company, Kuwait - Member of the Board of Kuwait Chamber of Commerce and Industry, Kuwait - Member of the Board of Miami International Holdings, Inc., Miami-USA - Formerly Managing Director of Computers and Communications Concepts, Kuwait - Formerly Member of the Board of Europhenix Management Company S.A., Luxembourg - Formerly Member of the Board of International Investor (KSC), Kuwait - Formerly Member of the Board of FIM Bank, Malta - Formerly Member of the Board of Lebanon Invest, Lebanon - Formerly Member of the Board of Bank of Kuwait and Middle East, Kuwait - Formerly Advisor to the Board of Audi Bank, Lebanon

	<p>Omar Hamad Yousef Al-Essa</p> <p>Board Member</p>
<p>Date of Appointment:</p>	<p>April 11, 2009</p>
<p>Academic Qualifications:</p>	<p>BA in law, Faculty of Law, Kuwait University, Kuwait</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Founder and Managing Director of The Law Office Of Al-Essa & Partners - Formerly President of the Admission Committee of the Kuwait Bar Association - Formerly President of the Arbitration Center of the Kuwait Bar Association - Formerly Chairman of the Kuwait Bar Association - Formerly Chairman of Nichan Holding Company - Vice Chairman of Abu Hasaniya International Real Estate Company, Kuwait - Head of the Kuwaitization Group at the Workforce Restructuring Program and the Executive Branch of the Government - Chairman of Kuwaiti Touristic Enterprises Company, Egypt - Formerly Vice Chairman of the Kuwait Bar Association - Formerly Secretary of the Kuwait Bar Association - President of the Development and Training Committee of the Kuwait Bar Association - Formerly Member of the Board of Arabi Company - Appointed adviser to the Public Authority compensation for Iraqi invasion

	<p>Bader Nasser Mohammed Al-Kharafi</p> <p>Board Member</p>
<p>Date of Appointment:</p>	<p>March 17, 2012</p>
<p>Academic Qualifications:</p>	<p>Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Chairman and Head of Investment Committee of Gulf Cables and Electrical Industries Company, Kuwait - Director of Group Executive Committee of Mohammed Abdulmohsin AlKharafi & Sons W.L.L., Kuwait - Member of the Board, Member of the Executive Committee and Member of the Investment Committee of Mobile Telecommunications Company K.S.C (c Group), Kuwait - Member of the Board of Atheer Telecom Iraq Limited (Zain Iraq), Iraq - Managing Director of Al-Khatem (Zain Iraq) - Vice Chairman of Sudanese Mobile Telephone Co (Zain Sudan), Sudan - Chairman of Mobile Interim Com (MAC2) S.A.L Lebanon - General Manager of Al Khair National for Stocks and Real Estate Co., W.L.L - Member of the Board of Refreshment Trading Company (Coca-Cola), Kuwait - Member of the Board of Foulath Holding B.S.C., Bahrain - Member of the Board of Bahrain Steel B.S.C. (EC), Bahrain - Member of the Board of United Stainless Steel Company (USCO), Bahrain - Vice Chairman of Diamond International Motors Company (Mitsubishi), Egypt - Member of the Board of EMAK-Paper Manufacturing, Egypt - Vice Chairman of Arab Aluminum Company SAE, Egypt - Vice Chairman of MAK Holding Industry, Egypt - Vice Chairman of EMAK Brake Systems, Egypt - Member of the Board of National Paper Company, Egypt - Member of the Board of Arab Company for Computer Manufacturing, Egypt - Member of the Board of MAKXALTO Advanced Cards Technology, Egypt - Member of the Board of Injaz Kuwait, Kuwait - Member of Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait - Member of the Board of Kazma Sports Club, Kuwait


Ahmad Abdlatif Yousef Al-Hamad

Board Member
Chairman of the Nomination and Remuneration Committee

Date of Appointment:



March 17, 2012

Academic Qualifications:

A.B. in Architecture, Princeton University

Experience:

- Vice Chairman & Group CEO of Kuwait China Investment Company, Kuwait
- Head of Private Equity of the Capital Partnership, United Kingdom
- Senior Manager-Private Equity of Gulf International Bank UK, United Kingdom
- Director, Corporate Finance of PrimeCorp Finance Limited (HSBC Group), United Kingdom
- Co-founder of Equinox Finance Limited, Dublin, Ireland
- Fund Acquisition Analyst for Morgan Stanley & Co, New York, USA
- Director, Asiya Asset Management (Cayman) Ltd., Cayman Islands
- Director, Asiya Gateway Fund (Master) Ltd., Cayman Islands
- Director, Asiya Proprietary Trading Ltd., Cayman Islands
- Director, Asiya Century Fund Ltd. Cayman Islands
- Director, Asiya Managed Account Platform SPC Cayman Islands
- Group CEO, Asiya Investments Hong Kong Limited Hong Kong
- Director, Asiya Capital Partners Ltd., Cayman Islands
- Group CEO, Asiya Investments Dubai Limited, Dubai
- Director, Asia Islamic Trade Finance Fund Ltd., Cayman Islands
- Director, Asiya Panda Mauritius Ltd., Mauritius
- Director, Asiya Proprietary Trading Mauritius Ltd, Mauritius
- Director, Asiya Panda Fund (Master) Ltd., Cayman Islands
- Director, Asiya Panda Fund Ltd., Cayman Islands
- Director, Asiya Equity Fund (Master) Ltd., Cayman Islands
- Director, Asiya Equity Fund Ltd., Cayman Islands
- Director, Asiya Islamic Equity Fund Ltd., Cayman Islands
- Director, Asiya Gateway Fund Ltd., Cayman Islands
- Director, AG&P, British Virgin Islands

	<p>Jassim Mustafa Boodai Board Member</p>
<p>Date of Appointment:</p>	<p>March 17, 2012</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Chairman of Integrated Holding Company K.C.S.C. Kuwait - Board Member of Kuwait Insurance Company, Kuwait - Former Vice Chairman of Kuwait China Investment Company, Kuwait - Former COO of Boodai Corporation, Kuwait - Former Vice Chairman of Hilal Cement Company, Kuwait - Former Chairman of Transport & Warehousing Group Company, Kuwait
	<p>Bader Abdulmohsen El-Jeaan Board Member Chairman of the Risk Committee</p>
<p>Date of Appointment:</p>	<p>March 16, 2013</p>
<p>Academic Qualifications:</p>	<p>AB in Economics, Harvard University, United States MA in Law, Oxford University, United Kingdom</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Director and Senior Executive Officer of Carlyle - MENA Investment Advisors (since 2007), United Arab Emirates - Formerly Group General Counsel and Member of Senior Management Board of Agility Logistics, Kuwait - Formerly Attorney, Corporate Finance at Sherman & Sterling, New York/Abu Dhabi - Formerly Vice President, Private Equity of Kuwait Investment Authority/ Kuwait Investment Office, Kuwait/London

Remuneration

The proposed remuneration for the Directors of KD 135 thousand (2012 : KD 135 thousand) is in accordance with local regulations and is subject to the approval of the shareholders at the Annual General Meeting.

Related Party Transactions

Certain related parties (Major shareholders, Board members and Officers of the Bank, their families and companies of which they were the principal owners) are customers of the Bank in the normal course of business. Such transactions are made on substantially the same terms as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than the normal amount of risk. The details of such transactions are detailed in Note 23 of the Financial Statements.

Management



Management



(left to right):

Vikram Issar, General Manager-Consumer Banking Group, **Ghaith Mismar**, General Manager-Legal Affairs and Board Affairs, **Peter Roberts**, General Manager-IT and CIO, **Carlos Ribeiro**, Chief Financial Officer, **Khaled Al-Mutawa**, General Manager-International Banking and Investments, **Michel Accad**, Chief Executive Officer, **Omar Kutayba Alghanim**, Chairman, **Salma Al-Hajjaj**, General Manager-Human Resources and Administration Affairs, **Grant Jackson**, General Manager-Treasury, **Antoine Daher**, Deputy CEO and GM-Wholesale Banking, **Khaled Gamal Eldin**, Chief Internal Auditor, **Saleem Sheikh**, Chief Risk Officer

The Executive Management is responsible to ensure that the Bank's activities are in line with the approved corporate strategy, risk appetite and policies approved by the Bank's Board. The Executive Management team is appointed by the Board to carry out their respective roles in running the operations of the Bank. This includes the CEO, his deputies, assistants and any other persons who may be considered key to the successful running of the Bank.

The Bank ensures that all Executive Management have suitable academic qualifications, relevant experience and personal integrity to run the Bank's business. The Executive Management is provided with ongoing training to ensure it remains up to date with best practices within the banking sector.

The Executive Management primarily contributes to the sound corporate governance of the Bank through its personal conduct, leadership and encouragement of a culture conducive to corporate governance and risk management.

The Executive Management is responsible for assigning tasks to the employees and promoting an organizational design and culture which supports accountability and transparency.

The Executive Management is responsible for ensuring that


the Bank's compliance and risk functions have adequate autonomy and segregation of tasks is practiced without creating any conflicts.



The Executive Management provides the Board of Directors with financial and administrative reports at periodic intervals as agreed with the Board. These reports provided by the Executive Management have to comply with the principles of transparency and objectivity. The Board shall rely on the Executive Management's expertise in the execution of the Board's resolutions.

The Executive Management ensures that the Bank has all the required documentation to provide the Bank's staff with adequate direction to fulfill their role in carrying out the day-to-day activities of the Bank in a safe and prudent manner. Included in this is ensuring that adequate policy and procedures are in place, communicated to all relevant staff and made available on an ongoing basis. The Executive Management has established, as part of its governance practices of the Bank, a rigorous document management framework to ensure that regulatory compliance and risk management forms an embedded part of the assessment of the Bank's decision-making process.

	<p>Michel Accad *</p> <p>Chief Executive Officer</p>
<p>Date of Appointment:</p>	<p>July 14, 2009</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - Bachelor's Degree in Business Administration, American University of Beirut, Lebanon - Master's in Business Administration, University of Texas, Austin, USA
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly Assistant Chief Executive Officer of Arab Bank PLC, in charge of all Banking businesses, Jordan - Formerly Managing Director and Division Head of the Middle East & North Africa (MENA) Division, CITIGROUP, Egypt - Formerly Country Head of CITIGROUP Egypt and Region Head for North Africa, Egypt - Formerly Managing Director for Nigeria International Bank and Region Head for CITIGROUP West Africa, Nigeria

* Since resigned

	<p>Antoine J. Daher</p> <p>Deputy CEO and GM- Wholesale Banking</p>
<p>Date of Appointment:</p>	<p>July 7, 2013</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - MBA, Finance, Case Western Reserve University, Cleveland, Ohio, USA - B.Sc. Civil Engineering- Magna Cum Laude, Cleveland State University, Cleveland, Ohio, USA
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly Head of Domestic Corporate Banking of National Bank of Kuwait, Kuwait - Formerly Head of Domestic Multi-National Unit of the National Bank of Kuwait, Kuwait - Formerly Vice President of Corporate Banking/ Capital Markets of PNC Bank, Cleveland, Ohio, USA - Formerly Relationship Manager, Corporate Banking, Real Estate Division of PNC Bank, Cleveland, Ohio, USA - Formerly Project Manager at Fuller Engineering Group, Pennsylvania, USA

	<p>Carlos E. M. Ribeiro Chief Finance Officer</p>
<p>Date of Appointment:</p>	<p>November 1, 2009</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - CPA with Degree in Accounting, Faculdades Associadas Ipiranga, Sao Paulo, Brazil - Advanced Management Program in Business, Daren School –University of Virginia, USA - Advanced Management Program in Finance, Wharton School – University of Pennsylvania, USA
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly CEO and Regional Vice President – European Operations for General Motors/ GMAC, United Kingdom - Formerly CEO and Regional Vice President – Asia Pacific Operations for General Motors/GMAC, Australia - Formerly Regional Director – Southern and Northern Europe for General Motors/ GMAC, United Kingdom - Formerly President and Managing Director for Banco General Motors S.A., Brazil - Formerly CFO and Deputy Managing Director for Banco General Motors S.A., Brazil - Formerly Assistant Treasurer for GM and Treasurer for Banco GM for General Motors/ Banco General Motors S.A., Brazil - Formerly Treasurer and Tax Director for Philip Morris Companies, Brazil - Formerly Treasurer for Philip Morris Companies, Brazil
	<p>Salma Al Hajjaj General Manager – Human Resources and Administration Affairs</p>
<p>Date of Appointment:</p>	<p>February 1, 2013</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - Master's Degree in Organizational Management, University of Phoenix, Arizona, USA - BSC in Mathematics, Kuwait University, Kuwait
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly Director, Center for Leadership Development for Kuwait Petroleum Corporation (KPC), Kuwait - Formerly Director of Human Resources at Kuwait Petroleum International - Formerly Assistant Vice President, Human Resources for Gulf Investment Corporation, Kuwait - Member of GUST University Computer Science Accreditation Committee - Member of the Kuwait Development Project Sub Committee for Utilization of Private Universities in Enhancing Government Employee Performance - Member of the Society of Petroleum Engineers (SPE) regional advisory training committee - Member of the SHRM and ASHRM professional Human Resources societies



Dr. Ghaith Mismar

General Manager – Legal Affairs and Board Affairs

Date of Appointment:

September 29, 2013

Academic Qualifications:

PhD in Law, University of London, United Kingdom
LLM in Law, University of London, United Kingdom
LLB in Law, University of Jordan, Jordan

Experience:

- Formerly General Counsel and Company Secretary for Arab Bank Group, Jordan
- Formerly Judge, presiding at Amman courts
- Formerly Board Member of Arab Tunisian Bank
- Formerly Board Member of Jordanian Depository Centre
- Formerly Board Member of Jordan Insurance Company
- Formerly Board Member of Jordan Telecom Group
- Formerly Board Member of Arab Palestinian Bank
- Formerly Board Member of Jordanian Petroleum Refinery Company



Saleem Sheikh

Chief Risk Officer

Date of Appointment:



December 1, 2009



Academic Qualifications:

- Masters Degree in Marketing and Finance, Department of Business Administration, Punjab University, Pakistan
- Bachelor's Degree in Commerce

Experience:

- Formerly Group Chief Credit Officer for Arab Bank Group
- Formerly CEO MENA for Barclay's Bank Plc, Dubai, UAE
- Formerly Chief Operating Officer –Africa and Middle East for Barclay's Bank Plc, Johannesburg, South Africa
- Formerly Chief Risk Officer – Southern and East Africa Region for Citigroup, Johannesburg, South Africa
- Served as Director on the Boards of Barclays Bank Egypt, Emerging Africa Infrastructure Fund, Figurefile Limited, Barclays Factoring Limited, Nigerian American Chamber of Commerce and Citibank Nigeria Limited

	<p>Khaled Al-Mutawa General Manager International Banking and Investments</p>
<p>Date of Appointment:</p>	<p>June 18, 1989</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - Bachelor's degree in Economics, University of Southern California, Los Angeles, USA
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly acting General Manager of Investments Banking Group for Gulf Bank K.S.C., Kuwait - Formerly acting General Manager of Risk Management for Gulf Bank K.S.C, Kuwait - Formerly Senior Manager, Deputy Head of International Banking Group for Gulf Bank K.S.C, Kuwait - Formerly Manager – Oil Trade Finance Division for Gulf Bank K.S.C., Kuwait - Formerly worked in the Middle East Corporate Finance Department for Bankers Trust Co., London, United Kingdom - Formerly Assistant Manager – Multinational Corporate Division, Commercial Banking Group for Gulf Bank K.S.C - Formerly Assistant Manager, Financial Institutions - International Banking Group for Gulf Bank K.S.C Kuwait - Formerly Board Member of CINET (Credit Information Network), Kuwait - Formerly Board Member of Masaleh Real Estate Company, Kuwait
	<p>Vikram Issar General Manager – Consumer Banking</p>
<p>Date of Appointment:</p>	<p>March 24, 2013</p>
<p>Academic Qualifications:</p>	<p>Bachelor's Degree in Commerce from University of Delhi, India</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly Head of Consumer Banking for Standard Chartered Bank, Thailand - Formerly Head of Consumer Banking for Standard Chartered Bank, Bangladesh - Formerly Head of Wealth Management and Distribution for Standard Chartered Bank, India - Formerly Head, Wealth Management and Group Head, Deposits for Standard Chartered Bank, India - Formerly Head, Wealth Management for Standard Chartered Bank, India - Formerly General Manager, Marketing, Banking Products for Standard Chartered Bank, India - Formerly Senior Manager, Consumer Banking, India Hubbing Project for Standard Chartered Bank, India - Formerly Manager, Process Design for Standard Chartered Bank, India - Formerly Manager, Internal Control for Standard Chartered Bank, India - Formerly Assistant Manager, Internal Control for Standard Chartered Bank, India - Formerly Consultant for A.F. Ferguson & Co., India

	<p>Grant Jackson General Manager - Treasury</p>
<p>Date of Appointment:</p>	<p>October 3, 2010</p>
<p>Academic Qualifications:</p>	<p>Masters Degree in Applied Finance from Macquarie University, Sydney, Australia Diploma, Securities Institute of Australia, Australia</p>
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly Head of Treasury and Investments for Commercial Bank International, Dubai, UAE - Formerly Head of Treasury and Investments for Ahli United Group, Bahrain and Qatar - Formerly Director for N M Rothschild and Sons (Australia) Limited, Australia - Formerly Senior Dealer, Treasury for Bank of New Zealand, New Zealand - Formerly Head of Settlements for Australian Bank, Australia - Formerly Director for Australia Centre for Photography (ACP), Australia - Formerly Director for East West Worldwide Holding Limited (EWWH) - Formerly Director for NM Rothschild and Sons (Australia) Limited (NMRA), Australia
	<p>Khaled Gamal Eldin* Chief Internal Auditor</p>
<p>Date of Appointment:</p>	<p>September 16, 2012</p>
<p>Academic Qualifications:</p>	<ul style="list-style-type: none"> - CPA (Colorado Board of Accountancy & AICPA) & CAMS - Masters Degree in International Banking and Finance, Washington International University, USA - Diploma in Risk Management, American Bankers Association with Arab Academy for Banking, Qatar - Bachelor's Degree in Accounting and Economics, Cairo University, Egypt
<p>Experience:</p>	<ul style="list-style-type: none"> - Formerly Group Chief Internal Auditor for Al Rajhi Bank, Kingdom of Saudi Arabia - Formerly Chief Internal Auditor for Al Rajhi Bank, Malaysia - Formerly Head of Compliance for Qatar National Bank, Qatar - Formerly Head of Operations and Finance Audit for Qatar National Bank, Qatar - Various Audit roles in credit and operations audit for Qatar National Bank, Qatar - Examiner – Banking Control Sector for Central Bank Egypt, Egypt - Officer – Letter of Credit Department for Al-Watany Bank of Egypt, Egypt

* Since resigned



Peter Roberts

General Manager – IT and CIO

Date of Appointment:

November 3, 2013

Academic Qualifications:

Degree in Geography and Economics, University of London, United Kingdom

Experience:

- Formerly Executive Vice President – Head of Group Operations for National Commercial Bank, Kingdom of Saudi Arabia (from May 2011 to May 2013).
- Formerly, Head of Barclays Technology Centre UK (BTC-UK) (from February 2010 to April 2011)
- Formerly, Global Head of E- Channel Programme Delivery and Support – Barclays Global Retail and Commercial Banking (from November 2007 to February 2010)
- Formerly, CIO for Barclays Africa/Lead Tech Partner Absa Integration (from November 2005 to November 2007)
- Formerly, IT Portfolio Director Barclays UK (from July 2003 to November 2005)
- Formerly, Regional Chief Operating Officer for Barclays Bank East Africa & Indian Ocean (based in Nairobi Kenya)(from July 2001 to July 2003)
- Formerly, Chief Operating Officer for Barclays Bank of Botswana, United Kingdom (from July 1999 to July 2001)
- Formerly, Head of Barclays Corporate Service Centre (Corporate Recovery and Re-structuring) – North, United Kingdom (from December 1996 to July 1999)
- Formerly, Assistant Retail Director for Barclays Bank North London and Luton Region, United Kingdom (from March 1995 to December 1996)
- Formerly, UK Credit Risk Management Project Manager for Barclays Bank, United Kingdom (from 1992 to March 1995)
- Formerly, Corporate Relationship Manager for Barclays Bank, United Kingdom (from August 1989 to October 1992)
- Associate of the Institute of Bankers





Financial Review



Management Discussion and Analysis

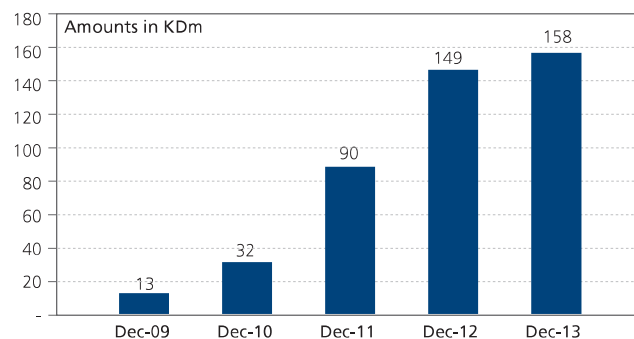
Key Highlights

Amounts in KD millions

	2013	2012
INCOME STATEMENT		
Net Interest Income	121.4	117.7
Net Fees and Commissions	26.2	28.5
Other Incomes	19.4	33.4
Operating Incomes	167.0	179.6
Operating Profit before provisions / Impairment losses	109.4	121.4
Net Provisions / Impairments	(75.6)	(88.9)
Net Profit	32.1	30.9
FINANCIAL POSITION		
Loans and Advances	3,361.2	3,322.5
Total Deposits	4,086.0	4,094.2
Shareholders Equity	483.1	449.2
KEY METRICS		
Capital Adequacy Ratio	17.4%	16.8%
Precautionary General Provisions (KD Millions)	158	149
Non Performing Loan (NPL) Ratio	6.5%	10.9%
NPL Coverage Ratio (including collateral)	187.4%	140.8%
Cost to Income Ratio	34.5%	32.4%

Net interest income was up by 3.1%, driven primarily by a decline in funding costs. Fee income was marginally lower reflecting the muted economic activity particularly in the corporate sector. Other income includes non-recurring items in both 2012 and 2013.

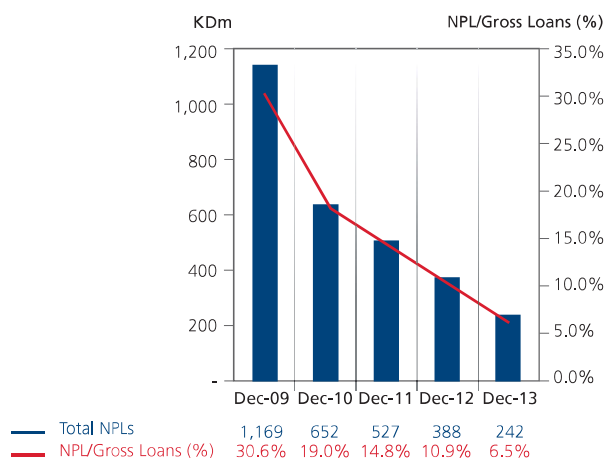
The Bank continued to build up its precautionary provision reserve in line with its strategic objective of building a fortress balance sheet. This presently stands at KD158M, which is twice the legal lending limit of the Bank.



Net profits were up by 4.1% reflecting the core earnings growth.

Loans growth, particularly in Consumer Banking, was significant at 17% and the international portfolio witnessed healthy growth. Domestic corporate growth opportunities were limited, reflecting the sluggish economic growth/impact of the delays in the roll-out of the Kuwait Development Plan.

The Bank is continuing to work on reducing its legacy loan NPL's and sectoral concentrations. The risks have been mitigated by obtaining additional collateral, restructuring the loans based on revised cash flows, debt to equity and debt to assets swaps.



The Bank continues to focus on its core competences of commercial and retail lending within the Kuwaiti market and on strengthening its domestic franchise.

The strategy has shifted to growth following a period starting in 2009 when the focus was on strengthening the balance sheet and managing down a substantial portfolio of impaired loans. The Bank has achieved significant improvements since 2009 with loan quality and risk management being the main but by no means the only areas.

GB's footprint
Over 400,000 customers

Over 15,000 online customers
Over 11,000 mobile banking customers

56 Branches across Kuwait serving over 58,000 customers per month

	2013	2012	2011	2010
No. of Branches	56	56	55	52
Total Manpower	1,407	1,357	1,458	1,440
Kuwaitization %	63%	63%	60%	60%

The improvements are all the more notable as they were undertaken in the context of sluggish domestic growth, in addition to ongoing regional and global issues. The Bank continued to make progress during 2013 in strengthening systems, controls, enhancing risk management, corporate governance and also in improving product offerings and delivery channels.

Significant upgrades were made within the IT department to improve the existing infrastructure and upgrade the technology. A strategic plan aimed at delivering a robust capability in terms of infrastructure, governance, solution delivery and security framework was launched. A gap analysis of capabilities in each area was done and detailed initiatives were implemented to address these gaps.

Risk Appetite and Portfolio Strategy

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major risk based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that it is not subject to large asset valuation and earnings volatility.

The Bank has developed a risk appetite document which enables close monitoring of various risks on an ongoing basis against the internally set thresholds. On a quarterly basis, the risk dashboard is presented and discussed with the Board of Directors.

The Bank has a detailed credit policy approved by the Board which is periodically revised. The Credit Policy Manual sets out the guiding principles and credit risk philosophy governing extension of credit to provide a structure around which banking business must be based and ensure a consistent approach to all its lending activities. It also defines the policy on acceptable country credit risk exposure and evaluating and controlling cross border risk. The individual country limits are approved and reviewed by the Executive Credit Committee which is the highest credit approving body delegated by the Board of Directors within the Central Bank of Kuwait guidelines.

The Bank classifies its exposure as per North American Industry Classification Codes. Such classifications are in addition to the classification based on purpose codes as defined by Central Bank of Kuwait. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of credit concentrations.

The Bank has also introduced a Portfolio Risk Rating process through which the overall portfolio quality is being assessed at regular intervals and deliberated upon in the Executive Risk Committee (ERC). Portfolio Risk Rating has been extended up to the relationship manager level and risk measures are introduced for business performance appraisal that will lead to further improvement in asset quality.

The Bank also introduced a RAROC (Risk Adjusted Return on Capital) model as a pricing tool for credit facilities granted to corporate clients. It is based on the premise that pricing is to be aligned with risk embedded in the proposal.

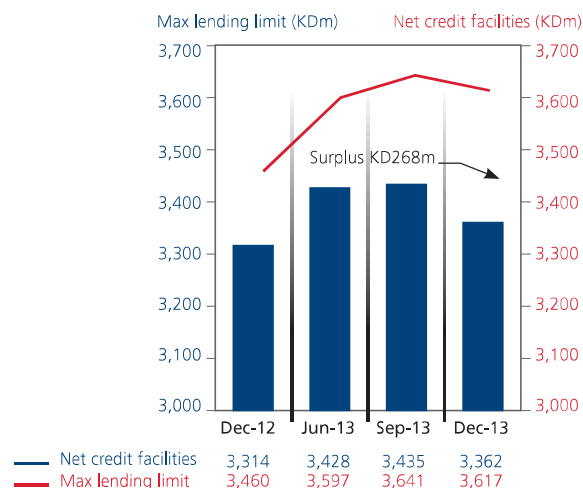
Please refer to Note 24 in the Financial statements for further details.

Funding Strategy

The Bank maintains a well diversified deposit base and maintains an optimal mix between CASA (Current and Savings Accounts) and term deposits.

The Bank maintains strong liquidity with the liquidity ratio at 32% vis-à-vis the regulatory requirement of 18%. The regulatory Loan to Deposit Reserve Ratio (LDR) as at 31 December 2013 had a surplus of KD256 million, which provides a sufficient buffer to grow, as well as a fallback against large movements in deposits.

- As at 31 December 2013, the deposit concentration ratio of the top 20 deposits to total deposits was at 44 % (31 December 2012: 46%, 31 December 2011: 50%) and CASA (Sight and Savings) deposits comprised 33% of total deposits (31 December 2012: 29%, 31 December 2011: 25%). More than 65% of the Time deposits have contractual maturity of six months and above.
- The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position, liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources with adequate back-up facilities; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits and the Treasury Group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional market or geopolitical events.
- Liquidity management is a key component, in line with overall strategy to build a fortress balance sheet. The liquidity is monitored regularly in line with the CBK guidelines.

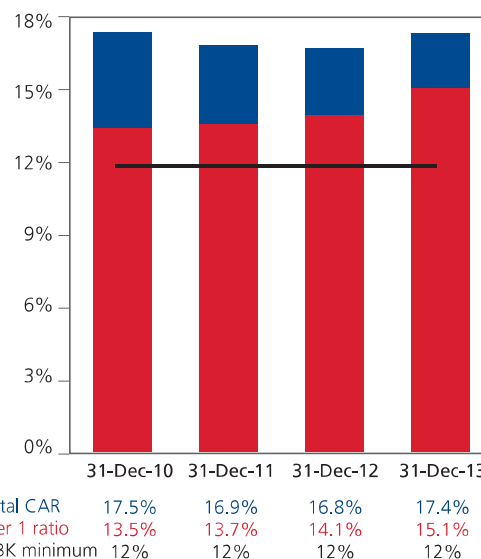


Capital Management Strategy

The Bank's Capital Management philosophy is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value.

Gulf Bank's capital adequacy policy is to ensure and maintain an adequate capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in off-balance sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is done to ensure that the Bank's internal capital targets are consistent with the approved risk appetite of the Bank.

The Bank seeks to maintain a prudent balance between the different components of capital.



Business Strategy - 2014 and beyond

The Bank's strategy focuses on three core deliverables:

- Complete the credit recovery
- Build best-in-class wholesale and retail businesses
- Prepare for new growth opportunities

The wholesale/retail strategies aim to grow market share through superior sales and service levels for the most profitable customers. Finance, HR, Risk, IT/Operations, and Legal will support the business lines' pivot towards growth.

To become the leading Kuwaiti Bank, Gulf Bank needs to achieve three strategic goals by 2016

Strategic Goals	Target Deliverables	Key Actions
Complete the Recovery	<ul style="list-style-type: none"> Reduce NPLs Maximize recoveries Build best-in-class credit 	<ul style="list-style-type: none"> Create a "Bad Bank" Reinforce credit management to world-class standards
Maximize Organic Growth	<ul style="list-style-type: none"> Build best-in-class sales engines Deliver competitive services Leverage Analytics Assemble a superior team 	<ul style="list-style-type: none"> Organize around customers Invest in data and staff Re-engineer sales and service platforms Upgrade human capital
Create Option Value	<ul style="list-style-type: none"> Build-up financial strength Create scalable operating platform 	<ul style="list-style-type: none"> Expand capital base Invest in operating platform

The core values, which we embrace, define the kind of bank we are building. To achieve these strategic goals, we have defined our core values as:

- **TRUST**
- **EMPATHY**
- **AGILITY**

Wholesale Banking Strategy

Our focus is on four wholesale customer segments and we are aligning our organizational structure to serve the needs and aspirations of each of these segments. This will enable us to improve our penetration in each of these segments and thereby increase our market share and share of wallet.

NPL Strategy

In addition we are continuing to focus on decreasing the NPLs by leveraging all the workout tools.

Retail Banking Strategy

Our goal is “Smart growth through customer centricity”. This entails the following:

- Transform the Bank into a Community Bank
- Innovate in Direct Banking
- Focus through Analytics
- Competing in Services
- Building Adjacent Businesses

Ratings

The major international rating agencies Fitch, Moody's and S&P which issued their rating reports during the year were complimentary of the progress achieved by the Bank.

Fitch: Fitch Ratings has affirmed the Bank's Long-term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. The Viability Rating (VR) has been upgraded to 'bb-' from 'b+' The upgrade of the VR reflects the Bank's substantial and sustained improvement in asset quality and capitalization since 2009, its sound liquidity and its relatively cautious growth plans, focusing on its core market.

Moody's: Moody's changed the outlook on the Bank's Baa2/Prime-2/D- rating to Positive from Stable. The change in outlook reflects material improvements in the Bank's asset quality and capitalization metrics

Standard and Poor (S&P): The Bank was again upgraded by S&P with the long term rating upgraded to BBB+ and outlook "Positive". We believe that we are the only Bank that has been upgraded twice over the last 18 months.

	FITCH Long Term Short Term Viability Rating Outlook	2012 A+ F1 b+ Stable	2013 A+ F1 bb- Stable
	MOODY'S Long Term Short Term Financial Strength Outlook	Baa2 P-2 D- Stable	Baa2 P-2 D- Positive
	STANDARD AND POOR'S Long Term Short Term Outlook	BBB A-2 Positive	BBB+ A-2 Positive

Corporate Governance

The Bank, under the leadership of its Chairman and Board of Directors, is fully committed to the implementation of the new rules on Corporate Governance of 2012 as announced by the Central Bank of Kuwait. The Bank's vision is to implement Corporate Governance, both in letter and spirit. The Bank's goal in terms of Corporate Governance is not only to be compliant with all the rules and regulations (including the Central Bank of Kuwait, the Capital Markets Authority, the Companies Law etc.) but all other applicable laws and regulations regarding Corporate Governance. The Bank also endeavors to adopt global best practices which we believe are vital to its financial and communal well-being.

Stakeholder Definition:

In line with best practices, the Bank includes the following among its key stakeholders:

1. Customers & Depositors
2. Shareholders
3. Regulatory Authorities
4. Board of Directors
5. Employees
6. Suppliers & Service Providers
7. The Community where it operates

Policies & Procedures:

The Bank has adopted a comprehensive framework of Corporate Governance Guidelines, designed to properly balance performance and conformance. This enables it to undertake, in an effective manner, the prudent risk-taking activities which are the basis for its business. In the Bank's view, governance must improve continuously and as such, the Bank's corporate governance framework is subject to ongoing review and assessment as it strives to raise the bar in all facets of its business and governance standards.

The set of Policies & Procedures that ensure that the road map and processes to good governance are clear, include the following:

1. Corporate Governance Manual
2. Disclosure & Notification Policy
3. Ownership of Risk Policy
4. Risk Appetite Document
5. Ethical Standards
6. Whistle Blowing Process
7. Conflict of Interest
8. Related Party Lending

9. Customer Complaint Handling Policy & Procedures
10. Internal Audit Charter
11. Human Resources Manual
12. Policy & Procedure Standards

Roles & Responsibilities:

The Bank's Corporate Governance Manual clearly distinguishes between the Board and Executive roles and intermingling of roles is not allowed. There are clear descriptions of the roles of the Chairman, Chief Executive Officer, Chief Risk Officer, Secretary Board Affairs, Chief Internal Auditor and Chief Financial Officer available at the Bank. The roles and responsibilities of the Directors, the Board and the Chairman of the Board Committees have also been clearly described. The independence of key executive roles has been assured through appropriate reporting lines. The Board provides oversight to key roles within the Bank, and the Central Bank of Kuwait also protects key positions in the Bank, so as to ensure their independence.

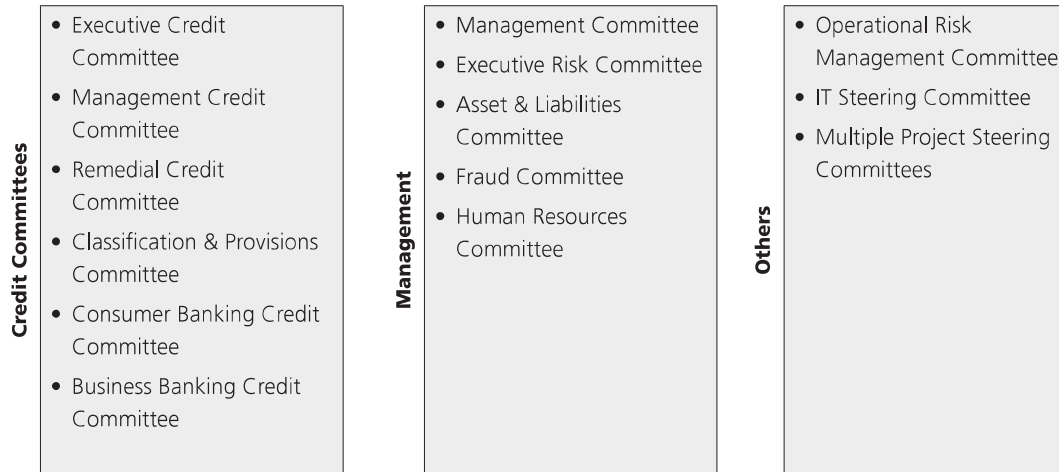
Governance Structure – Overview:

The Bank has aligned its organizational structure to provide sound governance practices to be embedded within the reporting lines, providing clear segregation of duties, independence of thought and action in areas such as Anti-Money Laundering, Compliance, Internal Audit and Risk Management. The structure also adheres to the Central Bank of Kuwait's regulatory bylaws.

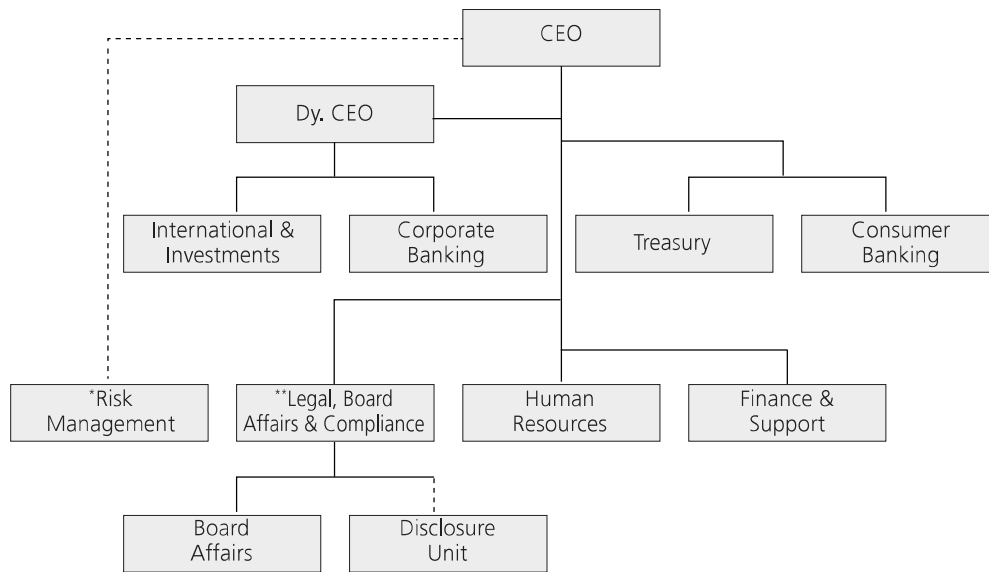
The Bank's Governance structure follows a clear three-tier approach to governance. This is firstly at the Executive Level through several Committees, secondly at the Board Level Committees and finally at the level of the Board itself.

A. Executive Governance Structure:

The structure of Executive Governance is demonstrated by the number of committees operating at the Executive levels of the Bank. These include several credit committees, risk committees and several other types of committees as depicted on the chart below:



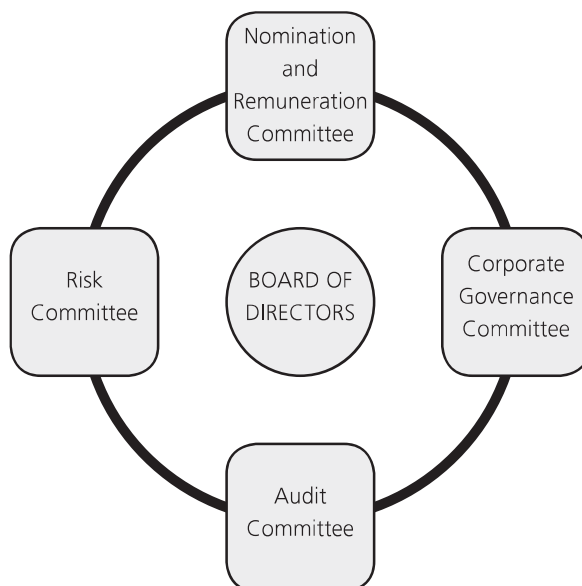
Executive Organization:



* Reports to the Board Risk Committee

** Reports to the Chairman of the Board with a line to the CEO for Legal matters

Board Committee's Structure:



The Board of the Bank has formed four Committees, which are responsible for dedicated areas of the Bank. The committees are listed as follows:

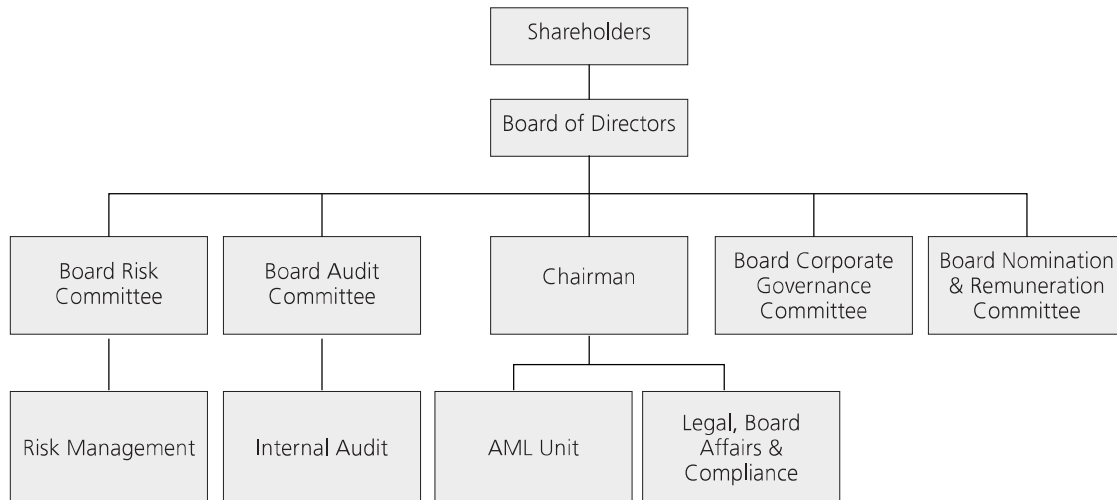
1. Board Corporate Governance Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination & Remuneration Committee

Each of the above committees has its own bylaws approved by the Board with its own Chairman, Vice Chairman, Members, Secretary and other attendees. All committee's review minutes of the relevant management committees as appropriate, receive relevant reports and data for discussions from management and others and then submit their reports to the Board for further discussions and deliberations.

In continuation of its objective of implementing the new standards of Corporate Governance, the Bank has also achieved the following:

- Completion and Implementation of the new Risk Appetite Document
- Oversight of Executive Management through a Risk Dashboard and other financial reports to the Board
- Approval of a new Risk Manual which among other things includes the ICAAP, Stress Testing and Capital Adequacy Requirements as well
- Approval and implementation of Disclosure Standards in line with the CBK and the CMA rules
- Introductory Training for Board Members and all senior staff at the Bank

The Bank has published a comprehensive Corporate Governance Manual as required by the Central Bank of Kuwait and published a summary on the Bank's web page

Governance Organization:

* Reports administratively to GM - Legal, Compliance & Board Affairs

Board of Directors:

The Board of Directors has the overall responsibility for the Bank, including setting, overseeing and monitoring of the implementation of the Bank's strategic objectives, risk strategy and corporate governance. The Board is also responsible for providing oversight of executive management. Shareholders elect the Board to oversee management and to ensure that the long-term interests of shareholders are advanced responsibly.

The Board's core responsibilities are set out below and include the following:

1. Assume responsibility for the Bank's business, financial soundness and fulfillment of all regulatory and legal requirements;
2. Preserve the interests of shareholders, depositors, creditors, employees and other stakeholders. Ensure that the Bank is run prudently and within the laws and instructions in force and in line with the Bank's policies, risk appetite, delegations and bylaws.
3. Set out the Bank's strategic objectives and oversee its executive management which assumes responsibility for operating the Bank on a day-to-day basis.
4. Approve the internal control framework and to ensure or be aware of its validity and/or limitations.
5. Instill and embed the principle of Board independence and compliance by each Board member within the performance of their roles towards the Bank and make decisions objectively.
6. Ensure that transactions with related parties are reviewed and verified in terms of validity and reflect a correct position.
7. Ensure that the Bank has policy standards in place and that there are written policies covering all areas in the Bank.
8. Disclosure of reliable and timely information to shareholders - the shareholders depend on the Board to get them the right information.
9. Evaluation, compensation and succession for key management roles.

The Bank's Board members take part in a range of training and continuing education programs. In addition to a formal induction program, Board members also receive regular bulletins designed to keep them abreast of matters relating to their duties and responsibilities as Board members.

Organization of the Board's Business:

The Chairman, in consultation with the Executive Management, proposes key issues to be listed on the agenda for each Board meeting. The Board members are provided with sufficient information and details before the Board meetings allowing them to review the issues before taking appropriate decisions at the Board meetings. The Board will meet at least six times annually and at least once per quarter.

The Board Secretary shall record all the Board's discussions, member's suggestions and the results of any voting taking place during the meetings. The Board Secretary, under the supervision of the Chairman, is responsible to ensure the execution of the actions approved by the Board in terms of follow-ups, exchanging information among Board members, committees and the executive management.

I. Corporate Governance Committee

a. Committee Responsibilities

The Corporate Governance Committee oversees the overall process of the Corporate Governance in the Bank, operates the principles of the Central Bank of Kuwait rules on Corporate Governance and defines the Corporate Governance practices in the banking world. The Corporate Governance Committee ensures that the interests of the depositors are protected and the shareholders obligations are met, taking into account the interests of the other stakeholders by implementing monitoring processes to report any conflict of interest and related parties transactions.

b. Composition of the Committee

- | | |
|------------------------------------|-----------------|
| • Omar Kutayba Alghanim | Chairman |
| • Bader Nasser Mohammed Al-Kharafi | Deputy Chairman |
| • Sayer Bader Al-Sayer | Board Member |
| • Dr. Ghaith Mismar | Secretary |

c. Committee Meetings

The Corporate Governance Committee convenes not less than twice per year. The presence of two members is required to hold a meeting.

II. Audit Committee

a. Committee Responsibilities

The Audit Committee carries out its duties within the framework of governance principles and practices established by the Board of Directors. The Audit Committee promotes accountability of the key players and ensures that they work in the best interests of the Bank and its shareholders to enhance shareholder value, while taking into account the legitimate interests of other stakeholders. The Audit Committee's role is to ensure the adequacy of the Bank's internal and external audit, highlighting the accounting issues

of material impact on the financial statements, reviewing the Bank's internal control systems and ensuring sufficiency of all resources provided for control functions. Furthermore, Audit Committee appraises the performance of the Internal Audit General Manager and recommends to the Board of Directors the nomination, termination, appointment and remuneration of the external auditor. Since its effectiveness is directly linked to that of the Board of Directors, the Audit Committee works closely with the Executive Management to obtain any information required.

b. Composition of the Committee

- | | |
|-------------------------------------|-----------------|
| • Farouk Ali Akbar Abdullah Bastaki | Chairman |
| • Ahmad Abdullatif Yousef Al-Hamad | Deputy Chairman |
| • Omar Hamad Youssef Al-Essa | Board Member |
| • Abdulaziz Al-Balool | Secretary |

c. Committee Meetings

The Audit Committee should convene once every three months or whether needed, or upon request of the Chairman of the Committee or its two members. The presence of two members is required to hold a meeting.

III. Risk Committee

a. Committee Responsibilities

The Risk Committee's main duties are to assist the Board of Directors in assessing and identifying the financial and other different types of risk to which the Bank is exposed. The Risk Committee contributes to enhancing the effectiveness of the Board of Directors' monitoring of risk issues facing the Bank, submitting periodic reports to the Board of Directors and provides the Board of Directors with consultancy on the Bank's current and future risk strategy and appetite as well as oversight of the Executive Management's application of the strategy. The Risk Committee evaluates the risk exposures, concentration and tolerance limits and approves the aggregate transactional or trading limits for extraordinary or new risks. Furthermore, the Committee reviews quarterly credit-risks rated six or worse and which are more than 10% of the Bank's capital. In addition, this Committee reviews any specific transaction or risk position that it deems relevant to managing the risks of the Bank.

b. Composition of the Committee

- | | |
|------------------------------------|-----------------|
| • Bader Abdulmohsen El-Jeaan | Chairman |
| • Ali Morad Yusuf Behbehani | Deputy Chairman |
| • Bader Nasser Mohammed Al-Kharafi | Board Member |
| • Saleem Sheikh | Secretary |

c. Committee Meetings

The Risk Committee convenes not less than four times a year. The presence of two members is required to hold a meeting.

IV. Board Nomination and Remuneration Committee

a. Committee Responsibilities

The Nomination and Remuneration Committee submits recommendations to the Board of Directors on the nomination of the board members, reviews their skills, capabilities and qualifications in accordance with the approved policies and standards of the Bank and the Central Bank of Kuwait instructions. The Nomination and Remuneration Committee conducts an annual review of the Board of Directors structure as well as drawing recommendations on the changes that can be made in line with the best interest of the Bank. Furthermore, this Committee ensures that the Board members are constantly informed on the latest banking issues. The Committee reviews with the Risk Committee the compensation and benefits of all or some of the members of the Executive Management, including the principles and criteria used for their annual performance evaluation including an evaluation of the authority of the board members and their leadership characteristics. In concluding its role, the Nomination and Remuneration Committee prepares and reviews annually a Remuneration Grading Policy to the Board of Directors.

b. Composition of the Committee

- Ahmad Abdullatif Yousef Al-Hamad Chairman
- Bader Abdulmohsen El-Jeaan Deputy Chairman
- Jassim Mustafa Boodai Board Member
- Salma Al Hajjaj Secretary

c. Committee Meetings

The Nomination and Remuneration Committee convenes not less than twice a year. The presence of two members is required to hold a meeting.

Changes to the Board of Directors Committees

Upon the resignation of Mr. Fawzy Al-Thunayan from his post on 12th September, 2013, Mr. Ghaith Mismar (GM, Legal Affairs) was appointed as the secretary of the Corporate Governance Committee and Mr. Abdulaziz Al Balool (DGM, Board Affairs) has been appointed as the Secretary of the Audit Committee.

Board meetings and attendance

During 2013, the Board of Directors met regularly and Directors received information between meetings about the activities at the Bank and Management Committees. There were 8 Board meetings and 14 Board committee meetings during 2013.

The regulations for governance at banks were implemented with effect from July 1, 2013. Accordingly, the meetings for all the sub committees except the Audit committee are for the period July – December 2013.

	Board Meetings	Audit Committee	Corporate Governance Committee	Risk Committee	Nomination and Remuneration Committee
Number of Meetings in 2013	8	6	3	3	2
Omar Kutayba Alghanim	8	*	3	*	*
Ali Morad Behbehani	5	*	*	3	*
Ahmad Abdullatif Al-Hamad	3	6	*	*	2
Bader Abdulmohsen El-Jeaan	5	*	*	3	2
Bader Nasser Al-Kharafi	6	*	1	3	*
Jassem Mustafa Boodai	6	*	*	*	1
Sayer Bader Al-Sayer	6	*	3	*	*
Omar Hamad Youssef Al-Essa	8	6	*	*	*
Farouk Ali Bastaki	6	5	*	*	*

* Not member of the committee

Adequacy of Internal Control Systems:

Internal controls form an integral part of the Bank's processes in its conduct of business. The Board of Directors has the overall responsibility to maintain sound internal controls and provides a broad oversight to the Executive Management. The Executive Management is responsible for the establishment and maintenance of internal control systems. The Executive Management is also responsible for the ongoing improvements to internal controls, through constant evaluations to meet the emerging needs and activities of the Bank and to ensure that the Bank is in compliance with applicable regulations and policies.

The key elements, which ensure the adequacy of internal control systems in the Bank, include existence of the following:

- Appropriate Board approved policies and Executive Management approved procedures, which are subject to regular reviews and updates, to validate applicability and sufficiency.
- Several Board level and Management level Committees (such as Board Risk Committee, Board Audit Committee, Corporate Governance Committee, ALCO, Credit Committees etc.) to provide governance and oversight on all significant areas. It also ensures that key objectives are monitored and supervised through these specialized Committees formed for this purpose.
- Specialized control functions such as Compliance, Risk Management and Internal Audit. Processes consistent with the "Three lines of Defense" principle are in place to ensure weaknesses are identified and reported to Executive Management and the Board.
- An independent review process by Internal Audit Group, which assesses the Bank's Operations, processes and systems, as per the approved annual audit plan. Internal Audit focuses on areas of significant risks, verifies and assesses the adequacy and effectiveness of internal control systems, and reports significant issues and control gaps with management agreed actions to the Board Audit Committee and the Board of Directors.
- Independent control reviews on financial accounting records and statements by External Auditors as required by local laws and regulations and submit such audit reports in the form of Management Letters to Board of Directors and Central Bank of Kuwait.
- A Board Audit Committee which provides oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports; Management Letters; Internal Control Review reports, etc., and periodically monitors the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.

The Bank also conducts an Internal Control Review by an

external Audit firm, as required by Central Bank of Kuwait regulations. The latest report was issued in June 2013 and there were no significant findings (Annexure-A). A summary of the findings was shared with the Board of Directors.

Major Shareholders:

The major shareholders holding 5% or more of the Bank's capital as at December 31, 2013 were:

Kuwait Investment Authority	18.2%
Alghanim Industries	14.0 %
Alghanim Commercial Company	13.2%
Behbehani Investment Company	6.1%

Remuneration Policy:

Philosophy:

The Bank's Executive Remuneration is designed to aid in attraction, motivation and retention of leadership talent responsible for strategic growth of the Bank and ensuring sustained shareholder value. Executive remuneration is intended to be based on a philosophy of 'differentiation' to establish an ethos of meritocracy, create a strong alignment between business performance and executive payouts as well as compliance with CBK and CMA guidelines. These fixed and variable rewards are an integral part of the Bank's total reward framework that is:

- Fully integrated with the Bank's strategic objectives and supports the core values;
- Enables the attraction of the desired profile of potential employees, retention of key talent, internal mobility and differentiation based on performance; and
- Fair and equitable – ensures the mix of fixed and variable reward is relevant at different levels of seniority

The Bank shall in general have a variable compensation based on 'At-Risk' approach for the senior executives, whereby enough incentives are built in to encourage outstanding performance, notwithstanding that the variable remuneration pool encourages strengthening the capital base of the Bank, yet prevents them from taking undue and excessive risks.

The Remuneration policy is based on ensuring that the disclosure of payouts are clear, comprehensive and timely to facilitate constructive engagement of all stakeholders and allow them to assess performance against clear targets, achievement of the Bank's strategy, and risk profile.

Salary Structure:

The Bank seeks to recruit and retain staff in a way, which is externally competitive and internally fair. The Bank's remuneration policy applies in a consistent way from the lowest to the highest grade.

The Bank's salary structure is designed to ensure internal and external salary equity, whilst providing flexibility to recognize different degrees of individual performance and levels of responsibility.

- Annual Merit Increment:

The Bank shall review the performance of all employees annually and may award eligible employees a merit increment as agreed by the Management, effective 01 January of each calendar year.

- Promotion Increment:

The Bank promotes competent and experienced employees to higher positions whenever a position becomes available. The promotion shall place an employee into the grade of the new job that will warrant an increase in basic salary and a change of allowances and benefits applicable to the new position.

Employee Benefits:

The Bank provides a range of employment related benefits. An employee may be eligible for certain benefits according to the eligibility criteria and job conditions. These include the Bank's products/services at preferential terms, and non-Banking benefits in line with business needs and market practice. The Bank also provides employees with a range of Bank services either free of charge or at reduced rates.

The Bank has a Shadow Equity Plan, which presents an opportunity to those executives who contribute to the Bank's success and growth to benefit from the organization's future development. These shadow shares reflect the market value of the Bank's ordinary shares and will be redeemed for cash by the Bank upon vesting at a price equal to the market price of the Bank's Share at Vesting Date, in accordance with the Plan's Terms, provided all the conditions of the Plan are met. The shadow shares are not constitutional ordinary shares of the Bank and, as such, they do not entitle the holder to any right to ownership or equity of the Bank.

Remuneration paid to key management including executive management:

Particulars	No. of Staff	Salary	Variable Salary	Termination Benefits	KD 000's
					Total
Key Management / Executive Team	12	1,713	1,126	85	2,294
Financial Control	3	223	80	25	328
Risk Management	2	119	33	16	168
Material Risk Takers	28	1,874	833	231	2,938

Definitions:

All personnel included in each of the above categories form part of the management team at the Bank. The Management team encompasses all key decisions makers and their assistants.

The key management and executive team includes CEO, DY CEO, CFO, CRO and also other business needs.

Material risk takers are staff in the management team in each of the business lines that undertake risk as part of their normal business activities.

The total remuneration paid to the five senior executives was KD1,386K. The total remuneration paid to the CEO, CFO, CRO, and CIA was KD1,316K.

ANNEXURE-A



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The Board of Directors
Gulf Bank K.S.C.
P.O. Box 3200, Safat 13032
State of Kuwait

20 June 2013

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 10 March 2013, we have examined the accounting and other records and internal control systems of Gulf Bank K.S.C ("the Bank"), which were in existence during the year ended 31 December 2012. We covered all areas of the Bank as follows:

- Corporate Governance;
- Human Resources;
- Investments;
- Credit (Corporate, International and Consumer);
- Treasury;
- Finance and Planning Division;
- Information Technology;
- Operations;
- Legal Affairs Department;
- Internal Audit;
- Anti-Money Laundering Unit;
- Risk Management;
- Facilities Management;
- Securities Activities;
- Consumer Banking;
- Total Quality Management; and
- Remedial Management Department.

Our examination has been carried out with regard to the requirements contained in the Manual of General Directives issued by the Central Bank of Kuwait ("CBK") on 14 November 1996, CBK instructions dated 3 May 2004 concerning the corporate governance, CBK instructions dated 22 October 2002 and its amendments concerning the Combating Money Laundering Operations and the Financing of Terrorism and in accordance with International Standard on Assurance Engagement 3000.

As members of the board of directors of the Bank you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that banking risks are properly monitored and evaluated, that transactions are executed in accordance with established authorization procedures and are recorded properly, and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any accounting and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management

information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Appendix I to this report summarizes the organization structure of the Bank, it outlines the nature and approximate volume of the transactions, the key risks faced by the Bank and the key procedures in place on which the Bank relies on for each of the business and support areas examined. Appendix IV provides the Bank's organization structure.

In our opinion, having regard to the nature and size of its operations, during the year ended 31 December 2012, the accounting and other records and internal controls systems, in the areas examined by us, were established and maintained satisfactorily in accordance with the requirements of the Manual of General Directives issued by the Central Bank of Kuwait on 14 November 1996, clause 3 and 4 of the CBK instructions dated 3 May 2004 concerning the corporate governance, CBK instructions dated 22 October 2002 and its amendments concerning the Combating Money Laundering Operations and the Financing of Terrorism with the exception of the matters set out in Appendix II and Appendix III attached to this report.



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Capital Management And Allocation

Capital Structure

The table below details the regulatory capital for Gulf Bank ("the Bank") as at 31 December 2013 and 31 December 2012.

Composition of Capital	(KD Million)		
	31-Dec-13	31-Dec-12	Variance
Tier 1 Capital			
Paid-up share capital	290.3	276.5	13.8
Reserves	186.3	183.0	3.3
Retained earnings	37.7	22.7	15.0
Less: Treasury Shares	(62.9)	(56.3)	(6.6)
Total Qualifying Tier 1 Capital	451.4	425.9	25.5
Tier 2 Capital			
Property Revaluation Reserve (45%)	7.9	7.5	0.4
Fair Valuation Reserve (45%)	6.4	3.0	3.4
General Provisions (1.25% of Credit RWAs)	36.9	37.4	(0.5)
Subordinated Debt	16.9	33.8	(16.9)
Total Qualifying Tier 2 Capital	68.1	81.7	(13.6)
Total Eligible Regulatory Capital (Tier 1 and Tier 2)	519.5	507.6	11.9

Qualifying Tier 1 capital increased by KD 25.5 million to KD 451.4 million reflecting the growth in retained earnings .

Qualifying Tier 2 capital decreased by KD 13.6 million to KD 68.1 million, due to the application of the cumulative discounting factor based on the maturity profile of the subordinated debt, partly offset by increase in the fair valuation reserve.

Capital Management

The Bank's capital management policy is to ensure and maintain an adequate capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in off-balance-sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is done to ensure that the Bank's internal capital targets are consistent with the approved risk appetite of the Bank.

The Bank seeks to maintain a prudent balance between the different components of its capital, particularly the relative mix of Tier 1 and Tier 2 capital.

Capital Management And Allocation (continued)

The following table below details the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank as at 31 December 2013 and 31 December 2012.

	(KD Million)	
	31-Dec-13	31-Dec-12
Credit Risk Exposures		
Credit risk weighted exposure	2,953.4	2,996.9
Less: Excess general provision	(156.5)	(146.4)
Net credit risk weighted exposures	2,796.9	2,850.5
Market risk weighted assets	0.9	0.4
Operational risk weighted exposures	184.5	174.5
Total Risk Weighted exposures	2,982.3	3,025.4
Regulatory Capital Requirements		
Credit Risk		
Cash items	-	-
Claims on sovereigns	-	-
Claims on public sector entities (PSEs)	5.5	4.4
Claims on banks	20.6	18.9
Claims on corporates	155.1	161.3
Regulatory retail exposures	96.7	88.4
Past due exposures	12.7	20.2
Other exposures	63.8	66.4
Credit risk capital requirement	354.4	359.6
Less : Excess general provision (12%)	(18.8)	(17.5)
Net Credit Risk Capital Requirement	335.6	342.1
Market Risk		
Interest rate position risk	-	-
Foreign exchange risk	0.1	-
Capital requirement for market risk	0.1	-
Capital requirement for operational risk	22.1	20.9
TOTAL CAPITAL REQUIREMENT	357.8	363.0
Capital adequacy ratios (per cent)		
Tier 1 ratio	15.1%	14.1%
Total capital adequacy ratio	17.4%	16.8%

The total risk-weighted exposure as at 31 December 2013 is KD 2,982.3 million, requiring a regulatory capital at 12%, of KD 357.8 million.

The Bank's regulatory capital as at 31 December 2013 is KD 519.5 million, translating to a capital adequacy ratio of 17.4%.

Risk Management

Organization of Governance and Risk Management

The Risk Management Policy document, approved by the Board on 10 January 2011 provides the necessary information on risk management philosophy, objectives, management and organization structure. The risk management policies and procedures are constantly reviewed and where necessary, modified and enhanced to reflect changes in products and the market. Enterprise Risk Management (ERM) System encompassing all areas of Risk Management further strengthens the Risk Management system in the Bank.

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and submits periodic reports to the Board as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of Risk function of the Bank. BRC reviews high risk credit which is more than 10% of the Bank's capital or as deemed appropriate by the Committee. The Risk Management of the Bank provides regular reports to the BRC so that the committee members are well informed of all risk taking activities of the Bank. The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to ECC within the Central Bank of Kuwait guidelines.

The organisation of risk management, roles and responsibilities of the various committees are included in Note 24 of the financial statements.

Corporate Governance

Gulf Bank under the leadership of its Chairman and Board of Directors has implemented the new rules on Corporate Governance 2012 as announced by the Central Bank of Kuwait. The Bank also endeavors to adopt global best practices which are vital to its financial and communal well being. The Bank has constituted four major committees - Board Risk Committee, Board Audit Committee, Board Corporate Governance Committee and Board Nomination & Remuneration Committee for implementation of Corporate Governance of the Bank. Broad roles and responsibilities of the Committees are separately covered in Note 24 to the financial statements.

Credit Risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has comprehensive policies and procedures to control and monitor all such risks. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it.

Market Risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios.

The Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis. The treasury group manages the Bank's foreign exchange and interest rate risk. The investment group monitors the equity market risk for proprietary investment portfolio. Individual dealer position and trading limits are set for each portfolio; product and risk type to ensure that the Bank's market risk is managed within the overall CBK regulatory guidelines and the market risk profile set by Asset and Liability Committee (ALCO). Interest rate, currency and liquidity mismatches are monitored constantly by the treasury group and regularly reviewed by ALCO. The degrees of mismatch permitted by ALCO are minimal.

The Bank's primary treasury business involves foreign exchange transactions on behalf of corporate customers. Customer transactions are undertaken on a back-to-back basis. The treasury group undertakes a limited amount of proprietary foreign exchange trading, mainly in the G7 currencies but also in the regional and other minor currencies. The risks are limited since the open foreign exchange positions are very small and in strict adherence with the open currency position limits set by CBK. The Bank does not trade in fixed income or equity securities.

Interest rate trading is restricted to meeting the funding requirements of the Bank's domestic and international foreign currency assets and investing any surpluses. As a matter of general policy, these positions do not contain any material element of interest rate risk.

Bank's treasury group also maintains a portfolio of Kuwait Government treasury bonds and CBK bonds to meet the

CBK statutory liquidity requirements and to manage surplus domestic currency liquidity.

The Kuwaiti Dinar is the Bank's functional currency and almost all of the Bank's assets and liabilities are denominated in either KD or USD and are match funded in the same currency. As a result, there is limited structural cross currency foreign exchange exposure.

Interest Rate Risk (Banking Book)

Interest rate risk for the Bank arises from the possibility that changes in the interest rates will affect the fair value of future cash flows of the financial instruments. Note 24 (B) to the financial statements explains interest rate risk in detail and also outlines Bank's policy and framework to manage it.

Equity Risk (Banking Book)

The investments group is responsible for managing the investment securities portfolio in the Banking (i.e. non-trading) book. In accordance with IAS 39, the investments are classified as 'available-for-sale', i.e. assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The investments are initially recognised at fair value and the subsequent unrealised gains or losses arising from changes in fair value are taken to the fair valuation reserve in equity. When an investment is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses. CBK also sets a maximum limit of 50% of the Bank's capital for investment in securities.

The Bank treats available-for-sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet its obligations on time without incurring unacceptable losses. Liquidity risk arises in the general funding of a bank's activities. The Bank has maintained a balance in liquid assets over and above the CBK's minimum requirements. Note 24 (D) to the financial statements explains liquidity risk in detail and also outlines Bank's policy and framework to manage it.

Operational Risk

Operational risk is the risk of loss arising out of policy or procedural breaches or a process breakdown. It also includes fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events. Note 24 (E) to the financial statements explains operational risk in detail and also outlines the Bank's policy and framework to manage it.

The Bank's Operational Risk Management framework is intended to identify, assess, monitor, mitigate and control operational risk effectively in the Bank in a consistent manner and, in the long run, to ensure that the Bank gets compensated for the risks assumed.

The Bank's Operational Risk Management framework encompasses Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRIs). The framework is being implemented in each business unit of the Bank. Besides, the Bank has Incident reporting mechanism, whereby any deviations from the standard operation are internally reported and appropriate remedial measures are implemented in a timely manner. Also, the Bank collates internal operational loss information and the data facilitates the Bank to put in place appropriate remedial measures to prevent instances of such losses in future. The Bank uses the SunGard Operational Risk solution for the purpose of monitoring operational risk.

Credit Risk Exposure

The Bank uses the Moody's Risk Rating system for risk rating its credit exposures. Note 24 to the financial statements explain Bank's internal grading process in detail.

Gross Credit Risk Exposure

The summary of the Bank's gross credit risk exposure (before credit risk mitigation) in 2013 and 2012 is shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

	(KD Million)		
Gross Credit Risk Exposure	31-Dec-13	31-Dec-12	Growth (%)
Funded Gross Credit Exposure	5,246.6	5,022.2	4
Unfunded Gross Credit Exposure	1,235.1	1,387.6	(11)
Total Gross Credit Risk Exposure	6,481.7	6,409.8	1

Funded gross credit risk exposure for 2013 is 80.9% (2012: 78.4%) of the total gross credit risk exposure.

Gross credit risk exposure divided between funded and unfunded on the basis of standard portfolio is detailed in the credit risk exposure section.

Average Credit Risk Exposure

Average credit risk exposure as at 31 December 2013 and 31 December 2012 is detailed below:

Funded and Unfunded credit facilities (Average) as at 31 December 2013

<i>(KD Thousands)</i>	2013			2012		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Cash items	49,997	-	49,997	44,339	-	44,339
Claims on sovereigns	1,038,602	22,675	1,061,277	1,052,339	86,227	1,138,566
Claims on public sector entities (PSEs)	107,720	102,257	209,977	92,017	123,506	215,523
Claims on banks	307,401	250,178	557,579	238,911	236,629	475,540
Claims on corporates	1,510,473	837,104	2,347,577	1,394,435	919,958	2,314,393
Retail exposures	869,748	43,834	913,582	760,470	41,654	802,124
Past due exposures	292,730	1,155	293,885	411,136	3,466	414,602
Other exposures	975,297	16,931	992,228	967,858	35,780	1,003,638
Total	5,151,968	1,274,134	6,426,102	4,961,505	1,447,220	6,408,725

Average funded gross credit risk exposure for 2013 is 80.2% (2012: 77.4%) of the total average gross credit risk exposure. The full year average amounts are calculated using a 13-point average of the month end figures from 31 December 2012 to 31 December 2013 inclusive.

Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio as at 31 December 2013 and 31 December 2012 is shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2013 - Region wise

<i>(KD Thousands)</i>	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	47,062	-	-	-	-	-	47,062
Claims on sovereigns	1,046,278	48,830	-	-	-	-	1,095,108
Claims on public sector entities (PSEs)	51,992	131,975	-	-	14,103	-	198,070
Claims on banks	22,355	197,832	166,302	78,482	178,388	432	643,791
Claims on corporates	2,188,869	79,307	-	3	38,956	678	2,307,813
Retail exposures	942,573	151	716	186	225	200	944,051
Past due exposures	231,430	-	-	-	-	-	231,430
Other exposures	991,632	4,740	514	4,884	-	12,607	1,014,377
Total	5,522,191	462,835	167,532	83,555	231,672	13,917	6,481,702
Percentage of gross credit risk exposure by geographical region	85.2%	7.1%	2.6%	1.3%	3.6%	0.2%	100.0%

Total gross credit risk exposures as at 31 December 2012 - Region wise

<i>(KD Thousands)</i>	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	45,863	-	-	-	-	-	45,863
Claims on sovereigns	1,037,949	49,320	-	-	-	-	1,087,269
Claims on public sector entities (PSEs)	61,439	146,292	-	-	-	-	207,731
Claims on banks	28,116	199,763	122,493	15,849	161,711	67	527,999
Claims on corporates	2,329,870	17,585	10,677	2	4,804	328	2,363,266
Retail exposures	865,441	106	107	2	10	-	865,666
Past due exposures	347,080	-	-	-	-	-	347,080
Other exposures	939,018	5,440	-	2,724	-	17,749	964,931
Total	5,654,776	418,506	133,277	18,577	166,525	18,144	6,409,805
Percentage of gross credit risk exposure by geographical region	88.2%	6.5%	2.1%	0.3%	2.6%	0.3%	100.0%

The majority of the Bank's credit exposure is in Kuwait which comprises KD 5.52 billion (85.2% of total gross credit exposure) at 31 December 2013, compared with KD 5.65 billion (88.2% of total gross credit exposure) at 31 December 2012.

Credit Risk Exposure (continued)

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2013 and 2012, broken down by geographical region and standard credit risk portfolio is shown below:

Total gross credit risk exposures as at 31 December 2013 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	49,997	-	-	-	-	-	49,997
Claims on sovereigns	1,011,944	49,333	-	-	-	-	1,061,277
Claims on public sector entities (PSEs)	55,942	143,120	-	-	10,915	-	209,977
Claims on banks	39,826	173,160	143,151	22,841	178,181	420	557,579
Claims on corporates	2,265,270	59,936	2,469	3	19,847	52	2,347,577
Regulatory retail exposures	912,002	130	750	254	178	268	913,582
Past due exposures	293,885	-	-	-	-	-	293,885
Other exposures	964,308	4,718	750	5,056	-	17,396	992,228
Total	5,593,174	430,397	147,120	28,154	209,121	18,136	6,426,102
Percentage of gross credit risk exposure by geographical region	87.0%	6.7%	2.3%	0.4%	3.3%	0.3%	100%

Total gross credit risk exposures as at 31 December 2012 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	44,339	-	-	-	-	-	44,339
Claims on sovereigns	1,027,840	75,257	-	-	35,469	-	1,138,566
Claims on public sector entities (PSEs)	61,568	153,955	-	-	-	-	215,523
Claims on banks	25,157	149,249	139,317	21,221	140,534	62	475,540
Claims on corporates	2,236,766	55,344	15,699	1	3,864	2,719	2,314,393
Regulatory retail exposures	800,868	211	282	191	263	309	802,124
Past due exposures	414,602	-	-	-	-	-	414,602
Other exposures	974,814	308	-	2,336	-	26,180	1,003,638
Total	5,585,954	434,324	155,298	23,749	180,130	29,270	6,408,725
Percentage of gross credit risk exposure by geographical region	87.2%	6.8%	2.4%	0.4%	2.8%	0.4%	100.0%

Industry Segment Distribution of Gross Credit Risk Exposures

The industry segment split of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2013 and 31 December 2012 is shown below:

Total gross credit risk exposures as at 31 December 2013 - Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Construction	Manufacturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	47,062	47,062
Claims on sovereigns	-	94,158	-	-	19	-	-	1,000,931	1,095,108
Claims on public sector entities (PSEs)	-	89,692	10,096	14,213	-	-	-	84,069	198,070
Claims on banks	-	628,444	201	-	15,146	-	-	-	643,791
Claims on corporate	5,976	302,248	398,178	71,202	830,745	293,738	-	405,726	2,307,813
Regulatory retail exposures	880,108	149	23,694	69	25,167	4,971	-	9,893	944,051
Past due exposures	5,694	17,638	28,368	-	6,717	897	162,671	9,445	231,430
Other exposures	121,981	-	3,697	-	-	3,646	702,532	182,521	1,014,377
Total	1,013,759	1,132,329	464,234	85,484	877,794	303,252	865,203	1,739,647	6,481,702
Percentage of gross credit risk exposure by industry segment	15.6%	17.5%	7.2%	1.3%	13.5%	4.7%	13.3%	26.9%	100.0%

Total gross credit risk exposures as at 31 December 2012 - Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Construction	Manufacturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	45,863	45,863
Claims on sovereigns	-	42,869	-	-	-	-	-	1,044,400	1,087,269
Claims on public sector entities (PSEs)	-	109,574	3,471	112	-	-	-	94,574	207,731
Claims on Banks	-	506,549	277	-	14,743	-	527	5,903	527,999
Claims on corporate	2,304	362,809	421,343	88,866	841,110	310,151	-	336,683	2,363,266
Regulatory retail exposures	802,090	214	23,210	882	25,235	4,640	-	9,395	865,666
Past due exposures	11,127	17,639	28,997	-	6,956	372	258,542	23,447	347,080
Other exposures	129,808	-	590	-	-	3,284	698,999	132,250	964,931
Total	945,329	1,039,654	477,888	89,860	888,044	318,447	958,068	1,692,515	6,409,805
Percentage of gross credit risk exposure	14.7%	16.2%	7.5%	1.4%	13.9%	5.0%	14.9%	26.4%	100.0%

Credit Risk Exposure (continued)

Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2013 and 31 December 2012 is shown below:

Total gross credit risk exposures as at 31 December 2013

<i>(KD Thousands)</i>	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	47,062	-	-	-	-	-	47,062
Claims on sovereigns	397,294	365,601	192,115	79,024	33,748	27,326	1,095,108
Claims on public sector entities (PSEs)	-	-	22,015	12,893	53,566	109,596	198,070
Claims on banks	136,778	70,773	113,216	98,318	162,055	62,651	643,791
Claims on corporates	128,754	629,000	297,069	375,317	360,677	516,996	2,307,813
Regulatory retail exposures	66,761	18,424	12,095	15,391	150,813	680,567	944,051
Past due exposures	180,020	194	11,895	348	34,745	4,228	231,430
Other exposures	96,534	208,897	183,550	146,013	210,285	169,098	1,014,377
Total	1,053,203	1,292,889	831,955	727,304	1,005,889	1,570,462	6,481,702
Percentage of gross credit risk exposure by residual maturity	16.2%	19.9%	12.8%	11.2%	15.5%	24.2%	100.0%

Total gross credit risk exposures as at 31 December 2012

<i>(KD Thousands)</i>	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	45,863	-	-	-	-	-	45,863
Claims on sovereigns	497,101	193,801	258,184	64,307	20,492	53,384	1,087,269
Claims on public sector entities (PSEs)	112	2	15	21,886	51,584	134,132	207,731
Claims on banks	145,678	82,948	51,693	61,949	102,593	83,138	527,999
Claims on corporates	193,040	487,106	304,344	278,464	519,913	580,399	2,363,266
Regulatory retail exposures	82,282	16,966	13,347	14,450	71,836	666,785	865,666
Past due exposures	266,530	6,053	2,394	1,205	42,124	28,774	347,080
Other exposures	89,247	47,047	281,304	100,941	62,427	383,965	964,931
Total	1,319,853	833,923	911,281	543,202	870,969	1,930,577	6,409,805
Percentage of gross credit risk exposure by residual maturity	20.6%	13.0%	14.2%	8.5%	13.6%	30.1%	100.0%

Impaired Loans and Provisions

Impaired Loans and Provisions by Industry Segments

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2013 and 31 December 2012 is shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2013

<i>(KD Thousands)</i>	Impaired Loans (NPLs)		Balance Sheet Provision Cash and Non cash			Specific Provision Cover
	Past due portion	Balance outstanding	Specific	General	Total	
Personal	6,015	12,965	6,950	9,974	16,924	53.61%
Financial	17,638	17,638	-	21,903	21,903	0.00%
Trade and commerce	28,307	30,449	2,163	3,709	5,872	7.10%
Crude oil and gas	-	-	-	597	597	0.00%
Construction	5,536	5,613	3,880	5,850	9,730	69.13%
Manufacturing	897	897	-	12,647	12,647	0.00%
Real estate	162,368	163,432	1,092	8,226	9,318	0.67%
Others	9,165	9,752	675	161,129	161,804	6.92%
Total	229,926	240,746	14,760	224,035	238,795	6.13%

Impaired loans and provisions (by industry segment) as at 31 December 2012

<i>(KD Thousands)</i>	Impaired Loans (NPLs)		Balance Sheet Provision Cash and Non cash			Specific Provision Cover
	Past due portion	Balance outstanding	Specific	General	Total	
Personal	7,921	17,338	9,417	8,780	18,197	54.31%
Financial	17,554	17,638	84	3,184	3,268	0.48%
Trade and commerce	28,957	29,065	112	3,825	3,937	0.39%
Crude oil and gas	-	-	-	563	563	0.00%
Construction	6,469	6,640	2,123	5,367	7,490	31.97%
Manufacturing	364	1,221	857	3,043	3,900	70.19%
Real estate	259,889	280,236	20,975	7,263	28,238	7.48%
Others	23,620	23,732	2,000	151,879	153,879	8.43%
Total	344,774	375,870	35,568	183,904	219,472	9.46%

Non-performing loans ('NPL's') have decreased by KD 135.1 million in 2013, as compared to KD 138.7 million decrease in 2012 (for details refer Note 12 and 24 (A) of the financial statements and the following table).

Impaired Loans and Provisions (continued)

Provision Charge by Industry Segments

The industry segments split of the provision charges and write-offs are shown below:

Provision Charges and Write - offs during 2013 (by Industry Segments)

<i>(KD Thousands)</i>	Charge/(Release) for impairment provision		
	Specific Charge / Write-offs	General Charge	Total Charge
Personal	(1,671)	1,194	(477)
Financial	(84)	18,719	18,635
Trade and commerce	2,051	(116)	1,935
Crude oil and gas	-	34	34
Construction	1,757	483	2,240
Manufacturing	-	9,604	9,604
Real estate	34,974	963	35,937
Others	6,032	9,250	15,282
Total	43,059	40,131	83,190

Specific charge mentioned above excludes KD 63.87 million amounts written off during the year.

Provision Charges and Write - offs during 2012 (by Industry Segments)

<i>(KD Thousands)</i>	Charge/(Release) for impairment provision		
	Specific Charge / Write-offs	General Charge	Total Charge
Personal	(1,838)	1,198	(640)
Financial	(3,688)	(58)	(3,746)
Trade and commerce	1,905	673	2,578
Crude oil and gas	-	309	309
Construction	(988)	336	(652)
Manufacturing	1,670	8	1,678
Real estate	16,384	176	16,560
Others	(1,569)	57,318	55,749
Total	11,876	59,960	71,836

Specific charge mentioned above excludes KD 58.3 million amounts written off during the year.

Impaired Loans and Provisions (continued)

Impaired Loans and Provisions by Geographical Segments

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31 December 2013 and 31 December 2012 is shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2013

<i>(KD Thousands)</i>	Impaired Loans (NPLs)		Balance Sheet Provisions			Specific Provision Cover
	Past due portion	Balance outstanding	Specific	General	Total	
Kuwait	229,926	240,746	14,760	221,806	236,566	6.1%
Other Middle East	-	-	-	988	988	0.0%
Western Europe	-	-	-	976	976	0.0%
Asia Pacific	-	-	-	262	262	0.0%
Rest of World	-	-	-	3	3	0.0%
Total	229,926	240,746	14,760	224,035	238,795	6.1%

Impaired loans and provisions (by Geographical Region) as at 31 December 2012

<i>(KD Thousands)</i>	Impaired Loans (NPLs)		Balance Sheet Provisions			Specific Provision Cover
	Past due portion	Balance outstanding	Specific	General	Total	
Kuwait	344,774	375,870	35,568	183,523	219,091	9.5%
Other Middle East	-	-	-	343	343	0.00%
Western Europe	-	-	-	11	11	0.00%
Asia Pacific	-	-	-	27	27	0.00%
Rest of World	-	-	-	-	-	0.00%
Total	344,774	375,870	35,568	183,904	219,472	9.5%

Credit Exposure

Total Credit Exposure after applying Credit conversion factor but before Credit Risk Mitigation (CRM)

The total credit exposure after applying the relevant Basel II standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2013 and 31 December 2012, broken down by standard credit risk portfolio, is shown below:

Gross credit risk exposure before CRM as at 31 December 2013

<i>(KD Thousands)</i>	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	47,062	-	47,062	47,062	-	-	47,062
Claims on sovereigns	1,072,525	22,583	1,095,108	1,072,525	22,574	108	1,095,207
Claims on PSEs	108,109	89,961	198,070	108,109	89,882	-	197,991
Claims on banks	396,581	247,210	643,791	396,581	125,239	66	521,886
Claims on corporates	1,489,076	818,737	2,307,813	1,489,076	364,727	34	1,853,837
Retail exposures	901,534	42,517	944,051	901,534	19,062	-	920,596
Past due exposures	229,926	1,504	231,430	229,926	752	-	230,678
Other exposures	1,001,788	12,589	1,014,377	1,001,788	9,874	-	1,011,662
Total	5,246,601	1,235,101	6,481,702	5,246,601	632,110	208	5,878,919

Gross credit risk exposure before CRM as at 31 December 2012

<i>(KD Thousands)</i>	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	45,863	-	45,863	45,863	-	-	45,863
Claims on sovereigns	1,064,769	22,500	1,087,269	1,064,769	22,500	27	1,087,296
Claims on PSEs	96,161	111,570	207,731	96,161	111,491	-	207,652
Claims on banks	269,592	258,407	527,999	269,592	130,416	806	400,814
Claims on corporates	1,442,670	920,596	2,363,266	1,442,670	432,752	242	1,875,664
Retail exposures	821,956	43,710	865,666	821,956	18,993	-	840,949
Past due exposures	344,774	2,306	347,080	344,774	1,764	-	346,538
Other exposures	936,435	28,496	964,931	936,435	25,795	-	962,230
Total	5,022,220	1,387,585	6,409,805	5,022,220	743,711	1,075	5,767,006

Credit Risk Mitigation

Under the Basel II standardised approach for credit risk, CRM techniques are used to reduce the risk-weighted amount of credit risk exposures for capital adequacy purposes. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it.

The Bank's credit policy requires very conservative minimum collateral coverage ratios, supported by top-up ratios. When the value of the collateral held in respect of a particular loan falls below the initial prescribed collateral coverage ratio and reaches the top up ratio threshold, the customer is requested to provide additional collateral in order to restore the prescribed collateral coverage ratio. Real estate collateral is valued once a year by independent real estate valuers (the lower of the two valuations being taken) and quoted shares are valued daily using current stock exchange prices for direct

pledge and monthly if held through a portfolio manager.

In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The personal/corporate guarantees do not constitute eligible CRM techniques for capital adequacy purposes under the Basel II standardised approach.

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer (normally a Government Ministry) to pay their salary directly to their Gulf Bank account. Collateral or security, normally in the form of a blocked customer deposit with the Bank, the assignment of an employment 'End of Service Benefit' or a personal guarantee, is taken on rare occasions when consumer loans are granted without an assignment of salary.

Credit Exposure (continued)

Total Credit Exposure after Credit Risk Mitigation and Resulting Credit Risk Weighted Assets

The exposure after CRM, as at 31 December 2013 and 31 December 2012 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures as given below:

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2013

<i>(KD Thousands)</i>	Credit Exposure/CRM				Risk - Weighted Assets		
	Exposure before CRM	Eligible Collateral	CRM Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	47,062	-	-	47,062	-	-	-
Claims on sovereigns	1,095,207	10	-	1,095,197	-	-	-
Claims on PSEs	197,991	14,298	-	183,693	46,023	-	46,023
Claims on banks	521,886	2,064	-	519,822	163,169	8,276	171,445
Claims on corporates	1,853,837	561,180	-	1,292,657	-	1,292,657	1,292,657
Retail exposures	920,596	109,218	-	811,378	-	805,543	805,543
Past due exposures	230,678	124,104	-	106,574	-	105,703	105,703
Other exposures	1,011,662	596,931	-	414,731	-	531,981	531,981
Total	5,878,919	1,407,805	-	4,471,114	209,192	2,744,160	2,953,353

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2012

<i>(KD Thousands)</i>	Credit Exposure/CRM				Risk - Weighted Assets		
	Exposure before CRM	Eligible Collateral	CRM Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	45,863	-	-	45,863	-	-	-
Claims on sovereigns	1,087,296	-	-	1,087,296	-	-	-
Claims on PSEs	207,652	14,195	-	193,457	36,691	-	36,691
Claims on banks	400,814	218	-	400,596	154,207	3,665	157,872
Claims on corporates	1,875,664	531,458	-	1,344,206	-	1,344,207	1,344,207
Retail exposures	840,949	98,526	-	742,423	-	736,497	736,497
Past due exposures	346,538	177,566	-	168,972	-	168,390	168,390
Other exposures	962,231	549,875	-	412,356	-	553,299	553,299
Total	5,767,007	1,371,838	-	4,395,169	190,898	2,806,058	2,996,956

Most of the CRM takes the form of eligible financial collateral, mainly equities listed on the Kuwait stock exchange and cash deposits.

Trading Portfolio

Trading portfolio is limited to a modest amount of open currency position in the course of Bank's Balance Sheet management and a limited amount of money market trading is also undertaken.

The Bank uses standardised approach for determining the capital required for market risk. The Bank uses trading Value at Risk (VAR) to track and observe foreign exchange risks.

The details of the market risk capital charge for the Bank as at 31 December 2013 and 31 December 2012 is shown in the following table:

	<i>(KD thousands)</i>	
Market Risk	31-Dec-13	31-Dec-12
Interest rate position risk	-	-
Foreign exchange risk	111	47
Total Capital requirement for market risk	111	47
Market risk - weighted assets	925	392

On 31 December 2013 total market risk capital charge of KD 111 thousand was equivalent to market risk-weighted assets of KD 0.93 million. Market risk-weighted assets were KD 0.53 million more than December 2012.

Operational Risk

The Bank's business activities are mapped into the following three business lines: trading and sales, commercial Banking and retail Banking. The Bank's internal funds transfer pricing methodology is used to allocate interest income and interest expense between the above business lines.

The details of the operational risk capital charge for the Bank as at 31 December 2013 are shown in the following table:

Operational Risk as at 31 December 2013

<i>(KD Thousands)</i>	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	19,676	18%	3,542
Commercial banking	80,824	15%	12,124
Retail banking	53,998	12%	6,480
Total	154,498		22,146
Total operational risk weighted exposure			184,549

Operational Risk as at 31 December 2012

<i>(KD Thousands)</i>	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	19,327	18%	3,479
Commercial banking	78,620	15%	11,793
Retail banking	47,248	12%	5,670
Total	145,195		20,942
Total operational risk weighted exposure			174,516

In accordance with the Basel II guidelines, gross income includes net interest income and net non-interest income, but excludes realised profits from the sale of securities in the banking book. The 31 December 2013 total operational risk capital charge of KD 22.1 million was equivalent to operational risk-weighted exposure of KD 184.5 million.

Equity Risk in the Banking Book

Bank does not trade in equities. All of the Bank's investment securities are held in the Banking (i.e. non-trading) book and are classified as 'available-for-sale' financial assets, i.e. they represent assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate for the instrument. The fair values of unquoted instruments require significant estimation. The fair values of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of the investment securities held at 31 December 2013 is shown below, along with the cumulative unrealised gains in the fair valuation reserve in equity and the regulatory capital implications. The income statement realisation gain from disposals made in 2013 is also shown.

Information related to the licensed Bank's equity position in the banking book as at 31 December 2013

<i>(KD Thousands)</i>	Publicly traded	Privately traded	Total investment securities
Total fair value of investment securities	77,002	46,980	123,982
Unrealised gains in equity	10,406	3,707	14,113
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	4,683	1,668	6,351
Regulatory capital requirement	8,622	4,987	13,609
Income statement details			
Income from disposal of investment securities			2,299

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2012

<i>(KD Thousands)</i>	Publicly traded	Privately traded	Total investment securities
Total fair value of investment securities	78,774	43,578	122,352
Unrealised gains in equity	6,277	427	6,704
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	2,825	192	3,017
Regulatory capital requirement	9,151	5,243	14,394
Income statement details			
Income from disposal of investment securities			5,305

Interest Rate Risk in the Banking Book

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates.

The sensitivity of net interest income to interest rate changes is provided in note 24 (B) to the financial statements.



Financial Statements





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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GULF BANK K.S.C.P.

Report on the Financial Statements

We have audited the accompanying financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report On Other Legal And Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these 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 financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular No 2/BS/184/2005 dated 21 December 2005, as amended, the Companies Law No 25 of 2012, as amended, and by the Bank'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 Capital Adequacy Regulations issued by the CBK as stipulated in CBK Circular No 2/BS/184/2005 dated 21 December 2005, as amended, the Companies Law No 25 of 2012, as amended or of the Bank's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations, during the year ended 31 December 2013 that might have had a material effect on the business of the Bank or on its financial position.



WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS



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

8 January 2014
Kuwait

Income Statement

Year Ended 31 December 2013

	NOTES	2013 KD 000's	2012 KD 000's
Interest income	3	166,695	176,207
Interest expense	4	(45,291)	(58,510)
Net interest income		121,404	117,697
Net fees and commissions	6	26,158	28,535
Net gains from dealing in foreign currencies and derivatives	7	13,628	26,413
Realised gains from disposal of investments available-for-sale		2,299	5,305
Dividend income		674	664
Other income		2,795	1,025
OPERATING INCOME		166,958	179,639
Staff expenses		39,546	34,330
Occupancy costs		3,424	3,323
Depreciation		2,972	2,930
Other expenses		11,575	17,643
OPERATING EXPENSES		57,517	58,226
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		109,441	121,413
Charge of provisions:			
- specific	5	73,202	11,876
- general	12,18	9,988	59,960
Loan recoveries net of write-off	12	(8,775)	5,168
Impairment loss on investments available-for-sale		1,216	11,936
		75,631	88,940
OPERATING PROFIT		33,810	32,473
Directors' remuneration	22	135	135
Contribution to Kuwait Foundation for the Advancement of Sciences		339	324
National Labour Support Tax		837	803
Zakat		339	324
PROFIT FOR THE YEAR		32,160	30,887
EARNINGS PER SHARE			
Basic and diluted earnings per share (Fils)	8	12	11

The attached notes 1 to 30 form part of these financial statements.

Statement of Comprehensive Income

Year Ended 31 December 2013

	NOTES	2013 KD 000's	2012 KD 000's
Profit for the year		32,160	30,887
Other comprehensive income			
Other comprehensive income to be reclassified to income statement in subsequent periods:			
Net unrealised gains /(losses) on investments available-for-sale	13	7,591	(8,635)
Net realised (gains) / impairment loss on disposal of investments available -for-sale transferred to income statement	13	(182)	8,130
Revaluation of premises and equipment		937	-
Other comprehensive income for the year		8,346	(505)
Total comprehensive income for the year		40,506	30,382

The attached notes 1 to 30 form part of these financial statements.

Statement of Financial Position

As at 31 December 2013

	NOTES	2013 KD 000's	2012 KD 000's
ASSETS			
Cash and short term funds	9	533,421	483,230
Treasury bills and bonds	10	177,142	290,232
Central Bank of Kuwait bonds	11	539,521	424,375
Deposits with banks and other financial institutions		14,102	32,688
Loans and advances to banks	12	125,415	92,605
Loans and advances to customers	12	3,361,234	3,322,494
Investments available-for-sale	13	123,982	122,352
Other assets	14	164,103	53,079
Premises and equipment		25,839	25,603
TOTAL ASSETS		5,064,759	4,846,658
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	307,840	127,354
Deposits from financial institutions	15	759,803	846,603
Customer deposits	16	3,326,251	3,247,629
Subordinated loans	17	84,615	84,375
Other liabilities	18	103,116	91,456
TOTAL LIABILITIES		4,581,625	4,397,417
EQUITY			
Share capital	19	276,474	263,309
Proposed bonus shares	22	13,824	13,165
Statutory reserve	20	9,097	5,716
Share premium	20	153,024	153,024
Property revaluation reserve	20	17,635	16,698
Treasury shares reserve	21	24,246	24,258
Fair valuation reserve		14,113	6,704
Retained earnings		37,656	22,701
		546,069	505,575
Treasury shares	21	(62,935)	(56,334)
		483,134	449,241
TOTAL LIABILITIES AND EQUITY		5,064,759	4,846,658


Omar Kutayba Alghanim
 (Chairman)


Michel Accad
 (Chief General Manager & Chief Executive Officer)

The attached notes 1 to 30 form part of these financial statements.

Statement of Cash Flows

Year Ended 31 December 2013

	NOTES	2013 KD 000's	2012 KD 000's
OPERATING ACTIVITIES			
Profit for the year		32,160	30,887
Adjustments:			
Effective interest rate adjustment		(2,645)	(1,919)
Unrealised fair value gains on credit default swaps	7	(2,995)	(7,429)
Realised gains from disposal of investments available-for-sale		(2,299)	(5,305)
Dividend income		(674)	(664)
Depreciation		2,972	2,930
Loan loss provisions	5,12,18	83,190	71,836
Impairment loss on investments available-for-sale		1,216	11,936
Foreign exchange movement on subordinated loans		240	810
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		111,165	103,082
Decrease /(increase) in operating assets:			
Treasury bills and bonds		113,090	127,989
Central Bank of Kuwait bonds		(115,146)	5,107
Deposits with banks and other financial institutions		18,586	(12,688)
Loans and advances to banks		(32,810)	(58,465)
Loans and advances to customers		(119,945)	(58,560)
Other assets		(111,024)	1,863
Increase /(decrease) in operating liabilities:			
Due to banks		180,486	51,175
Deposits from financial institutions		(86,800)	69,784
Customer deposits		78,622	(82,815)
Other liabilities		15,315	3,063
NET CASH FLOWS FROM OPERATING ACTIVITIES		51,539	149,535
INVESTING ACTIVITIES			
Purchase of investments available-for-sale		(2,835)	(41,730)
Proceeds from sale of investments available-for-sale		9,697	18,251
Purchase of premises and equipment		(2,271)	(2,609)
Dividends received		674	664
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		5,265	(25,424)
FINANCING ACTIVITIES			
Purchase of treasury shares		(6,630)	(11,437)
Proceeds from sale of treasury shares		17	37
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(6,613)	(11,400)
NET INCREASE IN CASH AND SHORT TERM FUNDS		50,191	112,711
CASH AND SHORT TERM FUNDS AT 1 JANUARY		483,230	370,519
CASH AND SHORT TERM FUNDS AT 31 DECEMBER	9	533,421	483,230
Additional cash flow information			
Interest received		158,696	181,309
Interest paid		45,873	60,510

The attached notes 1 to 30 form part of these financial statements.

Statement of Changes in Equity

Year Ended 31 December 2013

	RESERVES										
	Share Capital KD 000's	Proposed bonus shares 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	Total KD 000's
At 1 January 2012	250,770	12,539	2,469	153,024	16,698	24,289	7,209	8,226	211,915	(44,965)	430,259
Profit for the year	-	-	-	-	-	-	-	30,887	30,887	-	30,887
Other comprehensive income for the year	-	-	-	-	-	-	(505)	-	(505)	-	(505)
Total comprehensive income for the year	-	-	-	-	-	-	(505)	30,887	30,382	-	30,382
Issue of bonus shares (Note 19)	12,539	(12,539)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(11,437)	(11,437)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	68	68
Loss on sale of treasury shares	-	-	-	-	-	(31)	-	-	(31)	-	(31)
Transfer to reserve	-	-	3,247	-	-	-	-	(3,247)	-	-	-
Proposed bonus shares (Note 22)	-	13,165	-	-	-	-	-	(13,165)	(13,165)	-	-
At 31 December 2012	263,309	13,165	5,716	153,024	16,698	24,258	6,704	22,701	229,101	(56,334)	449,241
At 1 January 2013	263,309	13,165	5,716	153,024	16,698	24,258	6,704	22,701	229,101	(56,334)	449,241
Profit for the year	-	-	-	-	-	-	-	32,160	32,160	-	32,160
Other comprehensive income for the year	-	-	-	-	937	-	7,409	-	8,346	-	8,346
Total comprehensive income for the year	-	-	-	-	937	-	7,409	32,160	40,506	-	40,506
Issue of bonus shares (Note 19)	13,165	(13,165)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(6,630)	(6,630)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	29	29
Loss on sale of treasury shares	-	-	-	-	-	(12)	-	-	(12)	-	(12)
Transfer to reserve	-	-	3,381	-	-	-	-	(3,381)	-	-	-
Proposed bonus shares (Note 22)	-	13,824	-	-	-	-	-	(13,824)	(13,824)	-	-
At 31 December 2013	276,474	13,824	9,097	153,024	17,635	24,246	14,113	37,656	255,771	(62,935)	483,134

The attached notes 1 to 30 form part of these financial statements.

Notes to the Financial Statements

31 December 2013

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. Its registered office is at Mubarak Al Kabir Street, P.O. Box 3200, 13032 Safat, Kuwait City.

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 8 January 2014. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

The principal activities of the Bank are described in Note 27.

The New Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 .

The Executive Regulations of the new amended law were issued on 29 September 2013 and were published in the official Gazette on 6 October 2013 . As per article three of the executive regulations, the Bank has one year from the date of publishing the executive regulations to comply with the new amended law.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets classified as "investments available-for-sale", derivative contracts and freehold land and buildings.

The financial statements have been presented in Kuwaiti Dinars ("KD"), which is the Bank's functional currency, rounded off to the nearest thousand (KD 000), except when otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all IFRS except for the

IAS 39 requirement for a collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment and uncollectibility of financial assets.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement is presented in note 24(D).

2.2 Changes in accounting policies and disclosures

The accounting policies applied are consistent with those used in the previous year except that the Bank has adopted the following standards effective for the annual periods beginning on or after 1 January 2013. The adoption of these standards did not have any effect on the financial performance or financial position of the Bank. They did however give rise to additional disclosures.

IFRS 13 Fair value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Bank.

Application of IFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 25.

IAS 1 Presentation of Items of Other Comprehensive Income (OCI) – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on available for sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Bank's financial position or performance.

2. ACCOUNTING POLICIES (continued)
2.2 Changes in accounting policies and disclosures (continued)

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Bank.

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

The Bank classifies its financial assets as “at fair value through income statement”, “loans and receivables” and “available-for-sale”; and its financial liabilities as “non-trading financial liabilities”.

Financial assets classified as “at fair value through income statement” are divided into two sub categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if managed and the performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy. Derivatives are also classified as “held for trading” unless they are designated as hedges and are effective hedging instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets which are not classified as above are classified as “available-for-sale”, and are principally those acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liabilities, which are not held for trading are classified as “non-trading financial liabilities”.

Management determines the classification of these financial instruments at the time of acquisition.

Recognition/de-recognition

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

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in statement of comprehensive

income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

A financial asset (in whole or in part) is derecognised where:

- o the contractual rights to receive cash flows from the asset have expired, or
- o the Bank 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
- o the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability and the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash

2. ACCOUNTING POLICIES (continued)
2.3 Summary of significant accounting policies (continued)

assets transferred or liabilities assumed, is recognised in the income statement.

Measurement

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through the income statement.

On subsequent re-measurement, financial assets classified as "at fair value through income statement" are carried at fair value with resultant unrealised gains or losses arising from changes in fair value included in the income statement. "Loans and receivables" are carried at amortised cost using the effective yield method less any provision for impairment. Those classified as "available-for-sale" are subsequently measured and carried at fair values. Unrealised gains and losses arising from changes in fair value of those classified as "available-for-sale" are taken to the statement of comprehensive income.

When the "available-for-sale" asset is disposed of or impaired, the related accumulated fair value adjustments previously recognised in equity are transferred to the income statement as gains or losses.

Cash and short term funds, treasury bills and bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances to banks and customers and certain other assets are classified as "loans and receivables".

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments are measured at cost less impairment loss, if any. "Non-trading financial liabilities" are carried at amortised cost using the effective interest method.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, an impairment loss is recognised in the income statement.

Impairment is determined as follows:

- a. for financial assets with fixed interest rates, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate; and for financial assets with variable interest rates, carried at amortised cost, discounted at the current effective interest rate as determined under the contract;
- b. for financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;

For available-for-sale equity investments, impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

For available-for-sale debt investments, the Bank assesses the instruments at an individual level to determine whether any objective evidence for impairment exists. When there is objective evidence of impairment, the amount of loss is measured as the difference between the instrument's carrying value and the present value of the future cash flows. If in a subsequent year, the fair value of a debt investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In addition, in accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision is made on all credit facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision.

Financial assets are written off when there is no realistic prospect of recovery.

Fair values measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

2. ACCOUNTING POLICIES (continued)
 2.3 Summary of significant accounting policies (continued)
 a. Financial instruments (continued)

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable ;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair values of quoted instruments are based on quoted closing bid prices or net asset values provided by the administrators of the fund or using the current market rate of interest for that instrument.

Fair values for unquoted instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future cash flows at the current rates for similar financial instruments.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

'Day 1' profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest

earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

b. Derivative financial instruments and hedging

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. Derivatives with positive fair values (unrealised gains) are included in 'Other assets' and derivatives with negative fair values (unrealised losses) are included in 'Other liabilities' in the statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate. Any changes in the fair value of derivatives that are held for trading are taken directly to the income statement and are disclosed under operating income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure

2. ACCOUNTING POLICIES (continued)
 2.3 Summary of significant accounting policies (continued)
 b. Derivative financial instruments and hedging (continued)

to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

In order to qualify for hedge accounting, the hedge is expected to be highly effective and should be reliably measurable. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80 per cent to 125 per cent. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in 'Other assets' or 'Other liabilities' and the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the statement of comprehensive income and the ineffective portion is recognised in the income statement. For cash flow hedges affecting future transactions that subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses which are recognised in the statement of comprehensive income are reclassified into the income statement in the same period or periods during which the financial asset or financial liability affects the income statement.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss

recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the discontinued hedge is amortized over the remaining term to maturity.

c. Collateral pending sale

The Bank occasionally acquires property in settlement of certain loans and advances. Such property is stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the income statement.

d. Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated. The expense relating to any provision is presented in the income statement net of any reimbursement.

e. End of service indemnity

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary 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.

With respect to its national employees, the Bank makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

f. Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are sold, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised 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 to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2. ACCOUNTING POLICIES (continued)**2.3 Summary of significant accounting policies (continued)****g. Premises and equipment**

Freehold land and buildings are initially recognised at cost. After initial recognition freehold land and buildings are carried at revalued amount, which is the fair value at the date of revaluation. The revaluation is carried out periodically by professional property valuers. The resultant revaluation surplus or deficit is recognised in the statement of comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised revaluation surplus is recognised in the income statement. To the extent that a revaluation surplus reverses a revaluation loss previously recognised in the income statement, the increase is recognised in the income statement. Upon disposal the revaluation reserve relating to the freehold land and building sold is transferred directly to retained earnings.

Equipment are stated at cost, less accumulated depreciation and impairment losses if any. Land is not depreciated. Depreciation of buildings and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	5 to 10 years
Equipment	3 to 5 years

h. Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, external valuations or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A

previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

i. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Other fees and commission income are recognised as the services are provided. Dividend income is recognised when the right to receive payment is established.

j. Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

k. Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat

KFAS, NLST and Zakat are provided for in accordance with the fiscal regulations in Kuwait.

l. Leases

Operating lease payments are recognized as an operating expense in the income statement on a straight line basis over the lease term.

m. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the statement of financial position.

n. Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Kuwaiti Dinars at the rates of exchange ruling at the statement of financial position date. Forward exchange contracts are valued at the forward rates ruling at the statement of financial position date. Any resultant gains or losses are taken to the income statement.

In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the income statement, foreign exchange differences are recognised in the income statement.

o. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of cash on hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding one month from the date of deposit.

p. Segment reporting

A segment is a distinguishable component of the Bank that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Bank to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, class of customers where appropriate are aggregated and reported as reportable segments.

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. The guarantee liability is subsequently measured as a higher of the amount initially recognized less amortisation or the value of any financial obligation that may arise therefrom.

2.4 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Classification of financial instruments

Management has to decide on acquisition of a financial instrument, whether it should be classified as carried at fair value through income statement, available-for-sale or as loans and receivables. In making that judgement, the Bank considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and whether the changes in fair value of instruments are reported in the income statement or statement of comprehensive income.

Impairment losses on loans and advances

The Bank reviews loans and advances on an ongoing basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. In estimating these cash flows the Bank makes judgements about the borrower's financial conditions and the net realisable value of collaterals. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Valuation of unquoted financial instruments

Valuation of unquoted financial instruments is normally based on one of the following:

- Recent arm's length market transactions;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Current fair value of another instrument that is substantially the same; or
- Valuation models.

The Bank 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.

These values are computed based on significant assumptions including foreign exchange rates, interest rates and volatilities etc. The extent of changes to these rates and volatilities are dependent on market movements, which cannot be predicted with certainty.

2.5 Standards issued but not effective

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

IAS 32 Offsetting Financial Assets and Financial Liabilities (amendments)

These amendments clarify the meaning of "currently has a

legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued as the mandatory effective date has been deferred indefinitely.

3. INTEREST INCOME

	2013 KD 000's	2012 KD 000's
Treasury bills, bonds and Central Bank of Kuwait Bonds	7,275	11,331
Placements with banks	1,834	1,345
Loans and advances to banks and customers	157,586	163,531
	166,695	176,207

4. INTEREST EXPENSE

	2013 KD 000's	2012 KD 000's
Sight and savings accounts	4,230	3,742
Time deposits	36,810	51,583
Bank borrowings	4,251	3,185
	45,291	58,510

5. SPECIFIC PROVISIONS

	2013 KD 000's	2012 KD 000's
Loans and advances to customers		
– Cash (Note 12)	73,194	11,992
– Non-cash (Note 18)	8	(116)
	73,202	11,876

6. NET FEES AND COMMISSIONS

	2013 KD 000's	2012 KD 000's
Total fees and commission income	30,916	32,243
Total fees and commission expense	(4,758)	(3,708)
	26,158	28,535

Total fees and commission income includes **KD203 thousand** (2012: KD237 thousand) from fiduciary activities.

7. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	2013 KD 000's	2012 KD 000's
Income from structured derivative transactions	-	8,268
Realised gain on structured derivative transactions with customers	2,434	3,357
Unrealised fair value gains on credit default swaps	2,995	7,429
Income from credit default swaps	680	1,058
Net trading income	6,109	20,112
Foreign exchange operations	7,519	6,301
	13,628	26,413

8. BASIC AND DILUTED EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. The Bank does not have outstanding dilutive potential shares as at 31 December 2013.

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

	2013 KD 000's	2012 KD 000's
Profit for the year	32,160	30,887
	Shares	Shares
Weighted average number of issued and paid up shares	2,764,741,858	2,764,741,858
Less: Weighted average number of treasury shares	(91,851,211)	(64,361,936)
	2,672,890,647	2,700,379,922
Basic and diluted earnings per share	12	11

Earnings per share calculations for the year ended 31 December 2012 have been adjusted to give effect to the bonus shares issued in 2013.

9. CASH AND SHORT TERM FUNDS

	2013	2012
	KD 000's	KD 000's
Balances with the Central Bank of Kuwait	186,204	302,348
Cash on hand and in current accounts with other banks	154,763	78,360
Deposits with banks and other financial institutions	192,454	102,522
	533,421	483,230

10. TREASURY BILLS AND BONDS

The Central Bank of Kuwait on behalf of the Ministry of Finance issues these financial instruments.

	2013	2012
	KD 000's	KD 000's
Maturing within one year	159,409	265,676
Maturing after one year	17,733	24,556
	177,142	290,232

11. CENTRAL BANK OF KUWAIT BONDS

These financial instruments are issued by the Central Bank of Kuwait. They mature within a period not exceeding one year.

	2013	2012
	KD 000's	KD 000's
Central Bank of Kuwait Bonds	539,521	424,375

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent monies paid to banks and customers. The Bank's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2013:

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Total KD 000's
Loans and advances to customers					
Personal	1,021,198	-	-	-	1,021,198
Financial	321,058	-	-	-	321,058
Trade and commerce	332,169	10,096	-	-	342,265
Crude oil and gas	42,349	-	-	27,852	70,201
Construction	322,410	-	-	-	322,410
Manufacturing	283,835	-	-	-	283,835
Real estate	856,448	-	-	-	856,448
Others	265,540	106,658	172	-	372,370
Gross loans and advances to customers	3,445,007	116,754	172	27,852	3,589,785
Less: Provision for impairment					(228,551)
Loans and advances to customers					3,361,234
Gross loans and advances to banks	430	21,078	87,436	17,624	126,568
Less: Provision for impairment					(1,153)
Loans and advances to banks					125,415

At 31 December 2012:

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Total KD 000's
Loans and advances to customers					
Personal	954,917	-	-	-	954,917
Financial	335,644	-	-	-	335,644
Trade and commerce	321,963	8,470	-	-	330,433
Crude oil and gas	23,036	-	-	-	23,036
Construction	283,592	-	-	583	284,175
Manufacturing	294,794	-	-	-	294,794
Real estate	949,313	-	-	-	949,313
Others	310,529	49,078	296	-	359,903
Gross loans and advances to customers	3,473,788	57,548	296	583	3,532,215
Less: Provision for impairment					(209,721)
Loans and advances to customers					3,322,494
Loans and advances to banks	1,621	22,078	68,906	-	92,605

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (continued)

Movement in provision for impairment

	2013 KD 000's	2012 KD 000's
At 1 January	209,721	195,960
Amounts written-off	(63,867)	(58,311)
Charge to the income statement	83,850	72,072
At 31 December	229,704	209,721

The specific and general provisions are based on the requirements of the Central Bank of Kuwait and IFRS. According to the Central Bank of Kuwait instructions, minimum general provision of 1% is provided on regular cash facilities and 0.5% on regular non-cash facilities, (net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision).

During the current year, CBK has issued instruction to maintain general provision of 1% on regular cash facilities and 0.5% on regular non-cash facilities to banks, except those banks which are rated A and above, by international rating agencies.

The general provisions were **KD188,875 thousand** (2012: KD178,625 thousand).

Loan recoveries represent the net difference between loans written off during the year of **KD6,974 thousand** (2012: KD 12,358 thousand) and realizations of **KD15,749 thousand** (2012: KD7,190 thousand) from loans written off.

The Bank has initiated legal proceedings against a customer in connection with structured derivative transactions and is awaiting a final outcome.

	2013 KD 000's			2012 KD 000's		
	Corporate lending	Consumer lending	Total	Corporate lending	Consumer lending	Total
Movement in provisions for impairment of loans and advances by class is as follows:						
At 1 January	191,923	17,798	209,721	177,851	18,109	195,960
Amounts written-off	(63,867)	-	(63,867)	(58,311)	-	(58,311)
Charge/(write back) to the income statement	85,970	(2,120)	83,850	72,383	(311)	72,072
At 31 December	214,026	15,678	229,704	191,923	17,798	209,721

Refer note 24A for financial assets by class individually impaired.

Provision on non-cash facilities of **KD9,091 thousand** (2012: KD9,751 thousand) is included under other liabilities (Note 18).

13. INVESTMENTS AVAILABLE-FOR-SALE

	2013 KD 000's	2012 KD 000's
Equity securities		
Quoted	46,228	47,442
Unquoted	29,077	25,165
Debt securities		
Quoted	30,774	31,332
Unquoted	17,903	18,413
	123,982	122,352

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are certain investments where this estimation cannot be reliably determined, and are carried at cost net of impairment with a carrying amount of **KD41,012 thousand** (2012: KD41,920 thousand).

14. OTHER ASSETS

	2013 KD 000's	2012 KD 000's
Accrued interest receivable	29,212	23,820
Sundry debtors and others (Note 29)	94,030	26,759
Repossessed collaterals	40,861	2,500
	164,103	53,079

The Bank obtained possession of investment securities valued at **KD 24,943 thousand** (2012: KD Nil), real estate properties valued at **KD15,918 thousand** (2012: KD2,500 thousand) and treasury shares valued at KD5,488 thousand (Note 21) held as collaterals in settlement of debts from customers. These repossessed collaterals will be disposed within the stipulated time limit prescribed by the CBK. Investment securities amounting to **KD14,879 thousand** are fair valued using quoted market prices (Level 1) and the balance amounting to **KD10,064 thousand** is fair valued using observable market data (Level 2). The fair values of the real estate properties are not materially different from their carrying values.

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2013 KD 000's	2012 KD 000's
Due to banks		
Current accounts and demand deposits	8,533	32,604
Time deposits	299,307	94,750
	307,840	127,354
Deposits from financial institutions		
Current accounts and demand deposits	53,999	60,731
Time deposits	705,804	785,872
	759,803	846,603

16. CUSTOMER DEPOSITS

	2013 KD 000's	2012 KD 000's
Current accounts	968,332	835,542
Savings accounts	327,037	289,443
Time deposits	2,030,882	2,122,644
	3,326,251	3,247,629

Customer deposits include **KD14,604 thousand** (2012: KD7,605 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees. (refer to Note 26).

17. SUBORDINATED LOANS

As at 31 December 2013, the Bank has subordinated loans of USD 300 million equivalent to **KD84,615 thousand** (2012: KD84,375 thousand). This comprise of three 10 year subordinated loans: USD 50 million due in June 2014, USD 100 million due in December 2014, and USD 150 million due in October 2016. The loans were obtained from financial institutions outside of Kuwait and qualify as Tier 2 subordinated loan capital. The loans are repayable at maturity, with an option for early pre-payment with the prior approval of Central Bank of Kuwait, and interest is variable and related to interbank offer rates.

18. OTHER LIABILITIES

	2013 KD 000's	2012 KD 000's
Interest payable	12,924	13,506
Deferred income	9,293	6,882
Provisions for non-cash facilities (refer movement below)	9,091	9,751
Fair value loss provision on credit default swaps (Note 28)	420	3,415
Staff related provisions	10,899	9,185
Others	60,489	48,717
	103,116	91,456
	2013 KD 000's	2012 KD 000's
At 1 January	9,751	9,987
Charge/ (write-back) to the income statement	(660)	(236)
At 31 December	9,091	9,751

19. SHARE CAPITAL

	2013 KD 000's	2012 KD 000's
Authorised, issued and fully paid shares	276,474	263,309

The number of authorised, issued and fully paid shares of KD 0.100 each as at 31 December 2013 is **2,764,741,858** (2012: 2,633,087,484). Bonus of 5% on the outstanding shares proposed as at 31 December 2012 was approved at the 2012 Annual General Meeting and was issued in 2013 following that approval (Note 22).

20. RESERVES

a) Statutory reserve

In accordance with the Companies Law and the Bank's Articles of Association, 10 percent of the profit for the year before directors' fees, contribution to KFAS, NLST and Zakat has been transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50 percent of paid up share capital.

Distribution of this reserve is limited to the amount required to enable the payment of a dividend of 5 percent of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

b) Share premium

The balance in the share premium account is not available for distribution but can be utilised for capital restructuring to offset the accumulated losses.

c) Property revaluation reserve

The property revaluation reserve represents the surplus of market value over carrying value of the premises and equipment owned by the Bank. The balance in this reserve is taken directly to retained earnings when the underlying assets are disposed off.

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2013	2012
Number of treasury shares	100,194,952	79,665,829
Percentage of treasury shares	3.62%	3.03%
Cost of treasury shares (KD 000's)	62,935	56,334
Market value of treasury shares as at 31 December (KD 000's)	37,573	33,460

Movement in treasury shares was as follows:

	No. of shares	
	2013	2012
Balance as at 1 January	79,665,829	49,958,737
Purchases	16,571,810	27,236,156
Bonus shares	4,002,313	2,550,936
Sales	(45,000)	(80,000)
Balance as at 31 December	100,194,952	79,665,829

The balance in the treasury shares reserve of **KD 24,246 thousand** (2012: KD 24,258 thousand) is not available for distribution.

22. PROPOSED BONUS SHARES AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of bonus shares of 5% (2012: 5%) on the outstanding issued share capital as at 31 December 2013 amounting to **KD 13,824 thousand** (2012: 13,165 thousand) which is subject to approval of shareholders at the Annual General Meeting (AGM). Proposed bonus shares, if approved shall be distributed to shareholders registered in Bank's records as at the date of the AGM.

During the year, the shareholders at Annual General Meeting (AGM) held on 16 March 2013 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2012 amounting to **KD 13,165 thousand** (2011: KD 12,539 thousand) representing 131,654,374 shares of 100 fils each.

Directors' remuneration of **KD 135 thousand** (2012: KD 135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

23. RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholders, Board members and officers of the Bank, their families and companies of which they are the principal owners) were customers of the Bank in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than a normal amount of risk.

The transaction and balances included in the statement of financial position are as follows:

	<i>Number of Board Members or executive management members</i>		<i>Number of related parties</i>			
	2013	2012	2013	2012	2013 KD 000's	2012 KD 000's
Board members						
Balances						
Loans and advances	-	-	4	3	59,115	52,450
Investments available-for-sale	-	-	1	1	40	770
Deposits	7	8	14	15	205,481	217,582
Commitments						
Guarantees	-	-	3	3	6,292	4,906
Transactions						
Interest income	-	-	4	4	1,809	2,047
Interest expense	2	1	6	6	1,350	2,836
Executive management						
Balances						
Loans and advances	1	1	-	-	55	541
Deposits	10	13	-	-	659	1,218
Commitments						
Guarantees	1	2	-	-	1	1
Transactions						
Interest income	1	1	-	-	3	17
Interest expense	11	12	-	-	15	27

The loans issued to directors and key management personnel are repayable within 3 years and have interest rates of **2% to 6.75% p.a.** (2012: 2% to 5.75% p.a.). Some of the loans advanced to Board members and their related parties during the year are collateralised. The fair value of these collaterals as of 31 December 2013 was **KD 48,060 thousand** (2012: KD 51,334 thousand).

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

	2013 KD 000's	2012 KD 000's
Salaries and other short-term benefits	2,839	2,979
End of service/termination benefits	85	95
	2,924	3,074

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Risk management

The use of financial instruments also brings with it the associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risk forms an integral part of the Bank's strategic objectives.

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major risk-based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility.

The following sections describe the several risks inherent in the banking process, their nature and how they are managed.

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises principally from lending, trade finance and treasury activities.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

A brief description of the risk management framework is given below:

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimised by monitoring credit exposures, limiting transactions with individual counterparties and continually assessing collateral coverage/quality and the creditworthiness of counterparties.

Individual customer, industry segment and cross-border limits are used to diversify lending and avoid undue concentrations. Credit exposure relating to trading activities is controlled by the use of strict counterparty limits, master netting agreements and collateral arrangements (where appropriate), and by limiting the duration of exposures.

Risk Management function is headed by Chief Risk Officer (CRO) who reports to the Board Risk Committee. An independent Credit Department, reporting to Chief Risk Officer, is responsible for providing centralised management of credit risk. The responsibilities of this team include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to categorise exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

The Bank also has detailed credit approval guidelines for each of its individual retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment. Applicants must also provide a reference from their employer, specifying salary and length of service, and a commitment from the employer to pay their salary directly to their current account with the Bank. In accordance with CBK regulations, the applicant's total monthly debt repayment to income ratio must not exceed the limits stipulated.

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and submit periodic reports to the Board as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of Risk function of the Bank. BRC reviews high risk credit which are more than 10% of the

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)

Bank's capital or as deemed appropriate by the Committee. The Risk Management of the Bank provides regular reports to the BRC so that the committee members are well informed of all risk taking activities of the Bank.

Other than BRC, the Bank has six credit committees: the Executive Credit Committee ('ECC'), the Management Credit Committee ('MCC'), Business Banking Credit Committee ('BBCC'), the Consumer Banking Credit Committee ('CBCC'), Remedial Credit Committee and the Classification and Provisions Committee ('CPC').

The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to the ECC within the Central Bank of Kuwait guidelines. The responsibilities of the ECC are to review and approve, reject, modify or conditionally approve credit proposals upto the legal lending limit of the Bank in compliance with the credit policies of the Bank. The ECC has also the authority to approve credit criteria, credit programs and treasury limits within the approved risk appetite of the Bank.

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC.

Business Banking Credit Committee ('BBCC') has the responsibility for facilitating asset creation and monitoring exposure management up to the approved limit in Small and Medium Enterprise ('SME') segment. BBCC has the sole authority to approve, reject or modify business banking credit applications submitted to it up to the limit of its delegated authority. There is a well defined organisational structure and risk management mechanism for business banking which offers specific products to the SME segment based on turnover and its priority for the Bank.

The CBCC meets regularly and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant.

Remedial Credit Committee reviews all remedial management credits and/or approves or recommends for ECC's approval, all proposals to settle, restructure, reschedule, abandon recovery efforts or write-off debts applications that fall outside the delegated authority limits of the Remedial Credit Committee may be referred to the ECC as well.

Depending on the amount and risk profile of the client, credit applications for corporate and international lending may be reviewed by the BRC, ECC, MCC, BBCC and Remedial Credit Committee and typically include the following information: executive summary, customer profile, summary of limits, amounts outstanding; risk rating and credit memorandum prepared by the Bank's independent credit review unit; customer profitability analysis; financial and cash flow analysis; details of purpose of loan, collateral, repayment source and details of guarantors, if applicable; and audited financial statements and/or personal net worth statements, as appropriate.

The Bank has legal lending limits, country limits and industry sector limits that must be adhered to when lending approval is being considered in respect of relevant applications or participations.

The Bank has a detailed credit policy approved by the Board and is periodically revised. The Credit Policy Manual sets out the guiding principles and credit risk philosophy governing extension of credit, provide a structure around which banking business must be based and ensure a consistent approach to all its lending activities. It also defines the policy on acceptable country credit risk exposure, and evaluating and controlling cross border risk. The individual country limits are approved and reviewed by the ECC. This approval is based on the country analysis and assessment of business requirements undertaken by the Bank's international banking division and recommended by the MCC.

The International Banking division regularly reviews the Bank's overall cross border limits and exposure risk ratings. The review focuses on the overall spread of cross border risk and recommendations to alter individual country risk limits are made where necessary.

Risk appetite document approved by Board provides a consistent framework for understanding risk through the organization and provide a means to ensure that risk considerations are ingrained in the day-to-day operation of the Bank. The risk appetite set by the Bank is monitored and mitigation, if any, carried out at the appropriate time. The risk appetite threshold at a macro level is defined for Corporate, International, Treasury and Consumer Banking. Risk appetite is further drilled down into industry segments which are important for our business.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the statement of financial position, including positive fair value of derivatives without taking into account any collateral and other credit enhancements. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Bank's comprehensive capital as determined by the regulatory guidelines.

BY CLASS OF FINANCIAL ASSETS	Maximum exposure 2013 KD 000's	Maximum exposure 2012 KD 000's
Cash and short term funds (excluding cash on hand)	486,359	437,367
Treasury bills and bonds	177,142	290,232
Central Bank of Kuwait bonds	539,521	424,375
Deposits with banks and other financial institutions	14,102	32,688
Loans and advances to banks	125,415	92,605
Loans and advances to customers:		
Corporate lending	2,483,773	2,508,002
Consumer lending	877,461	814,492
Investments available-for-sale (Note 1.3)	48,677	49,745
Other assets	123,242	53,079
Total	4,875,692	4,702,585
Contingent liabilities	1,123,114	1,238,489
Credit default swaps	116,487	153,568
Foreign exchange contracts (including spot contracts)	17,790	68,687
Total	1,257,391	1,460,744
Total credit risk exposure	6,133,083	6,163,329

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2013 is **19%** (2012: 19%).

Collateral and other credit enhancements

The Bank employs a range of policies and practices to reduce credit risk. The Bank seeks collateral coverage, assignment of contract proceeds and other forms of protection to secure lending and minimise credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are largely secured by collateral, consisting primarily of: equities listed on the Kuwait Stock Exchange; unquoted equities, real estate (land and buildings); fixed term deposits and cash balances with the Bank that are blocked and legally pledged in its favor; and direct, explicit, irrevocable and unconditional bank guarantees.

The Bank has procedures to ensure that there is no excessive concentration of any particular asset class within the collaterals.

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)

Internal credit quality rating

The Bank's policy is to cover the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors.

The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into account operations, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing. A validation exercise for the rating Model was conducted with the help of external consultants.

The Risk Rating Process derives the Obligor Risk Ratings (ORRs) and Facility Risk Ratings (FRRs). The rating methodology focuses on factors such as: operating performance, liquidity, debt service and capital structure. The ratio analysis includes assessment of each ratio's trend across multiple periods, both in terms of rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessment of the operations, liquidity and capital structure are also included in the assessment.

For new ventures or project finance transactions, Obligor Risk Ratings are generated through the use of projections covering the period of the loan.

Obligor Risk Rating (ORR) reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility.

The Obligor Risk Ratings of performing assets are broadly classified into 3 categories, viz, 'High', 'Standard' and 'Acceptable'. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard' quality comprise facilities whose financial condition, and risk indicators and repayment capacity are satisfactory. Credit exposures classified as 'Acceptable' quality are performing accounts, and payment performance is fully compliant with contractual conditions. The ultimate risk of financial loss on 'Acceptable' quality is assessed to be higher than that for the exposures classified within 'High' and 'Standard' quality range.

Facility Risk Rating

The Bank also has an approved framework for Facility Risk Ratings (FRR). While Obligor Risk Rating does not take into

consideration factors like availability of collateral and support, FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in FRR.

North American Industry Classification System (NAICS) Code:

The Bank classifies the Bank's exposure as per NAICS Code. Such classifications are in addition to the classification based on purpose codes as defined by Central Bank of Kuwait. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any.

Portfolio Risk Rating

The Bank has also introduced a Portfolio Risk Rating process through which the overall portfolio quality is being assessed at regular intervals and deliberated upon in Executive Risk Committee (ERC). Portfolio Risk Rating has been extended upto the relationship manager level and risk measures are introduced for business performance appraisal that will lead to further improvement in asset quality.

RAROC Model

The Bank also introduced a RAROC (Risk Adjusted Return on Capital) model as a pricing tool for credit facilities granted to corporate clients. It is based on the premise that pricing is to be aligned with risk embedded in the proposal. After having satisfied that all the prerequisites (such as good and consistent Obligor Risk Ratings, system of Facility Risk Ratings based on collateral mitigation, estimation of Probability of Defaults, Calculation of Loss Norms by each facility rating and Reasonable Validation & Calibration) are in place, RAROC Model has been introduced in the Bank and this will help to make the right decisions, create shareholder value and allow proper pricing to customers. RAROC Model has been fully automated and integrated to the decision making process.

Credit Infrastructure:

Bank created a specialized unit with core objective of support the development, approval and monitoring of credit or product programmes, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has recently implemented real time electronic dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)

2013	Neither past due nor impaired			Past due but not impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's	Acceptable KD 000's		
Cash and short term funds (excluding cash on hand)	486,359	-	-	-	486,359
Treasury bills and bonds	177,142	-	-	-	177,142
Central Bank of Kuwait bonds	539,521	-	-	-	539,521
Deposits with banks and other financial institutions	14,102	-	-	-	14,102
Loans and advances to banks	123,046	3,522	-	-	126,568
Loans and advances to customers:					
- Corporate lending	633,543	1,508,402	299,581	16,622	2,458,148
- Consumer lending	850,459	-	-	40,432	890,891
Debt investments available-for-sale (Note 13)	48,677	-	-	-	48,677
Other assets	123,242	-	-	-	123,242
	2,996,091	1,511,924	299,581	57,054	4,864,650

2012	Neither past due nor impaired			Past due but not impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's	Acceptable KD 000's		
Cash and short term funds (excluding cash on hand)	437,367	-	-	-	437,367
Treasury bills and bonds	290,232	-	-	-	290,232
Central Bank of Kuwait bonds	424,375	-	-	-	424,375
Deposits with banks and other financial institutions	32,688	-	-	-	32,688
Loans and advances to banks	92,605	-	-	-	92,605
Loans and advances to customers:					
- Corporate lending	440,928	1,525,507	289,922	82,592	2,338,949
- Consumer lending	778,903	-	-	38,493	817,396
Debt investments available-for-sale (Note 13)	49,745	-	-	-	49,745
Other assets	53,079	-	-	-	53,079
	2,599,922	1,525,507	289,922	121,085	4,536,436

91% (2012: 97%) of the past due but not impaired category is below 60 days and **9%** (2012: 3%) is between 60-90 days.

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)

Financial assets by class individually impaired

	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
2013			
Loans and advances to customers:			
- Corporate lending	227,408	3,693	223,820
- Consumer lending	13,338	7,126	-
	240,746	10,819	223,820
	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
2012			
Loans and advances to customers:			
- Corporate lending	360,976	21,440	337,210
- Consumer lending	14,894	9,656	-
	375,870	31,096	337,210
	2013		2012
	Assets KD 000's	Off balance sheet items KD 000's	Assets KD 000's
			Off balance sheet items KD 000's
<i>Geographic region:</i>			
Domestic (Kuwait)	4,305,931	887,658	4,370,712
Other Middle East	314,985	146,156	252,244
Europe	123,794	43,135	69,202
USA and Canada	72,561	6,110	8,438
Asia Pacific	58,405	173,022	1,989
Rest of world	16	1,310	-
	4,875,692	1,257,391	4,702,585
<i>Industry sector:</i>			
Personal	1,003,768	-	936,549
Financial	763,327	383,786	615,789
Trade and Commerce	326,973	134,207	323,791
Crude Oil and Gas	63,996	20,996	22,793
Construction	319,107	555,461	281,841
Government	974,239	-	1,137,147
Manufacturing	271,335	29,606	291,006
Real Estate	847,203	11,438	921,829
Others	305,744	121,897	171,840
	4,875,692	1,257,391	4,702,585

Contingent liabilities and commitments are financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. These instruments are disclosed in Note 26.

Derivative financial instruments with contractual or notional amounts that are subject to credit risk

These derivative financial instruments, comprising foreign exchange and interest rate contracts, allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

This amount is subject to credit risk and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers. These instruments are disclosed in Note 28.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held last year, including the effect of hedging instruments. The sensitivity of the statement of comprehensive income is from the impact on fair value of investments available-for-sale for the effects of assumed changes in interest rates.

The following table reflect the effects of 25 basis points change in interest rates on the income statement, with all other variables held constant:

Currency	Movement in basis points	2013 KD 000's	2012 KD 000's
KWD	25	2,300	3,481
USD	25	(114)	(182)

A majority of the Bank's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is the historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

C. CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

Based on the Bank's financial assets and liabilities held at the statement of financial position date, in case of a change in currency movements with all other variables held constant, the effect on the Bank's profit and other comprehensive income is as follows:

Currency	2013			2012		
	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	+5	(1,466)	1,397	+5	(1,486)	1,532

The Bank's investments are held in well diversified portfolio of equity and hedge funds which invest in a variety of securities and products which are denominated in different currencies whose performance cannot necessarily be measured with relation to movement in any particular currency rate. Only the impact on the carrying amount of these securities has been considered in the sensitivity analysis.

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of the Bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manages the liquidity and funding of the Bank to ensure that sufficient funds are available to meet the Bank's known cash funding requirements and any unanticipated needs that may arise. At all times, the Bank holds what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position, liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources with adequate back-up facilities; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further minimised by adherence to the strict CBK liquidity requirements, namely: maturity ladder mismatch limits for specific time periods: 10% for 7 days or less; 20% for 1 month or less; 30% for 3 months or less; 40% for 6 months or less; and the requirement to hold 18% of KD customer deposits in Kuwait Government treasury bills and bonds, current account/ deposit balances with CBK and/or any other financial instruments issued by CBK.

The table below summarises the maturity profile of the assets and liabilities at the year end based on residual contractual repayment arrangements (assets and liabilities without a contractual maturity are based on management expectation):

At 31 December 2013

	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Assets							
Cash and short term funds	533,421	-	-	-	-	-	533,421
Treasury bills and bonds	6,337	18,427	55,621	79,024	12,971	4,762	177,142
Central Bank of Kuwait bonds	125,521	283,000	131,000	-	-	-	539,521
Deposits with banks and other financial institutions	-	14,102	-	-	-	-	14,102
Loans and advances to banks	150	27,197	24,109	47,240	26,719	-	125,415
Loans and advances to customers	73,049	678,779	127,856	612,278	731,934	1,137,338	3,361,234
Investments available-for-sale	-	-	19,534	-	28,695	75,753	123,982
Other assets	34,242	63,962	-	-	65,899	-	164,103
Premises and equipment	-	-	-	-	-	25,839	25,839
Total assets	772,720	1,085,467	358,120	738,542	866,218	1,243,692	5,064,759
Liabilities:							
Due to banks	107,021	49,359	98,718	52,742	-	-	307,840
Deposits from financial institutions	169,545	119,253	211,308	215,434	44,263	-	759,803
Customer deposits	1,940,741	485,050	412,218	400,598	87,644	-	3,326,251
Subordinated loans	-	-	14,103	28,205	42,307	-	84,615
Other liabilities	51,053	15,050	16,954	16,048	4,011	-	103,116
Total liabilities	2,268,360	668,712	753,301	713,027	178,225	-	4,581,625

24. FINANCIAL INSTRUMENTS Strategy in using (continued)
D. LIQUIDITY RISK (continued)

At 31 December 2012

Assets	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and short term funds	483,230	-	-	-	-	-	483,230
Treasury bills and bonds	29,384	63,801	108,184	64,307	14,794	9,762	290,232
Central Bank of Kuwait bonds	144,786	129,810	149,779	-	-	-	424,375
Deposits with banks and other financial institutions	-	32,688	-	-	-	-	32,688
Loans and advances to banks	14,659	14,986	31,039	12,656	19,265	-	92,605
Loans and advances to customers	372,506	358,312	219,826	479,136	633,995	1,258,719	3,322,494
Investments available-for-sale	-	-	-	-	40,882	81,470	122,352
Other assets	19,769	-	-	-	33,310	-	53,079
Premises and equipment	-	-	-	-	-	25,603	25,603
Total assets	1,064,334	599,597	508,828	556,099	742,246	1,375,554	4,846,658
Liabilities:							
Due to banks	80,947	28,125	18,282	-	-	-	127,354
Deposits from financial institutions	174,950	174,046	99,962	367,644	30,001	-	846,603
Customer deposits	1,775,566	692,665	368,577	295,226	115,595	-	3,247,629
Subordinated loans	-	-	-	-	42,187	42,188	84,375
Other liabilities	43,147	19,006	10,340	14,079	3,988	896	91,456
Total liabilities	2,074,610	913,842	497,161	676,949	191,771	43,084	4,397,417

24. FINANCIAL INSTRUMENTS (continued)
D. LIQUIDITY RISK (continued)

The tables below summarise the maturity profile of the Bank's financial liabilities and contingent liabilities, commitments and non-derivative financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

At 31 December 2013

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	38,550	34,687	237,078	-	-	310,315
Deposits from financial institutions	66,152	28,782	463,516	210,050	-	768,500
Customer deposits	1,323,964	243,288	1,474,072	307,062	-	3,348,386
Subordinated loans	421	-	43,954	44,005	-	88,380
Other liabilities	32,634	7,005	50,664	12,813	-	103,116
Total undiscounted liabilities	1,461,721	313,762	2,269,284	573,930	-	4,618,697

At 31 December 2012

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	80,989	28,222	18,372	-	-	127,583
Deposits from financial institutions	175,810	176,635	473,415	31,254	-	857,114
Customer deposits	1,778,971	696,754	673,571	121,671	-	3,270,967
Subordinated loans	431	-	1,682	88,240	-	90,353
Other liabilities	42,849	18,973	24,559	5,075	-	91,456
Total undiscounted liabilities	2,079,050	920,584	1,191,599	246,240	-	4,437,473

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

At 31 December 2013

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Contingent liabilities	96,109	207,422	429,291	385,992	4,300	1,123,114
	96,109	207,422	429,291	385,992	4,300	1,123,114

At 31 December 2012

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Contingent liabilities	155,012	250,055	431,891	350,368	51,163	1,238,489
	155,012	250,055	431,891	350,368	51,163	1,238,489

The table below shows the contractual expiry by maturity of the Bank's gross settled derivatives positions:

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Total KD 000's
At 31 December 2013:					
Gross settled derivatives	575	575	5,665	-	6,815
At 31 December 2012:					
Gross settled derivatives	4,918	35,355	25,664	-	65,937

E. OPERATIONAL RISK

Operational risk arises from a failure to control properly all aspects of documentation, processing, settlement of, accounting for, transactions, and more widely, all the hazards to which a bank is exposed as a result of being in business and doing business. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are managed through the Risk Management Department in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

F. EQUITY PRICE RISK

This is a risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

Majority of the Bank's investments are held in well diversified portfolio of hedge funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

The effect on equity (as a result of change in the fair value of equity instruments held as available for sale) at the year end due to an assumed 5% change in the market indices, with all other variable held constant, is as follows:

Market indices	% Change in equity price	2013 Effect on equity KD 000's	2012 Effect on equity KD 000's
Kuwait stock exchange	+5%	1,188	1,074
New York stock exchange	+5%	295	215

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interests bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities excluding subordinated loans where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values 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 amount approximates 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:

	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets available for sale :				
Equity securities	30,362	21,834	-	52,196
Debt securities	30,774	-	-	30,774
	61,136	21,834	-	82,970

During the year, there were no transfers between level 1 and level 2 fair value measurements and there is no movement in level 3 financial instruments.

The positive and negative fair values of forward foreign exchange contracts and credit default swaps, which are valued using significant inputs of observable market data (Level 2). Refer Note 28.

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.

26. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various contingent liabilities and irrevocable commitments. Even though these obligations may not be reflected in the statement of financial position, they do contain credit risk and therefore form part of the overall risk of the Bank.

The total outstanding contingent liabilities and commitments are as follows:

	2013 KD 000's	2012 KD 000's
Guarantees	959,961	1,032,466
Letters of credit	163,153	206,023
	1,123,114	1,238,489

As at the reporting date the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 137,720 thousand** (2012: KD 105,201 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

27. SEGMENTAL ANALYSIS

a. 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 of 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 treasury bills, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the Investments unit.

Segmental information for the year ended 31 December

	Commercial Banking		Treasury & Investments		Total	
	2013 KD 000's	2012 KD 000's	2013 KD 000's	2012 KD 000's	2013 KD 000's	2012 KD 000's
Operating income	143,401	136,934	4,574	16,994	147,975	153,928
Segment result	52,817	71,588	337	11,384	53,154	82,972
Unallocated income					18,983	25,711
Unallocated expense					(39,977)	(77,796)
Profit for the year					32,160	30,887
Segment assets	3,520,949	3,460,963	1,353,868	1,307,013	4,874,817	4,767,976
Unallocated assets					189,942	78,682
Total Assets					5,064,759	4,846,658
Segment liabilities	2,951,460	2,890,900	1,459,988	1,370,040	4,411,448	4,260,940
Unallocated liabilities and equity					653,311	585,718
Total Liabilities and Equity					5,064,759	4,846,658

b. Geographic segment information relating to location of assets, liabilities and off balance sheet are given in Note 24A.

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2013 or 2012.

28. 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 values 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 year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 31 December 2013:	Notional amounts by term to maturity					
	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount total KD 000's	Within 3 months KD 000's	3-12 months KD 000's	Over 1 year KD 000's
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	30	(24)	6,815	1,150	5,665	-
Credit default swaps (Note 18)	20	(440)	116,487	-	33,282	83,205
	50	(464)	123,302	1,150	38,947	83,205

At 31 December 2012:	Notional amounts by term to maturity					
	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount total KD 000's	Within 3 months KD 000's	3-12 months KD 000's	Over 1 year KD 000's
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	388	(370)	65,937	25,663	40,274	-
Credit default swaps (Note 18)	47	(3,462)	153,568	-	21,854	131,714
	435	(3,832)	219,505	25,663	62,128	131,714

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies. For credit default swaps, fee is earned based on the amount of credit risk swapped.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IAS 39 hedging requirements.

29. FAMILY SUPPORT FUND

During the year, CBK issued its Circular No. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. Ministry of Finance has established a fund to purchase outstanding balance of installment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. The Bank has submitted its report on the list of loans eligible for the Fund. Of the total eligible loans, customers with loans aggregating **KD 71,000 thousand** have applied under this Fund, which is shown as part of "Other assets" (Note 14).

30. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/BS/184/2005 dated 21 December 2005 are included under the 'Capital Management and Allocation' section of the annual report.