بنك الخليج
GULF BANK

Annual Report 2021

Forward Together

HH Sheikh
Meshaal Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

HH Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

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GULF BANK **AT A GLANCE**

Gulf Bank is one of the leading Conventional banks in Kuwait

1960	1984	53	6.6
Founded	Listed on Kuwait Stock Exchange	Branches across Kuwait	KD Billion Total Assets FY'21

Our Business Model

Consumer Banking

Our Consumer Banking serves a broad range of customer segments, offering customer-centric solutions and a unique experience tailored to each customer segment.

Our diversified product offering includes personal loan options, credit and debit cards, and deposits.

Corporate Banking

Our Corporate Banking has a comprehensive suite of wholesale, commercial and Small and Medium Enterprise (SME) banking products and services.

These include structured finance, project finance, transaction banking, Advisory / Corporate Finance and Investment Banking, Merchant Banking and Cards.

Treasury and Investment

Our Treasury focus is to optimize the balance sheet's efficiency, managing the Bank's liquidity while supporting asset growth and sufficient buffers to meet regulatory requirements.

Our Investment services manage the Bank's proprietary investment and offer investment products to clients.

External Recognitions

Arab Media Forum

- Best Direction - AlDanah Taghneek
- Best National Work - Watani Habibi
- Best Sustainability Initiative - Gulf Bank 642 Marathon
- Best Marketing Manager - Najla Al-Essa

Future Enterprise Awards 2021

- Best Innovation In Customer Experience

An "A" rated Bank by the three major credit rating agencies during 2021

A3	A+	A+
Moody's	Fitch Ratings	Ci Capital Intelligence
Stable	Negative	Stable

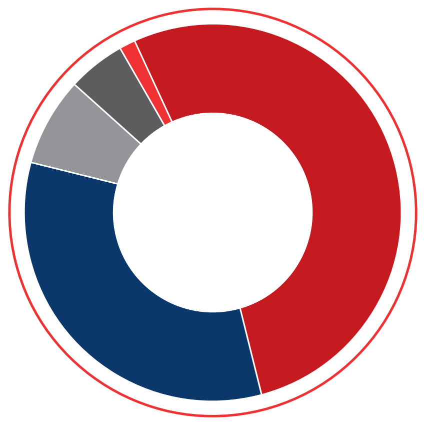
Active Board Members During 2021

52 Meetings

Committee	Meetings
Board Meetings	8
Audit Committee	8
Risk Committee	5
Compliance and Governance Committee	2
Nomination and Remuneration Committee	4
Credit and Investment Committee	25

Shareholder Infomation

KD 840 Million Market Capitalization as of 31 December, 2021



Shareholder	%
Alghanim Trading	32.8%
Public Institution for Social Securities (PIFSS)	6.8%
Behbehani Investment Co.	5.5%
Treasury Shares	1.2%
Other Shareholders	53.7%

12.5% Foreign Investors

*As of 31 December 2021

Listed in Boursa Kuwait Under Premier Market

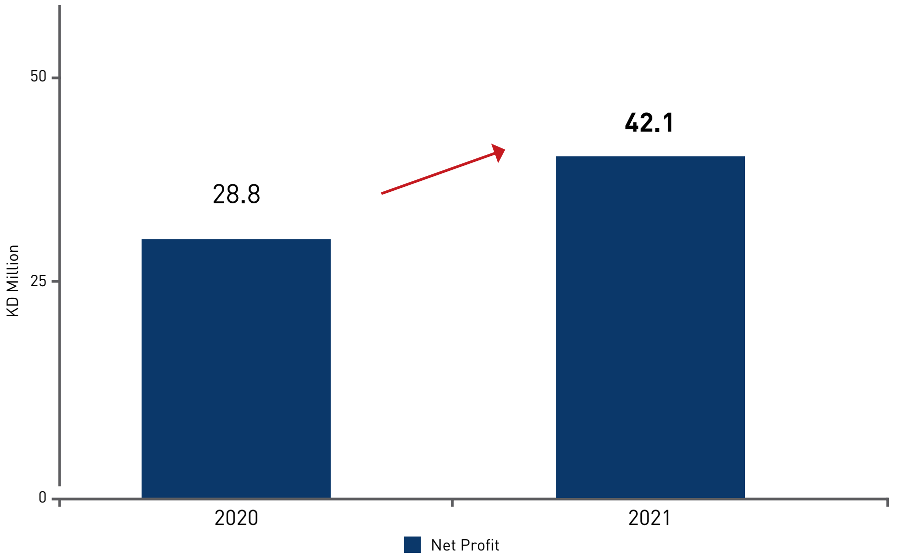
S&P DJI Emerging Market Index since December 2018

MSCI Emerging Market Index since November 2020

FTSE Russell Emerging Markets Index since September 2017

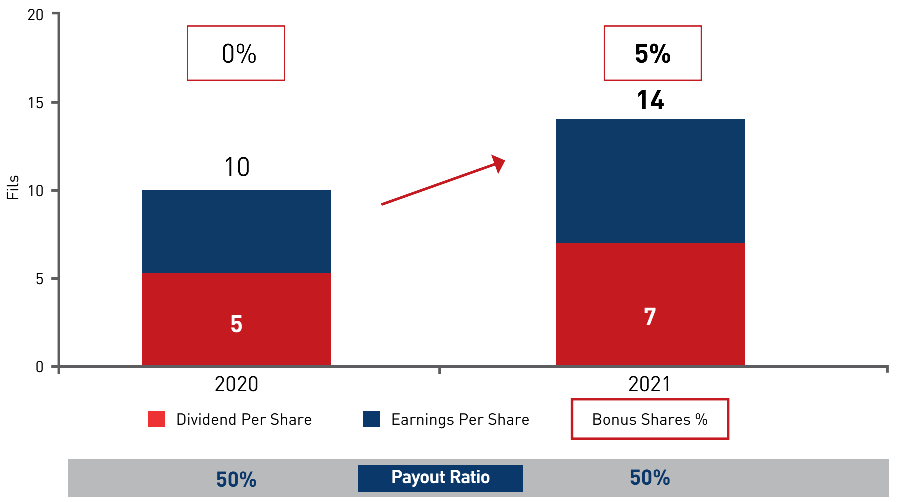
KEY **HIGHLIGHTS 2021**

1. Net profit up 46% to KD 42.1 million for year end 2021



Net Profit
+46%

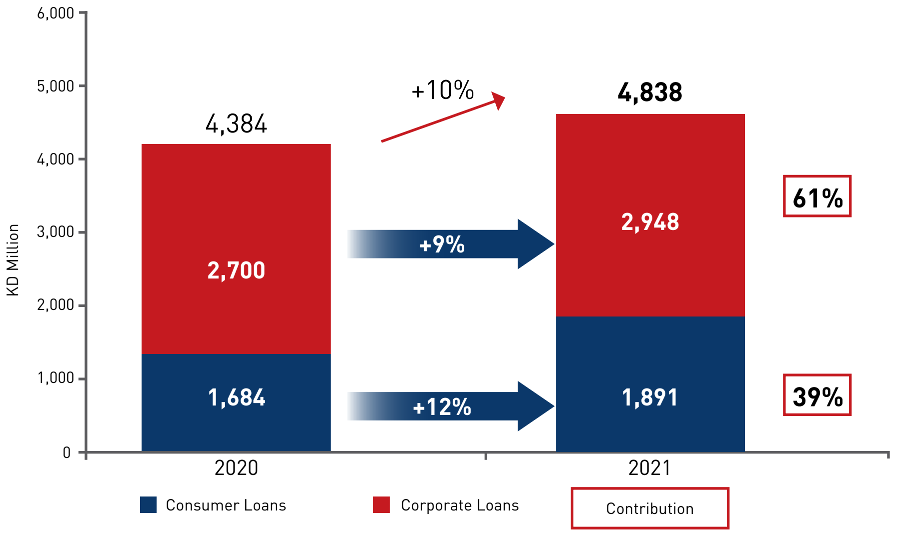
2. Earnings per share up 40% to 14 fils.. Recommending a 5% bonus shares and a cash dividend of 7 fils per share, representing the fifth straight year of at least 50% payout ratio



Earnings Per Share
+40%

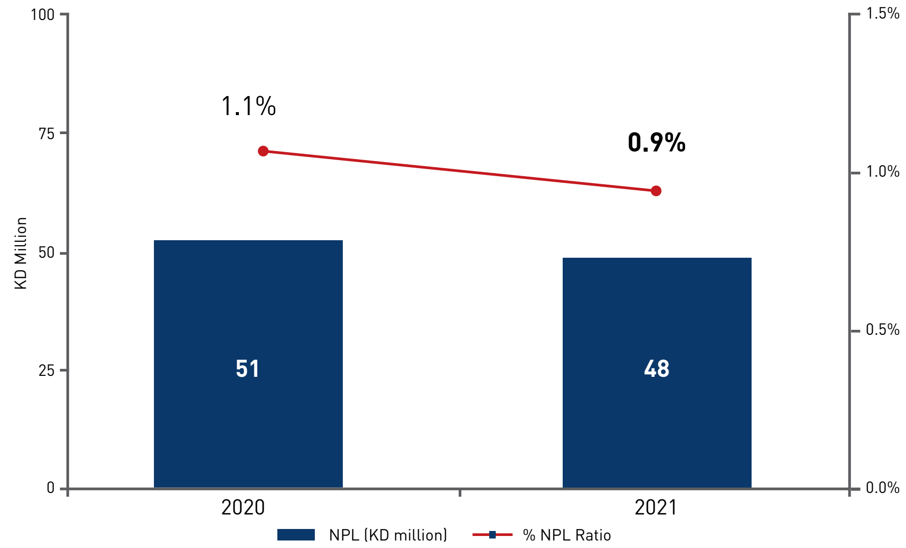
Note: 2021 Dividends and Bouns Shares are subject to Annual General Meeting Approval expected to be held in March 2022.

3. Gross Customer Loans reached KD 4.8 billion.. Up KD 454 million or +10% compared to 2020



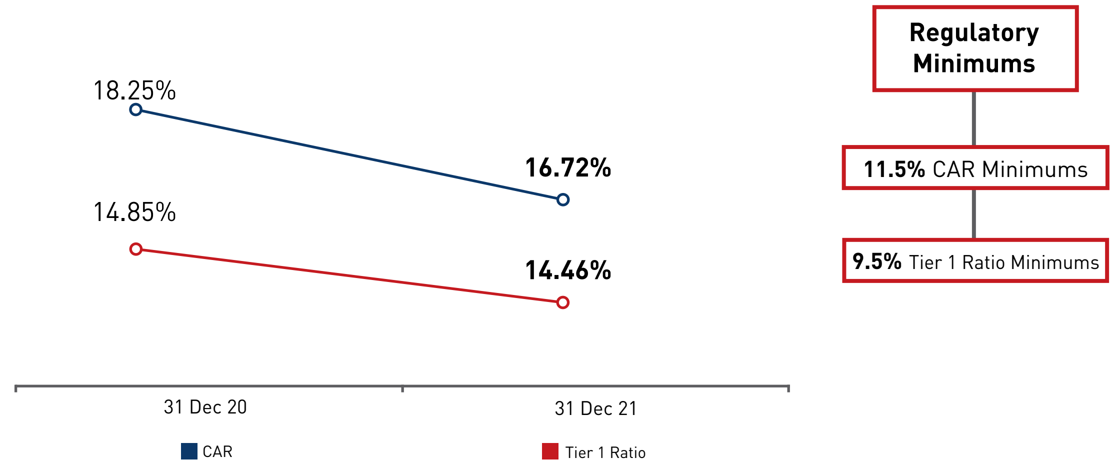
Gross Customer Loans
+10%

4. Asset quality remained resilient, as non-performing loan ratio stood at 0.9% for year-end 2021



NPL Ratio
0.9%

5. The Bank's regulatory capital ratios remained strong and well above the regulatory minimums



Note: Tier 1 and Capital Adequacy Ratio (CAR) regulatory minimums include 1% DSIB.

6. The Bank remained an 'A' rated bank by three major credit rating agencies during 2021

Rating Agency	Criteria	Rating
Moody's	Long Term Deposits	A3
	Outlook	Stable
Fitch Ratings	Long-Term Issuer Default Rating	A+
	Outlook	Negative
Ci Capital Intelligence	Long-Term Foreign Currency	A+
	Outlook	Stable
S&P Global Ratings	Issuer Credit Rating	BBB+
	Outlook	Stable

CHAIRMAN'S **STATEMENT**

Jassim Mustafa Boodai
Chairman

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present Gulf Bank's 2021 Annual Report.

Despite a backdrop of a turbulent pandemic year, Gulf Bank weathered the challenges and achieved another year of strong growth. In 2021, we showed an ability to adapt and excel in serving our customers, employees, and communities while positioning the Bank for future success and market leadership.

We continued accomplishing significant progress with our 2025 strategy, consolidating our position as the leading Kuwaiti Bank of the Future. We aim to provide customers with simple and innovative services to enable sustainable growth for the Bank by focusing on:

- Promoting selective growth in the corporate banking and SME segment by expanding our product range and services;
- Growing the consumer banking market share, while supporting our youth, women and affluent client segments; and
- Developing the Bank's digital banking platforms to improve services and increase competitiveness.

We continued accomplishing significant progress with our 2025 strategy, consolidating our position as the leading Kuwaiti Bank of the Future.

To ensure the success of this strategy, Gulf Bank has set the foundation to foster a performance-driven culture, introduce new technology solutions, and adopt world-class risk management practices. This is facilitated through our Core Values of:

- Being "Ambitious" in providing the best solutions,
- Engaging our "People" to provide customer excellence,
- Serving the community by individually taking "Ownership" and overcoming challenges, and
- Removing unnecessary complexities to make banking enjoyable with "Simple", efficient and elegant solutions.

Financial Strength

Gulf Bank succeeded in delivering a full-year net profit of KD 42 million, an increase of 46% over the year 2020. We achieved such results by effectively adapting to a rapidly changing environment, whilst maintaining a strong balance sheet and effectively managing key risks.

Earnings per share is up 40% to 14 fils and the Board of Directors is recommending a distribution of cash dividend of 7 fils per share, representing a 50% cash payout ratio, in addition to 5% bonus shares, for shareholders' approval at the Annual General Meeting to be held in March 2022.

Customer loans reached another all-time high of KD 4.6 billion, an increase of KD 441 million or 11% vs. the end of 2020. This growth in 2021 came from both the Bank's Corporate and Consumer segments.

Non-performing loan ratio for the year end 2021 was below industry norms at 0.9%. The Bank ended the year 2021 with a total credit provision at KD 300 million whereas IFRS 9 accounting requirements (i.e., ECL or expected credit losses) were KD 189 million, resulting in a very healthy excess provisioning levels of KD 112 million.

The Bank's regulatory capital ratios remained strong as the Tier 1 ratio of 14.5% was 5.0% above our regulatory minimum of 9.5% and the Capital Adequacy Ratio (CAR) of 16.7% was 5.2% above our regulatory minimum of 11.5%.

During the year, we also successfully completed the redemption of our existing KD 100 million subordinated Tier 2 bonds, and the issuance of new KD 50 million Subordinated Tier 2 Bonds which was oversubscribed. This issuance optimizes the Bank's capital adequacy, in compliance with Basel III frameworks, and supports our overall investment plans towards consolidating Gulf Bank's position as the leading Bank of the Future.

2021 net profit of KD 42 million, an increase of 46% over the year 2020.

Earnings per share is up 40% to 14 fils.

7 fils Cash Dividends and 5% Bonus Shares.

Non-performing loan ratio for the year end 2021 was below industry norms at 0.9%.

CHAIRMAN'S **STATEMENT**

Institutional Strength

Gulf Bank continues to be well recognized in terms of its creditworthiness and financial strength internationally, rated "A" by three leading credit rating agencies. Moody's Investors Service maintained the Long-Term Deposits Rating of "A3" with a "Stable" outlook. Capital Intelligence affirmed Gulf Bank's Long-term Foreign Currency Rating of "A+" with a "Stable" outlook. Fitch Ratings revised the Bank's Long-term Issuer Default Rating of "A+" to "A" with a "Stable" outlook. In addition, S&P Global Ratings in 2021 has changed the Bank Issuer Credit Rating to "BBB+" from "A-" and revised the "Negative outlook to "Stable". Both credit ratings downgrades of S&P Global Ratings and Fitch Ratings followed the downgrade of Kuwait Sovereign ratings by these credit rating agencies and is not related to Gulf Bank's Viability position or credit quality.

Gulf Bank is rated "A" by three leading credit rating agencies.

Business Overview

During these challenging and uncertain times, Gulf Bank remained resilient, reflecting its strength, stability, and commitment towards its stakeholders.

Our Corporate Banking segment growth recovered this year, growing by 9% to reach KD 2.9 billion as of year-end 2021 after a contraction in 2020. During the year, we focused on attracting new customers, which have contributed to our asset growth. We continued developing our digital banking platforms to provide the Bank with the competitive edge required to compete in the banking industry. Our product offerings and services were enhanced with a primary focus on Small and Medium-sized Enterprises (SMEs).

We are proud to have embedded digital elements into our onboarding process. Our SME customers are now able to digitally onboard and apply for a range of the Bank's merchant services, cards and financing solutions. In addition, our digital transformation strategy has helped companies to compete better in an economic environment that is constantly changing in response to technological evolutions.

In 2021, and as part of our ongoing digital transformation plan, we also announced the successful launch of the new MX.3 system (in partnership with Murex) for the development and automation of the Bank's capital markets and treasury platforms. The platform implementation is a transformative step towards developing and automating our treasury and capital markets systems. In addition, this will unlock synergies to address change in regulations, navigate capital markets and better serve our customers. The new system will ultimately improve efficiency and instill greater control over trade aspects from initiation to final matching.

Our Consumer Banking segment also continued its upward trajectory throughout the year, growing by 12% to reach KD 1.9 billion as of year-end 2021, and represents 39% of our gross loan book.

We also launched three unique credit cards in partnership with Mastercard during 2021, as part of our strategy to provide tailored products and services to customers. Each of these products is specifically designed to offer distinctive features to our targeted segments. For women, we launched the Rose Gold credit card which offers its cardholders customized benefits, exclusive discounts, and the highest rewards for women in Kuwait. In addition to our red account dedicated to the youth segment, we launched the red plus card, a complimentary prepaid card with multiple benefits; red plus prepaid cardholders can enjoy the highest cashback offers and discounts at hundreds of restaurants and retail outlets. Finally, we introduced our innovative Mouj prepaid card, the first prepaid card with a cashback feature.

We continue to invest heavily in providing an extraordinary experience for customers. Today, our customers can open bank accounts in just under a minute, marking a new era of digital banking services with the simplest and fastest account onboarding process in Kuwait. We continue to invest in our digital capabilities to create exceptional engagement across all touch-points throughout the customer journey, while maintaining the highest standards of privacy and security.

Today, our customers can open bank accounts in just under a minute, marking a new era of digital banking services in Kuwait.

At the beginning of 2021, we announced yet another milestone for our flagship AlDanah draw prizes. In addition to the annual grand draw prize of 1.5 million Kuwaiti Dinars, we also launched a remarkable increase in the semiannual draw prize, which is now 1 million Kuwaiti Dinars. The new draw prizes render Gulf Bank's AlDanah account one of the most rewarding savings accounts of the year.

Our local footprint is also one of the largest in Kuwait. In addition to opening our state-of-the-art branch in Crystal Tower, we also opened a new branch at Kuwait International Airport, marking a total of 53 branches servicing the various regions of Kuwait. Our presence at the airport throughout the day is part of our strategy to provide the best and most convenient service experience for our customers. We will continue our goal to optimize the Bank's physical branch network, utilizing our digital transformation journey while expanding our outreach in line with Kuwait Vision 2035, 'New Kuwait'.

Our Approach to Sustainability

Sustainability is an integral part of our strategy. We are committed towards our stakeholders, community, and the overall economy. In this respect, we are proud to announce that Gulf Bank issued its first official sustainability report. The baseline report gives a consolidated view of Gulf Bank's contribution to sustainability development in the financial sector. The report also provides a road map on how we plan to take this initiative to the next level. Our approach has been based on several sustainability-related frameworks including the Global Reporting Initiative (GRI), UN Sustainable Development Goals (SDGs), and Kuwait Boursa sustainability disclosures.

Sustainability is an integral part of our strategy... In this respect, we are proud to announce that Gulf Bank issued its first official sustainability report.

During 2021, we also participated in the 'Diraya' campaign, an awareness campaign initiated by the Central Bank of Kuwait and the Kuwait Banking Association to educate customers about their banking rights. The campaign aims to increase public awareness of the important role of the banking sector, as well as the various services the sector provides.

In addition, we conducted and supported several important ESG initiatives during 2021, including various environmental, social and governance initiatives. We will expand on some of these notable initiatives in the sustainability section of this Annual Report and in our 2021 Sustainability Report.

CHAIRMAN'S **STATEMENT**

Recognition

As a testament to our efforts in asserting our position as the leading Kuwaiti Bank of the Future, we are delighted to be receiving awards from several prestigious organizations.

During the year, the Bank received the award of 'Best Innovation in Customer Experience' by the Future Enterprise Awards 2021. This award was received in recognition of our recent transformation journey that has embraced a multi-experience approach, strengthened our market differentiation, and enhanced both the customer and employee experience.

This year, Gulf Bank also won four awards in the 9th edition of the Kuwait Innovation Award. The awards were a recognition of the Bank's creativity and innovation across various fields including: 'Best Marketing Manager', 'Best Sustainability Initiative' for our Gulf Bank 642 Marathon, 'Best National Work' for our National and Liberation Day advertisement, and 'Best Direction' award for our flagship product, the AlDanah millionaire draw.

Thanking our Stakeholders

On behalf of the Board of Directors, I would like to express my gratitude to HH the Amir Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, and HH the Crown Prince, Sheikh Meshaal Al-Ahmad Al-Jaber Al-Sabah, for their wise leadership and vision. I would also like to extend my appreciation to the Central Bank of Kuwait and the Capital Markets Authority for their dedicated efforts in supporting and promoting Kuwait's banking sector.

I would also like to express my deep appreciation to all our customers, partners, and shareholders for their support throughout 2021, and to our board members, management and employees for contributing to our Bank's journey of success.

Jassim Mustafa Boodai
Chairman

SUSTAINABILITY

At Gulf Bank, we are spearheading a new approach to the sustainability issues that matter the most to our stakeholders and local community, with a goal to advocate for a culture in which sustainability issues are transparently and responsibly discussed, handled, and acted upon. We cover the four sustainability dimensions of Workplace, Marketplace, Community, and Environment within the three key elements of our Environment, Society, and Governance (ESG) sustainability framework.

We believe that integrating sustainability and ESG considerations into our practices and activities will enable us to further strengthen our customer experience, offering resilience in the face of salient marketplace conditions and demands, and positioning us as a key leader of sustainability and ESG initiatives among local and regional financial institutions.

Our Sustainability report has been developed in accordance with the Global Reporting Initiative (GRI) framework as it is the main sustainability reporting framework. The report is also built on a foundation of several international and national frameworks and enablers, including, the United Nations' Sustainable Development Goals (SDGs), Women's Empowerment Principles (WEPs), Kuwait National Development Plan (KNDP), and Boursa Kuwait's sustainability disclosures. In line with the GRI's best practices, we have also conducted a materiality assessment to examine issues that are significant to our stakeholders and ensure adequate disclosure accordingly.

Environmental Sustainability:

Gulf Bank Adopts Innovative, Sustainable Approach to Office Printing:

- Gulf Bank spearheaded a new initiative to consolidate printers with the aim to enhance Gulf Bank's customer service by increasing printer mobility, allowing staff to print necessary documents from any location. The latest initiative also aims to reduce wasteful printing by encouraging users to shift to digital practices whenever possible.

Sustainable approach to office printing aims to reduce waste.

Gulf Bank Affirms its Commitment to Environmental Sustainability & Distributes Recyclable Bottles to All Employees:

- As part of its commitment to environmental sustainability and preservation, Gulf Bank distributed high quality reusable water bottles to all employees across the Bank's various branches and departments. The initiative aims to reduce the use of single-use plastic and paper cups, encouraging employees to opt for reusable water bottles instead.

Distributing recyclable bottles to all employees aims to reduce the use of single-use plastic and paper cups.

Gulf Bank Participates in Beach Clean-Up and Earth Hour

- Gulf Bank led an extensive community and environmental clean-up campaign to clean up Bnaider Beach in Kuwait, in cooperation with the international environmental organization, Trash Hero, and as part of its commitment to preserving the environment.
- As well, Gulf Bank participated in "Earth Hour," with the aim of reducing energy consumption and raising awareness about the dangers of climate change.

Gulf Bank Sponsors & Speaks at The Scientific Center's Virtual Eco-Summit:

- Gulf Bank's participation in The Scientific Center's Eco-Summit highlights the pivotal role that the banking sector plays in achieving sustainability. Gulf Bank highlighted its various sustainability initiatives at the environmental, community, and economic levels, which include partnering with national firms to recycle paper and plastic.

Social Sustainability:

Gulf Bank Holds Seventh Edition of 'Gulf Bank 642 Marathon'

- The Gulf Bank 642 Marathon, one of the biggest social and sporting events in Kuwait, was held with more than 7000 participants at the starting line, from 93 nationalities, and with 350 organizing volunteers on the exciting sports and family day.
- The Gulf Bank 642 Marathon is distinguished by its Bronze Label from World Athletics, which is only given to only 128 marathons globally and is the only marathon in Kuwait that has the Bronze accreditation. The marathon is also recognized by The AbbottWMM Wanda Age Group World Rankings, which is a global age group marathon ranking system.

+7000 Participants 350 Volunteers At Gulf Bank 642 Marathon.

Gulf Bank Supports United Nations' "Orange the World" Initiative to End Violence Against Women and Organizes Wellness Day

- Gulf Bank is participating in "Orange the World," a global initiative launched by the United Nations to eliminate violence against women. Throughout the campaign, Gulf Bank is illuminating its main building orange in support of efforts to eliminate violence against women and champion broader human rights efforts.
- As well, At the end of October, Breast Cancer Awareness Month, Gulf Bank organized a day of health-focused entertainment activities for more than 250 employees and members of the general public at Al Shaheed Park. The activities included a yoga session, a walkathon, and a panel discussion that focused on the importance of mental health in the lives of breast cancer patients.

Gulf Bank Launches New AJYAL Tech Program for Technology Enthusiasts

- Gulf Bank is launching its new AJYAL Tech program, a comprehensive coding and digital technology learning journey for Kuwaiti youth who have a passion for technology.
- The new program is part of Gulf Bank's strategy for the year 2025, which aims to provide customers with an unprecedented banking experience based on digital transformation. The launch of the new program marks yet another milestone by the Bank to train local youth in the latest technology trends and to ensure future employees remain at the forefront of digitization.

The new AJYAL Tech program is a comprehensive coding and digital technology learning journey for Kuwaiti youth.

SUSTAINABILITY

Gulf Bank Hosts World-Renowned Data Expert at First Standalone Data & Analytics Program in Kuwait

- Gulf Bank hosted a training session for its employees led by Dr. Thomas Redman, a world-renowned expert in data quality and data analytics who is also known world-wide as the "Data Doc." The training session was held as part of Gulf Bank's recently launched Data Ambassadors program, which will train 142 employees across various departments in key data quality and analytics. The new program aims to upskill and empower employees to use advanced data science in order to enhance the Bank's offerings and services.

Gulf Bank Supports Diraya Campaign as Part of Commitment to Economic Sustainability:

- As part of its commitment to educating customers about their banking rights and raising awareness about cybersecurity, Gulf Bank participated in the Diraya campaign, an awareness campaign initiated by the Central Bank of Kuwait and the Kuwait Banking Association.
- The latest campaign aims to promote a culture of financial literacy, saving, & investment in light of an evolving banking industry.

Gulf Bank Highlights Local Startup Successes and Challenges in New Podcast, "Let's Talk Business"

- Gulf Bank's new podcast highlights the little-known origin stories behind some of our favorite local brands
- The program, hosted by Tareq Al-Saleh, Deputy General Manager of the Economic Research Unit at Gulf Bank, presents entrepreneurial stories within a simplified economic framework, targeting budding entrepreneurs who are considering starting businesses of their own. The Bank's new podcast is part of its overarching strategy of fostering economic and community sustainability in Kuwait.

Gulf Bank Wraps Up Employee Vaccination Campaign, with 84% of Staff Vaccinated In cooperation with the Ministry of Health

- Gulf Bank announced it has vaccinated 84% of its 1,834 employees against the novel coronavirus, with staff members across all departments at the Bank having now received the COVID-19 vaccine. Gulf Bank achieved this milestone after successfully wrapping up an internal staff vaccination campaign launched in partnership with the Ministry of Health, in the interest of the collective safety of the Bank's employees and customers.

Gulf Bank Partners with MGRP for Virtual Career Day Webinar

- As part of Gulf Bank's commitment to spearheading Kuwaitization efforts & developing local job opportunities
- During the course of the virtual career fair, Gulf Bank's Human Resources team met with multiple ambitious young men and women who wished to join the banking sector.

142 Employees participated in the Data Ambassadors Program, which aims to upskill and empower employees to use advanced data science.

Diraya Campaign: Committed to educating customers about their banking rights and raising awareness about cybersecurity.

84% of staff vaccinated against coronavirus successfully.

Gulf Bank partners with MGRP for Virtual Career Day Webinar developing local job opportunities.

Gulf Bank Sponsors Lei Wa Lakom Podcast:

- Gulf Bank has announced it is sponsoring "Lei Wa Lakom," a digital talk show highlighting women's voices and female success stories
- The program is dedicated to providing insightful content directed primarily to working women who seek to develop and improve their society and environment.

Gulf Bank Sponsors National Union of Kuwaiti Students (NUKS) New Student Orientation:

- In August, w Bank also sponsored the National Union of Kuwaiti Students (NUKS) new student orientation for high school graduates as part of its promise to support and empower Kuwaiti youth.

Governance Sustainability

At Gulf Bank, we have established various standards of governance practices that aim to uphold our principles of accountability, ethics and corporate responsibility. The structure of our corporate governance entails a unique agility and ensures oversight of the Bank's higher management and key persons on both financial and non-financial issues. Additionally, the Bank's governance practices allow our business operations to be conducted in a responsible and ethical manner that serves the best interests of our customers, shareholders, employees, and other stakeholders.

As part of our first sustainability report, we have disclosed details on Gulf Bank's governance practices, including information on the Board of Directors, our compliance with regulations, our risk management approach and business continuity plan, our adopted policies, and several other topics.

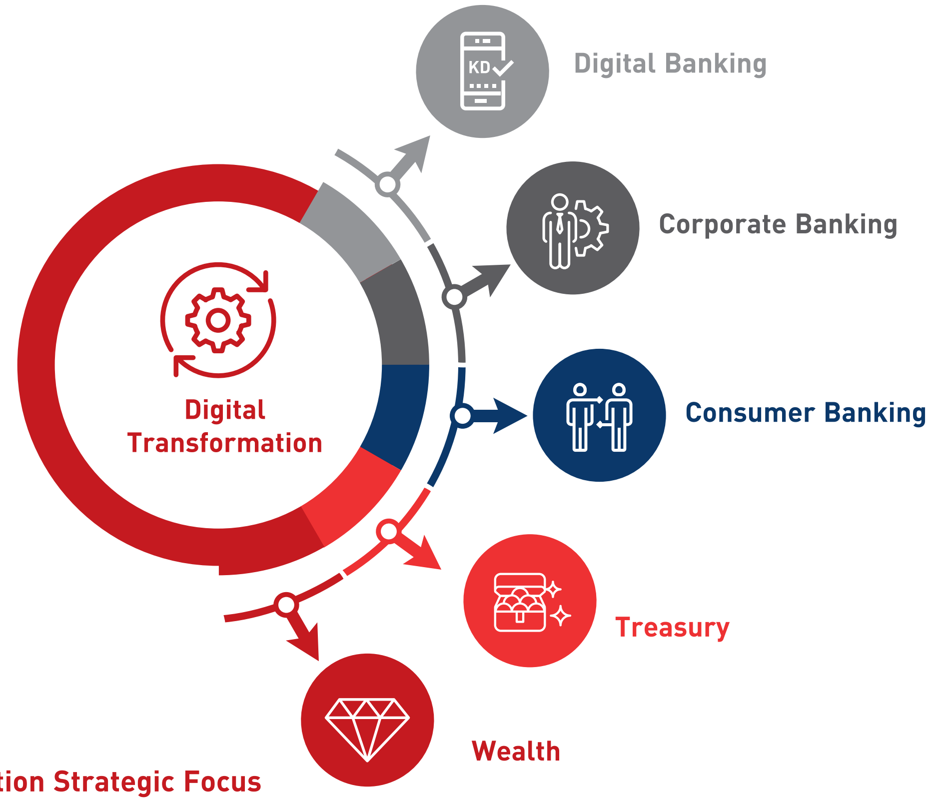
Lei Wa Lakom Podcast is dedicated to providing insightful content directed primarily to working women.

GULF BANK **STRATEGY 2025**

Gulf Bank's strategy is based on simple and innovative services that facilitate customers' lives and achieve sustainable growth, with the aim of cementing the Bank's position as the leading Kuwaiti Bank of the Future. The Bank new strategy aims to provide customers with an unprecedented banking experience in Kuwait, based on digital transformation processes already underway both at the customer service level and internal operations level. The focus of Strategy '2025' is on:

- Promoting selective growth in the corporate banking and SME segment by expanding our product range and services.
- Growing Consumer banking market share, while supporting the youth, women and affluent client segments, and.
- Developing the Bank's digital banking platforms in order to improve services and increase competitiveness.

Strategic Pillars



Digital Transformation Strategic Focus

Digitization of Operations

- Use Advance Data Science to improve engagement with customers and grow market share.
- Upgrade of the Core Banking System, which will introduce new products, services and features including Omni-channel initiative.
- Install new Treasury System to cater for the Full Treasury Trade Cycle and introduce new automation, products, robust credit and market risk limits monitoring, in addition to seamless operational back-office services.
- Optimize physical branch network utilizing the Banks' digital transformation journey.

Tailored Customer Offerings

- Improve sales and service levels by identifying profitable segments under consumer banking.
- Develop business with the affluent segment by providing premium services.
- Expand product range, transaction banking, corporate finance and include small and mid-sized enterprises.
- Expand footprint outreach in-line with Kuwait Vision 2035 "New Kuwait".

To ensure the success of this strategy, Gulf Bank has set the foundation to foster a performance-driven culture, introduce new technology solutions and adopt world-class risk management practices. This is facilitated through new Core Values of being 'Ambitious' in providing the best solutions, engaging our 'People' to provide customer excellence and to serve the community, by individually taking 'Ownership' to stand up to our challenges and by removing unnecessary complexities to make our banking enjoyable with 'Simple', efficient and elegant solutions.

Gulf Bank is committed to maintaining a robust sustainability program at the community, economic, and environmental levels through sustainability initiatives that are strategically selected to benefit both the country and the Bank.

Vision and Mission

Vision

To be the leading Kuwaiti bank of the future.

Mission

To provide customers with simple and innovative services, in order to enable sustainable growth.

Core Values

Ambitious

We are ambitious in meeting the challenges of the future, and in providing the best banking solutions.

People

We engage, empower and develop our people in order to provide customer excellence and to serve the community.

Ownership

We individually take ownership before we hold anyone else accountable, we stand up to our challenges and support each other as one family.

Simple

We strive to remove unnecessary complexities in our processes to make banking enjoyable for our customers. Solutions that are simple, efficient and elegant.

BUSINESS OVERVIEW 02

OPERATING **ENVIRONMENT**

2021 – Mixed bag with green shoots

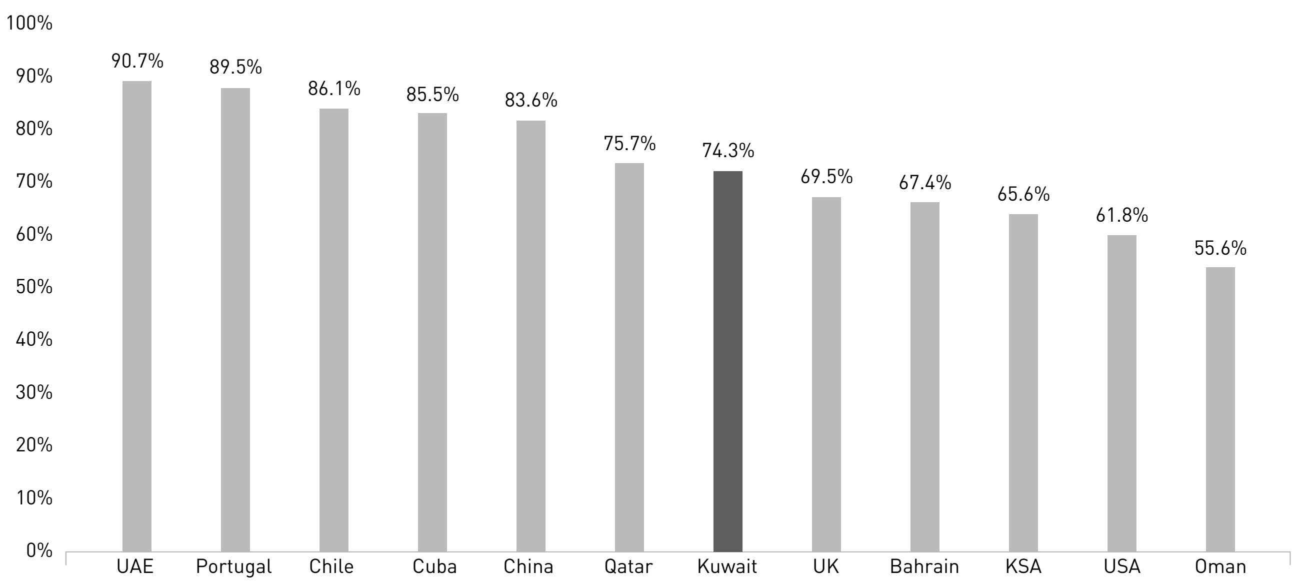
Amid persistence of COVID-19 and efforts to increase vaccine penetration, the world adapted to operating with the restrictions warranted by the pandemic in 2021 and has set out on the path to recovery. Countries alternated between appropriate curbs in the event of increase in COVID-19 cases and cautious reopening with decline in cases. However, spread of Delta variant of COVID-19 and supply chain disruptions have kept a lid on the pace of global recovery. Emergence of Omicron variant towards the end of 2021 has been a reminder that the world is not yet out of the woods with COVID-19. However, amid reports of lower severity of the variant, governments are taking steps to handle its impact through emphasis on booster shots of vaccine and through imposition of restrictions as required. IMF expects global GDP to grow by 4.9% y/y in 2022, following a growth of 5.9% y/y in 2021.

Global overview on the year 2021 and its major events

COVID-19 continued to dominate headlines in 2021 as its highly transmissible Delta variant spread across countries. While monetary policy measures were largely maintained, some additional fiscal stimulus was introduced early in the year including a USD 1.9 trillion in U.S and USD 91.7billion from U.K.[1] Progress on vaccination differed across nations. In advanced economies, about 70% of the population is vaccinated while less than 4% of the population has been vaccinated in low-income countries, with shortages in vaccine supply, limited access and vaccine hesitancy contributing to lower coverage.[2]

Monetary policy measures were largely maintained.

Figure: Vaccination rate (as % total population that has received at least single vaccine dose)



Source: Our World in Data; Note: Not ranked as it is Latest Available Data.

1 Investopedia
2 IMF

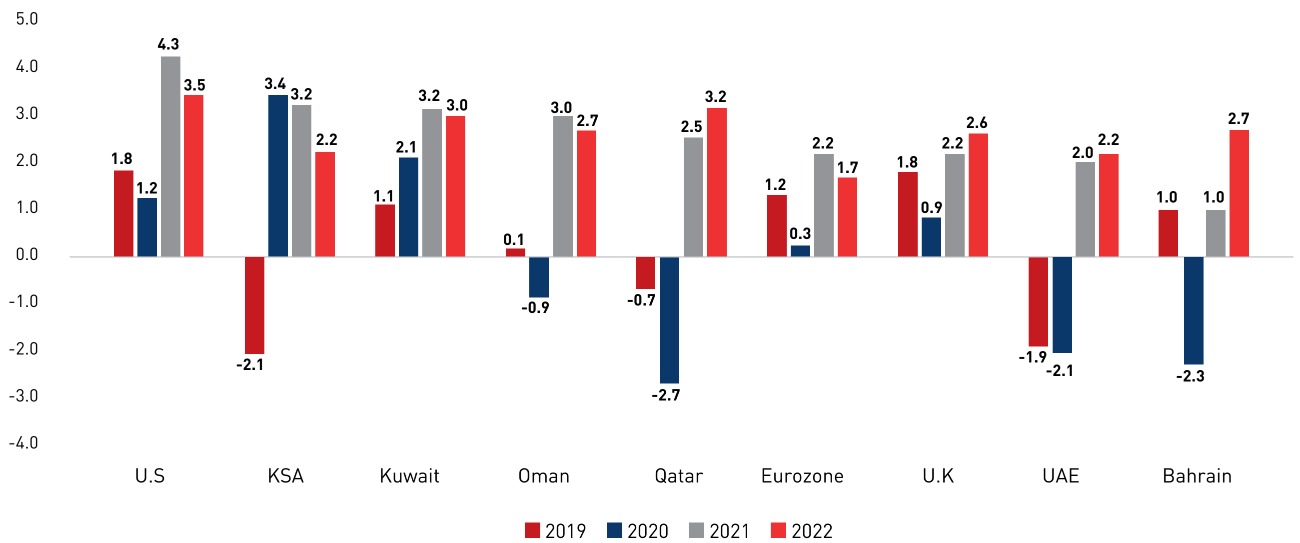
Global financial markets were positive for the year on the back of economic recovery, and strong earnings report by companies. However, shift to a more hawkish stance by central banks and rise in inflation have kept investors edgy. Inflation and rate hike expectations also resulted in increase in yields in bond markets with U.S 10-year treasury increasing by 59 bps during the year to reach 1.52%. U. K's long-term potential economic activity, as measured by real GDP growth, is expected to be reduced by 4% due to Brexit amid lingering issues such as fishing row stalemate with France.[3] U.S-China trade tensions, although moderate, remained, with China's lack of compliance with Phase 1 trade deal and U.S cancelling license of China Telecom on security concerns. China follows a zero COVID-19 policy which involves complete lockdown of town and cities to arrest COVID-19 outbreaks. Compared to the double-digit returns in global equity markets, gains in China's equity markets were muted due to regulatory clampdown on various sectors ranging from tech to property, in addition to power crunch owing to shortage of coal supply. Following a policy move to limit debt levels in the real estate sector, the country's heavily indebted sector saw defaults by some developers. Debt crisis at its leading property developer, Evergrande, was closely watched for its spill over effect on the financial system and the economy.

Global financial markets were positive for the year on the back of economic recovery, and strong earnings report by companies.

Inflation reared its head during the year, reaching multi-year highs, on release of pent-up demand and supply side pressures. A myriad of factors has contributed to the stress on supply side. Some prominent ones include disruption in shipping due to shortage of containers and labour, COVID-19 related closure of international borders, soaring energy prices on lower reserves and shortage of semi-conductor chips that has impacted production of automobiles and digital devices. While major central banks highlighted the base effect and noted inflation to be transitory, there has been growing concerns about its stickiness towards the end of the year. With the economic recovery underway, central banks are looking to unwind monetary stimulus and hike interest rates. Bank of England raised its benchmark interest rates to 0.25% from 0.1% in December 2021, citing more persistent inflation outlook and a tighter labour market, becoming the first major central bank to increase rates.

With the economic recovery underway, central banks are looking to unwind monetary stimulus and hike interest rates.

Figure: Consumer price inflation (Average prices, yearly change)



Source: IMF

3 U.K Office for Budget Responsibility

OPERATING **ENVIRONMENT**

Oil

OPEC + countries has agreed to increase in the baseline production quotas from May 2022. In case of sustained demand for oil, this could translate to improvement in Kuwait's oil revenues. U.K plans to strike a trade deal with GCC, which could improve trade ties between the countries. Saudi Arabia would not be granting tariff exemptions to imports from free zones in GCC and requires companies operating in the country to set up headquarters in Riyadh by 2024 to be eligible for government contracts. These measures are broadly perceived to be its efforts to become the business hub in the region and signal increased economic competition with UAE. Kuwait and India have signed a MoU that brings Indian domestic workers in Kuwait within the legal framework.

Oil posed a stellar recovery gaining 50.2% in 2021 as countries reopened economies and relaxed travel restrictions. Tighter supply on phased increase in output by OPEC+ even as U.S called for faster increase and slow rebound in U.S shale output have also supported prices.

Prices of other energy sources surged with natural gas prices in Asia increasing by about 200% and international coal prices doubling annually as of December 2021.[4] In addition to increase in demand, low reserves and lower renewable energy output due to weather related events, unexpected supply outages, and lesser natural gas supplies from Russia to Europe have been some reasons for the surge. Such steep price increase is expected to encourage a switch to oil and has further brightened its demand outlook.

Oil posed a stellar recovery gaining 50.2% in 2021 as countries reopened economies and relaxed travel restrictions.

Kuwait Economy 2021

Figure: Kuwait 2021 in Numbers

0.9%	74.3%	13.3%	13%	27.0%
GDP Growth in 2021	Population fully vaccinated (as of December 2021)	Y-o-Y growth in consumer credit as of December 2021	Y-o-Y growth in the total value of projects awarded in 2021	Kuwait All Share Index gains in 2021

Source: IMF, World Bank, CBK, MEED, Refinitiv

While there had not been an extended lockdown in Kuwait as in 2020, measures such as partial curfews, entry of only vaccinated individuals into malls/restaurants, and suspension of flights had been imposed in the event of increase in cases, followed by easing of restrictions on decline in cases. In October 2021, on the back of record low cases, precautionary restrictions were also lifted. However, emergence of Omicron variant towards end of the year led to reimposition of some restrictions. Vaccination has also progressed with 74.3% of the population reported to have been fully vaccinated as of December 2021 and 8.8% of the population receiving booster dose.[5] Policy responses undertaken to soften the impact of the pandemic include USD 2bn bonus to front line staff battling COVID-19, a second loan deferrals on consumer and installment loans for a period of 6 months from April 2021 and guarantees for local banks to provide financial assistance to affected businesses. The population of expats continued to show a declining trend under the impact of COVID-19 and Kuwaitization, with a drop of 56,300 in H1 2021.[6]

Vaccination has also progressed with 74.3% of the population reported to have been fully vaccinated as of December 2021.

4 Reuters, MacroMicro
5 Our World in Data

Consumer spending is recovering, posting a 39% y/y increase for the first 10 months of 2021.[7] Business sentiment seems to be optimistic with CEOs being confident of growth in the upcoming 1-3 years.[8] Credit growth has been at 6.6% y/y as of December 2021, led by increase in credit offtake in oil & gas, industry, and consumer credit at 14.3%, 15.7% and 13.3% y/y respectively.[9] Real estate sales recovered to pre-pandemic levels registering KD 2.86bn in 9M 2021.[10] The recovery was led by residential segment while there is some lingering weakness in commercial and investment segments.

Policy responses undertaken to soften the impact of the pandemic... a second 6 months loan deferrals on consumer loans was introduced in April 2021.

Sovereign Credit Ratings Update and Impact

With Kuwait yet to pass a new public debt law, following expiration of its earlier one in 2017, the country's rating was revised during the year. Kuwait's credit rating was downgraded by S&P to A+ from AA-, citing persistent lack of funding strategy to address sizeable government deficits. As the ratings of banks and companies are capped by that of sovereign rating, their respective ratings have also undergone a downward revision. Fitch revised its outlook to negative citing liquidity risk owing to imminent depletion of General Reserve Fund in the absence of the debt law.

Government Finances and Project Awards

Kuwait's budget deficit for FY20/21 was at KD 10.8bn (USD 35.5bn), the highest in its fiscal history owing to the sharp drop in oil prices under the impact of COVID-19. In January 2021, Kuwait had adopted an expansionary budget for FY21/22 and had forecasted a deficit of KD 12.1bn, assuming an oil price of USD45/bbl. However, improvement in oil prices over the year could aid in lowering deficit. Additionally, increase in oil production in line with OPEC+ agreements could also lend support. The country had also taken measures to contain its expenditure such as directing its ministries to cut spending by 10% or more. Supported by these, budget deficit for the months April-October 2021 had amounted to KD 1.2bn. IMF expects Kuwait to post a fiscal deficit of 1.5% of GDP in 2021 and a surplus of 1.0% of GDP in 2022.

Kuwait had adopted an expansionary budget for FY21/22 and had forecasted a deficit of KD 12.1bn.

Capital spending had dropped by 27% y/y in FY 20/21 under COVID-19's impact. It is budgeted to be KD 2.6bn in FY21/22,of which KD 0.9bn has been spent during April-October 2021.[11] The total value of the projects awarded for 2021 reached about KD 1.5 billion, up by 13% y/y.[12] Kuwait has approved about 18 projects for FY2021/22 worth KD 19.6bn including 4 PPPs worth KD 988mn.[13] While COVID-19's impact has contributed to delay in projects like Silk City, rail network and airport expansion, allocation of funds for these projects have reportedly been approved in FY2021/22.

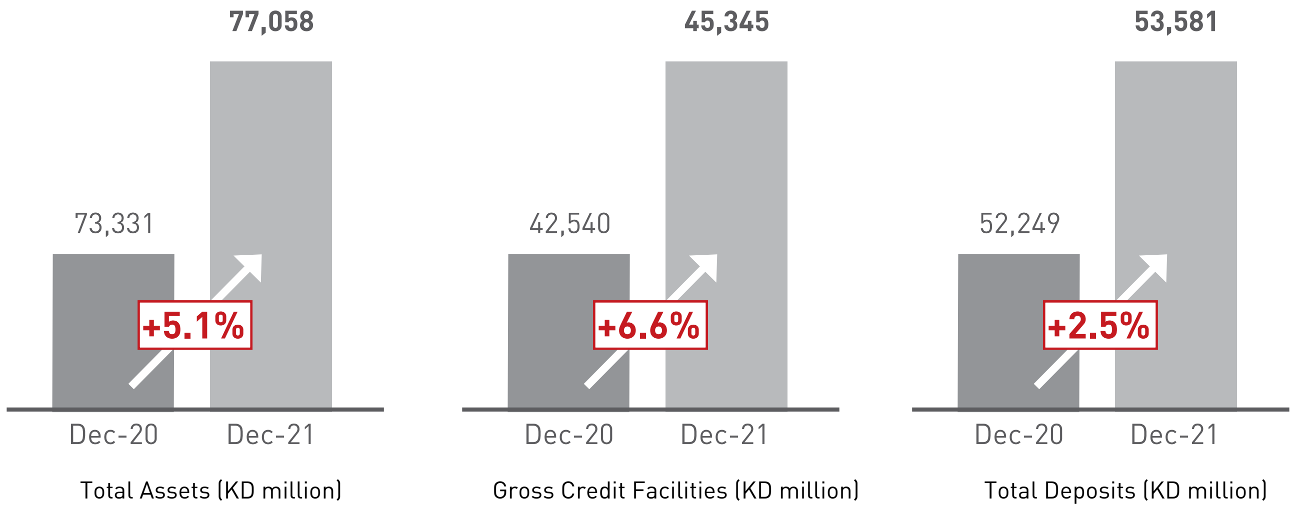
6 PACI, Gulf Business
7 Knet
8 KPMG Survey of 30+ CEOs in Kuwait
9 CBK
10 Ministry of Justice
11 World Bank, MoF Kuwait
12 MEED Projects, RSM Global
13 Zawya

OPERATING **ENVIRONMENT**

Banking Industry

With gradual reopening of economy, banking sector's performance has improved in 2021. Net income for listed banks increased back of lower provisioning and higher fee income. Loan deferrals on consumer and instalment loans, subject to conditions, were reinstated for a period of six months from April 2021. While Banks continued to remain well capitalised.

Figure: Kuwait Banking Overview



Source: CBK

In line with U.S Fed, Kuwait maintained its policy rate unchanged at 1.5% in 2021. U.S Fed has begun to gradually taper its stimulus of USD 120bn in asset purchases from December 2021 and plans to end its purchases by March 2022. The Fed also expects to hike interest rates by three quarters percentage point in 2022, from the current range of 0.00%-0.25%. As U.S Fed's policy action is also a key input in Kuwait's decision on interest rates, the country might see a rate hike in 2022.

In line with U.S Fed, Kuwait maintained its policy rate unchanged at 1.5% in 2021.

Stock Market Performance

Kuwait markets were positive for the year, gaining by 27.0%. The market performance was supported by increase in oil prices, recovery in corporate earnings and re-opening of the economy. Three companies were listed during the year Jassim Transport & Stevedoring Company, Al-Safat Investment Co. and Land United Real Estate Company. Key capital market highlights include issuance of Environmental, Social and Governance (ESG) reporting guide by Boursa Kuwait and issuance of the market's first tradeable pre-emptive rights in the capital increase of Jazeera Airways.

Kuwait markets were positive for the year, gaining by 27.0%.

Looking Ahead To 2022

Though much still depends on the trajectory of the COVID-19, global growth is expected to be at 4.9%, supported by increased vaccine penetration[14]. Path taken by central banks on withdrawal of stimulus and interest hike would also be key determinants for the performance of financial markets and broader economy. Optimistic estimates suggest oil prices to reach USD 110-120 per barrel in early 2022 on expectation of an increased demand for heating in the winter and jet fuel demand.[15]

Kuwait's GDP is expected to grow by 4.3% in 2022.[16] Phased improvement in oil production in line with OPEC+ agreement and increase in baseline production quota from May 2022 are likely to support oil GDP. Improvement or stabilization of oil prices in a healthy range could strengthen government finances and in turn boost public investment and support non-oil GDP growth. For banks, lower provisioning and better credit uptake amid a favourable economic environment and possible hike in interest rates could translate to improved profitability. In all, expected progress in vaccination through campaigns, countries' adaptation to COVID-19 and recovery in oil prices offer cause for optimism in 2022.

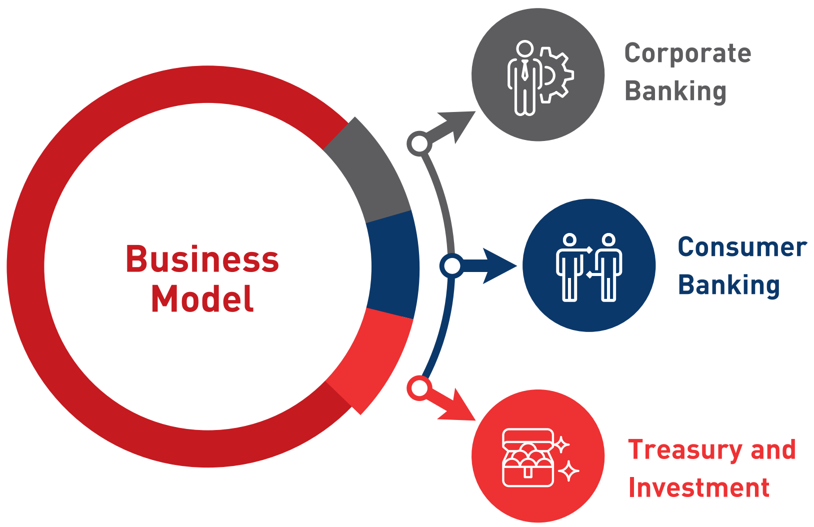
14 IMF
15 BoFA, Goldman Sachs
16 IMF

MANAGEMENT **REPORT**

The year 2021 is a tale of two halves, were we started the year with a new surge in COVID cases and unfortunately daily fatalities. This has led healthcare officials and government to increase the precautionary measures to control the situation from further deterioration. Partial curfew and further restrictions on businesses were imposed, in addition to closure of Kuwait airport. However, by early June most restrictions were lifted, helped by the acceleration in the rollout of vaccination efforts, and airport is fully operational for vaccinated individuals. The resumption of economic activities with businesses returning to full capacity and oil prices rising, has in turn improved the confidence, economic outlook and boosted consumer spending and growth prospects here in Kuwait.

Despite all these shifting waves between restrictive and normalized environment, Gulf Bank has weathered it well and continued to support the clients through the Bank seamless and optimized omni channel services, assisted by the Bank's digital transformation of most of its major activities. Gulf Bank managed to grow the business in both the corporate and consumer segments without hindering the quality of the Bank portfolio which remained resilient.

Business Model



Gross Loans by Segment 31/12/2021

Corporate Banking

Gulf Bank's Corporate Banking business model is designed to serve a broad range of client segments, including family conglomerates, multinationals, government entities, specialized commercial and contracting businesses, and small and medium-sized enterprises (SMEs).

Through Corporate Banking, we continue to focus on growing and strengthening our relationship with our customers by offering them maximum support through our dedicated and experienced-industry focused relationship teams. We continue to invest in our full-fledged specialized digital platform, which was designed to serve our Corporate Banking customer base. The platform enables our customers to transact efficiently and at their convenience.

To further promote growth, this year Corporate Banking focused on 1) attracting new bank customers, which have contributed to our asset growth, 2) continuing to develop the Bank's digital banking platforms to provide the Bank with the competitive edge required to compete in the banking industry, 3) enhancing our product offerings and services with a primary focus on Small and Medium-sized Enterprises.

Gulf Bank continues to strive to engage with the SME segment and provide products and services that cater to their requirements. During the year, we continued to provide our support to SME businesses that remain adversely impacted by the Covid pandemic. The Bank has communicated with the enterprises and advised them on the government guarantee loan program. Also, the Bank for the first time collaborated with a Kuwait SME Business Advisory to provide advisory support for SMEs whereby clients can take benefit from obtaining post-pandemic advisory services.

Gulf Bank is proud to have embedded digital elements into our onboarding process, especially allowing our SME customers to digitally onboard and apply for a range of the Bank's merchant services, cards and financing solutions.

As part of Gulf Bank's overall efforts to provide the best customer experience, Corporate Banking has embarked on a digital transformation initiative across all banking channels, which will enable the Bank to transition from a multi-channel to a centralized omni-channel structure. Corporate Online Banking platform is undergoing a complete upgrade of its current functionalities, and introduction of new services, including the complete self-onboarding of corporate clients, the initiation of all trade finance services with a live status update of all requests, launch of a mobile application dedicated solely to our corporate and SME segment. The corporate client will have a secure and convenient electronic banking experience with the utmost ease and flexibility.

Our digital transformation strategy has helped companies to compete better in an economic environment that is constantly changing in response to technology evolutions.

Arising from Gulf Bank's belief that our people remain our key capital, we continued investing in young executives by fully sponsoring their executive education at renowned, top-tier business colleges worldwide, and attracted new Kuwaiti talents to increment our growth potential.

Corporate Banking focused on: 1) attracting new bank customers, 2) continuing to develop the Bank's digital banking platforms, 3) enhancing our product offerings and services.

Our digital transformation strategy has helped companies to compete better in an economic environment that is constantly changing in response to technology evolutions.

MANAGEMENT **REPORT**

Consumer Banking

Gulf Bank achieved an outstanding performance for the year 2021, which reflects the remarkable progress in our plans to achieve growth and excellence. Our Bank continues to accelerate towards a complete digital transformation and is leading the way in Kuwait's banking sector.

We have opened new branches in key locations such as Kuwait Airport and others, in addition to upgrading the level of services provided. We have also launched many products that transcend customers' expectations.

During this year, the Bank's focus was on appointing young nationals and encouraging them to join the banking sector by providing specialized educational programs and qualifying them to assume leadership positions in the Bank.

In 2021, we have also launched a new strategy with a media campaign bearing our new message, "forward together". This embodies our belief and confidence in the dreams and aspirations of our customers and youth. It expresses our vision that has been admired by everyone and has had a great impact in reformulating the role of the bank in society. Gulf Bank is not only a financial institution, but also a part of the growth process, development, and the daily lives of customers. This media campaign won the award for the best campaign in Kuwait from Middle East Public Relations Association (MEPRA).

Gulf Bank also possesses many competitive advantages, which are represented in the wide network of branches and flexibility. By adopting the latest technologies and developments, the bank acquired a large Kuwaiti customer base, which allow us to continue reaching new heights based on our values and principles.

Gulf Bank has proven the effectiveness of its digital transformation strategy, which has contributed to an increase in online banking and mobile app transactions by 130%, an increase in transfers from other banks by 87%, and an increase in salary transfers to the bank by 20%.

The AlDanah Millionaire Account was also successful in achieving the dreams of many with annual prizes amounting to KD 2,800,000, including a grand prize of KD 1,500,000. The bank also launched a lot of special offers for youth, in addition to the "best" service and the "priority" service for customers.

We have also launched multiple new and innovative products to provide the most technologically advanced solutions and innovative banking services. These include the Rose Gold card for women, the red plus card, the first prepaid global cashback card for youth, the Mouj card, the first prepaid cashback card in the Middle East, and Samsung Pay contactless payment for smoother and safer purchasing transactions.

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Treasury and Investment

Treasury

The Treasury team continued to execute on its plan from last year, further optimizing the Bank's balance sheet, supporting asset growth, diversifying funding sources and reducing funding costs. On the Trading and Sales side, the volumes were higher as the economy reopened and trade flows resumed.

In response to evolving business needs and in line with the bank's vision in digitization and automation, the Bank went live in June 2021 with the MX.3 Treasury platform in collaboration with Murex, the global leader in trading, risk management and processing solutions for capital markets.

The Bank went live in June 2021 with the MX.3 Treasury platform in collaboration with Murex.

The platform implementation is a transformative step for Gulf Bank as it develops and automates its treasury and capital markets systems. It is a full-fledged system that consists of front-to-end functionalities covering the front, middle and back-office. Subsequently, the Treasury will be gradually expanding its product offering and hedging solutions to the bank's clients.

Financial Institutions and Sovereign

The Financial Institutions and Sovereigns team provides a wide range of banking services through its longstanding and well-established partnerships with global and regional correspondent banks.

The department's key relationships with leading partners provides the Bank's Consumer and Corporate clients with efficient solutions, secured trade services and Straight Through Process (STP) global payments, while complying with local and global regulations. The high-quality relationship coverage allows the Bank to provide the Consumer and Corporate clients with an international reach through our local presence.

With the gradual recovery post COVID-19, the unit has gone back to growing it asset book through new deals, mostly focused on the region. The growth was achieved through a selection of high-quality assets in line with the banks' risk appetite through origination and participations in syndications both in primary and secondary markets. Today the portfolio is aligned with the Bank's risk appetite, with the best possible returns and under the most efficient capital consumption.

As part of the Treasury group, the unit also assists in identifying and onboarding new sources of funding to further diversify and widen the bank's customer deposit base.

Investment

The key focus of Gulf Bank's Proprietary Investment activities is to support the liquidity needs of the Bank, diversify income streams, and generate returns within the Bank's risk appetite. In 2021, the activity was mostly focused on managing the existing investment portfolio considering the new developments related to Covid-19 pandemic and the ongoing low rates environment.

On the other hand, Gulf bank is licensed by the Kuwait Capital Markets Authority, to offer investment products to the Bank clients. Gulf Bank's Fiduciary activities include carrying out portfolio management services, custody services, investment controller and investment advisory. The Bank also acts as a selling agent,

The Bank has been advising a diversified client base that includes both Retail and Wealth Management clients by offering them vast investment products and services that suit their needs and risk tolerance. The investment offerings range from local, GCC and international markets, in different asset classes such as Equities, Bonds, Funds & ETFs.

In addition to acting as a selling agent for several leading local Investment houses, Gulf Bank has its own Flagship investment digital platform named "WISE". "WISE" offers the clients to invest in global markets through Exchange Traded Funds (ETFs). The key focus of WISE being a digital platform is to continuously add new features, portfolios, and ensuring it meets the dynamic client investments requirements.

In accordance with the bank's strategy and in alignment with Gulf Bank's vision of creating a well-rounded seamless customer's journey embedded with technological solutions, "WISE" has recently introduced to the customers an international investment portfolio in compliance with the Shariah law, and an Income generating portfolio.

WISE" offers the clients to invest in global markets through Exchange Traded Funds (ETFs)... Ensuring it meets the dynamic client investments requirements.

CFO **STATEMENT**
MANAGEMENT DISCUSSION & ANALYSIS

David Challinor
Chief Financial Officer

The Bank reported a net profit of KD 42 million and earnings per share of 14 fils for the year ending 31 December 2021 compared to a net profit of KD 29 million and earnings per share of 10 fils for the year ending 31 December 2020. The Board of Directors is recommending a cash dividend of 7 fils per share and 5% bonus shares for shareholders' approval at the Annual General Meeting for the year 2021.

The increase in net profit of KD 13.3 million compared with the prior year driven by three positive factors. First, the Bank had a higher net interest income of KD 7.5 million as a result of loan growth and decline in cost of funds. Second, as economic activity regained momentum so did fees and foreign exchange income which improved by KD 4.9 million, and third, total provisions reduced by KD 16.5 million. However, these positive drivers were partially offset by an KD 14.3 million increase in operating expenses.

Gross Customer Loans increased by KD 454 million or 10%. The consumer segment continued to see strong growth, up nearly KD 206 million or 12%, while the corporate segment growth recovered this year, where it grew by 9% to reach KD 2.9 billion as of year-end 2021 after a contraction in year 2020 due to lower credit demand from our corporate customers in 2020.

The Bank's non-performing loan ratio for the year-end 2021 stood at 0.9%, moving from 1.1% reported for the year-end 2020. Additionally, the Bank has ample provisions and a coverage ratio of 615% for year-end 2021.

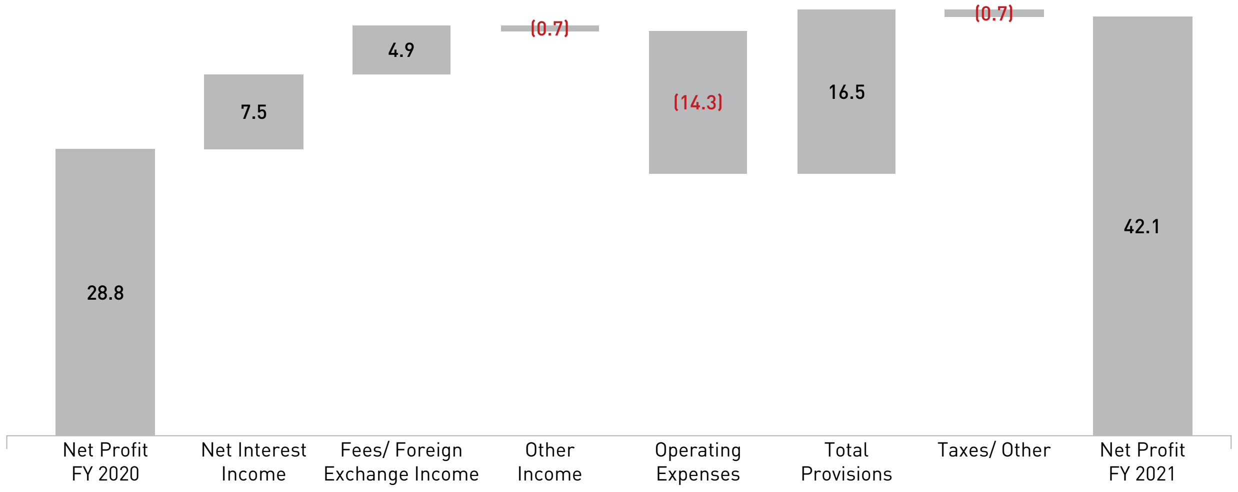
At the end of 2021, total provisions on credit facilities were KD 300 million compared with KD 189 million of provisions required under IFRS 9 accounting. Thus, the Bank held excess provisions of KD 112 million, representing 37% of total provisions. This is the fourth consecutive year end since IFRS 9 was introduced where the Bank's excess credit provisions exceeded KD 100 million.

The Bank's Tier 1 ratio as of 31 December 2021 reached 14.46%, 496 basis points above the regulatory minimum of 9.5%. The Bank's Capital Adequacy Ratio (CAR) was 16.72% as of 31 December 2021, 522 basis points above our regulatory minimum of 11.5%.

As of or for the year ended December 31st (in KD milliona, except per share and ratio data).

KEY FINANCIAL METRICS	2021	2020	Better/(Worse) in 2021 vs. 2020
Income Statement			
Net interest income	**132**	125	6%
Non interest income	**38**	34	13%
Operating income	**170**	158	7%
Operating expenses	**78**	64	(22%)
Operating profit	**92**	94	(3%)
Provisions / Impairment Losses	**48**	64	26%
Net profit	**42**	29	46%
Earnings per share (fils)	**14**	10	40%
Dividends per share – Cash (fils)* *2021 DIVIDENDS SUBJECT TO ANNUAL GENERAL MEETING APPROVAL IN MARCH 2022.	**7**	5	40%
Balance Sheet			
Gross loans and advances to customers	**4,838**	4,384	10%
Total assets	**6,556**	6,113	7%
Customer deposits	**4,304**	4,034	7%
Total stockholders' equity	**666**	637	5%
Average daily share price (fils)	**235**	229	3%
Key Financial Ratios			
Return on average equity	**6.5%**	4.6%	195 bps
Return on average assets	**0.7%**	0.5%	20 bps
Net interest margin	**2.1%**	2.0%	7 bps
Non-performing loan ratio	**0.9%**	1.1%	19 bps
Provisions & Impairments / Average Total Assets	**0.8%**	1.0%	30 bps
Tier 1 capital ratio	**14.46%**	14.85%	(39 bps)
Capital adequacy ratio	**16.72%**	18.25%	(153 bps)

Shown below are the major variances in net profit from 2020 to 2021 (KD millions):



IFRS9 IMPLEMENTATION

The ***IFRS9 accounting standard*** on credit facilities was implemented by the Central Bank of Kuwait at the end of 2018 and, as of year- end 2021, the Bank's total credit provisions of KD 300 million were greater than the IFRS9 requirements by KD 112 million.

Comparison between total provisions and IFRS 9 Expected Credit Losses (ECL) on credit facilities: (KD Millions)	2021	2020
Provision on cash facilities	**282**	269
Provision on non-cash facilities	**19**	15
Total provisions on credit facilities (A)	**300**	284
IFRS 9 ECL on credit facilities (B)	**189**	172
Excess of total provisions over IFRS 9 ECL on credit facilities (C = A-B)	**112**	112
Excess provisions as a percentage of total provisions (C/A)	**37%**	39%

ASSET QUALITY

Gross credit costs in 2021, defined as specific provisions plus write-offs, were KD 13 million lower (18%) than 2020.

Total provisions and impairment losses of KD 48 million were incurred in 2021, which represented 0.8% of average total assets, compared to 1.0% reported in 2020.

PROVISIONS / IMPAIRMENT LOSSES (KD Millions)	2021	2020	Change
Specific provisions	**56**	64	(8)
Write-offs	**0.5**	6	(5)
Gross credit costs	**56**	69	(13)
Recoveries	**(12)**	(10)	2
Impairment losses	**0.1**	1	(1)
Total credit costs and impairment losses	**44**	60	(16)
% of average assets	**0.70%**	0.97%	
General provisions	**4**	4	(1)
Total provisions and impairment losses	**48**	64	(16)
Provisions and impairment losses (as a % of average total assets)	**0.8%**	1.0%	
Credit costs	**44**	59	(15)
% of average gross loans	**0.95%**	1.31%	

GOVERNANCE 03

BOARD OF **DIRECTORS**

Jassim Mustafa Boodai

Chairman, Board of Directors
Chairman, Board Compliance and Governance Committee
Chairman, Board Credit and Investment Committee

Date of Appointment:

- Chairman: March 4, 2020 – Present
- Board Member: March 17, 2012 - March 3, 2020

Experience:

- Vice Chairman and CEO of Integrated Holding Company K.S.C.P. Kuwait
- Formerly Board Member of Kuwait Insurance Company, Kuwait
- Formerly Vice Chairman of Kuwait China Investment Company, Kuwait
- Formerly Chief Operating Officer of Boodai Corporation, Kuwait
- Formerly Vice Chairman of Hilal Cement Company, Kuwait
- Formerly Chairman of Transport & Warehousing Group Company, Kuwait
- Formerly Vice Chairman Jazeera Airways

Ali Morad Behbehani

Deputy Chairman of Board of Directors

Date of Appointment:

- Deputy Chairman: March 15, 2013 - Present
- Board Member: April 11, 2009 - March 14, 2013

Academic Qualifications:

- BA, English Literature, Kuwait University

Experience:

- Chairman - Kuwait Insurance Company
- Board Member - National Industries Company
- President of Morad Yousuf Behbehani Group
- Board Member - The Kuwaiti Danish Dairy Company (K.D.D.)
- Formerly Board Member of Kuwait National Cinema Company (S.A.K.)
- Formerly Board Member of Kuwait Pipe Industries Company

Omar Hamad AlEssa

Board Member

Deputy Chairman, Board Nomination and Remuneration Committee

Deputy Chairman, Board Credit and Investment Committee

Date of Appointment:

- April 11, 2009

Academic Qualifications:

- BA in law, Faculty of Law, Kuwait University, Kuwait

Experience:

- Formerly Chairman of the Kuwait Bar Association
- Formerly President of the Admission Committee of the Kuwait Bar Association
- Formerly President of the Arbitration Center of the Kuwait Bar Association
- Formerly President of the Development and Training Committee of the Kuwait Bar Association
- Owner of The Law Office of Al-Essa & Partners
- Formerly Head of the Kuwaitization Group at the Manpower and Government Restructuring Program.
- Formerly Chairman of Kuwaiti Touristic Enterprises Company, Egypt
- Formerly Member of the Board of Arabi Company
- Formerly Appointed adviser to the Public Authority compensation for Iraqi invasion
- Member of the board of Kuwaiti Association for Learning Differences – 2015
- Founder Member of Kuwait transparency Society
- Founder Member of Kuwaiti Association for Protecting Public Funds.

BOARD OF **DIRECTORS**

Bader Nasser AlKharafi

Board Member

Deputy Chairman, Board Risk Committee

Date of Appointment:

- March 17, 2012

Academic Qualifications:

- Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait
- Master of Business Administration, London Business School, London, UK
- Mr. Bader has completed 2 years of his Doctorate in Business Administration Program from IE Business School (Instituto de Empressa) in Madrid, Spain

Experience:

- Mr. Bader has over 20 years of experience in the financial, banking, industrial, and telecommunication sectors.
- He began his career as an engineer in Kuwait Petroleum Corporation for approximately one year. Thereafter, he joined Al-Kharafi group in which he held several leadership positions concluding in the position of Member of the Executive Committee in the industrial sector of Al-Kharafi group.
- Mr. Bader is Chairman and member of the Board of Directors in several local and international companies operating in the financial and industrial sector, which include:
  - Vice Chairman & Group CEO of Mobile Telecommunications Company K.S.C (Zain Group), Kuwait.
  - Vice Chairman of Mobile Telecommunications Company, Saudi Arabia.
  - Chairman of Gulf Cables and Electrical Industries Company, Kuwait.
  - Chairman of Injaz Kuwait, Kuwait.
  - Board Member in the Middle East Advisory of Coutts & Co. (United Kingdom).
  - Board Member at Refreshment Trading Company (Coca-Cola), Kuwait.
  - Vice Chairman of Diamond International Motors Company (Mitsubishi cars), Egypt.
  - Board Member at Bahrain Steel B.S.C..C, Bahrain.
  - Board Member at Foulath Holding B.S.C., Bahrain.
  - Board Member at Kuwait-British Friendship Society.
  - Board Member at the United Nations High Commissioner for Refugees (UNHCR) - "Sustainability Board".
  - Board Member and the Chairman of the Executive Committee at Boursa Kuwait.
- In September 2019, BNK Automotive owned by Mr. Bader Al-Kharafi signed the new Volvo agency agreement in Kuwait making BNK Automotive the new official exclusive importer for Volvo Cars.
- In 2020, BNK Motion, owned by Mr. Bader Al-Kharafi acquired the franchise rights for Piaggio Group.

Abdullah Sayer Al-Sayer

Board Member

Member of Board Audit Committee

Date of Appointment:

- March 27, 2021

Academic Qualifications:

- Bachelor of Science in Business Administration with Finance Emphasis, Barry University, Miami, FL.
- Master of Business Administration with Finance Concentration, Barry University, Miami, FL - Summa Cum Laude (With Highest Honors).

Experience:

- Board Member in Bayan Dental (2019 to date)
- Board Member in Credit One (2018 to date)
- Board Member in Hyatt Communication (2016 to 2021)
- Board Member in Jiblah Holding (2015 to 2021)
- Business Strategic Manager, Al Sayer Group – Al Dhow Holding Co., Kuwait (2015 to date)
- Formerly Financial Analyst in Injazzat Real Estate Dev. Co (2013 – 2015)
- Formerly, Analyst in Bader Al Abduljader & Partners (Russell Bedford International), Kuwait (2012 – 2013)
- Formerly Associate in Qunsult International Ltd, Kuwait (2012)

BOARD OF **DIRECTORS**

Dr. Adnan Ahmad Shihab-Eldin

Board Member

Deputy Chairman, Board Compliance and Governance Committee

Deputy Chairman, Board Audit Committee

Date of Appointment:

- October 31, 2020

Academic Qualifications:

- Bachelor's Degree, Electrical Engineering, University of California, Berkeley, USA
- Master in Nuclear Engineering, University of California, Berkeley, USA
- PhD in Nuclear Engineering, University of California, Berkeley, USA

Experience:

- Senior Visiting Research Fellow, Oxford Institute for Energy Studies (OIES, Oxford, UK).
- Former Director General and Board Member at Kuwait Foundation for the Advancement of Science (KFAS).
- Former Acting Secretary General and Director of Research at OPEC.
- Earlier, he held several senior directorship positions at various international organizations, including, but not limited to, IAEA (Vienna), UNESCO, Cairo (Egypt).
- Former Board Member and Director General of Kuwait Institute for Scientific Research (KISR) and former Vice Rector of Kuwait University.
- Member of several Boards of Directors (BOD) and International Advisory Councils (IAC), including the IAC of King Abdullah Petroleum and Research Center, KSA, the IAC of American University of Beirut, the Joint Advisory Board (JAB) of George Town University – Qatar, the BOD of Kearney Energy Transition Institute, amongst others

Dr. Fawaz Mohammad Al Awadhi

Board Member

Member of Board Nomination and Remuneration Committee

Member of Board Credit and Investment Committee

Date of Appointment:

- August 7, 2019

Academic Qualifications:

- Washington University in St. Louis – (May 2021). Doctor of the Science of Law (J.S.D.)
- University of California, Berkeley (May 2016) – Master of Laws (LL.M.)
- Boston University (May 2015). High Diploma
- Kuwait University (June 2007). Bachelor of Laws (LL.B.)

Experience:

- Chief Legal Officer – Alghanim Industries Group (July 2020 – Present).
- Faculty Member – Legal Department – College of Business Studies (June 2016- Present).
- Vice- Chairman in the Board of Members of Takhzeen Warehousing Co. SAK(C) (August 2021 – Present)
- Vice- Chairman in the Board of Members of Ejari Real Estate Co. SAK(C) (November 2021- Present)
- Vice – Chairman in the Board of Members of Alghanim Industries Co. SAK(C), (Jan 2021- Present)
- Vice- Chairman in the Board of Members of Alamana Kuwait Holding Co. SAK(C) (Jan 2021- Present)
- Manager in the Board of Managers of Alghanim International Food Co. LLC, Saudi Arabia (November 2021- Present).
- Manager in the Board of Managers of Kirby Contracting Co. LLC, Saudi Arabia (November 2021- Present).
- Manager in the Board of Managers of Al Qimma Universal for Real Estate Co. LLC, Saudi Arabia (November 2021- Present).
- Deputy Chief Legal Officer, Head of Litigation – Alghanim Industries (June 2016 – July 2020).
- Legal Counsel – Alghanim Industries (December 2008 – August 2014).
- Manager in Board of Managers of Atara Investment Co. LLC – UAE (2020 – Present).
- Member of the Board of Kuwaiti Association for Protecting Public Funds, Kuwait (2018 – Present)
- Manager in the Board of Managers of Saudi Pipes Insulation Manufacturing Factory Co SPC LLC, Saudi Arabia (2019 – Present).
- Manager in the Board of Managers of Kutayba Yusuf Alghanim & Partner for Trading Co. SPC LLC, Saudi Arabia (2018 – Present)
- Manager in the Board of Managers of Saudi First Company for Manufacturing Insulation Materials & Steel Buildings LLC, Saudi Arabia (2018 – Present).
- Manager in the Board of Managers of Pasture Trading Co. LLC, United Arab Emirates (2018 – Present)
- Formerly, Chairman of the Board of Alamana Investment K.S.C Closed, Kuwait (2012)
- Formerly, Deputy Chairman of the Board of Kuwait Insulating Material Manufacturing Company (KIMMCO), Kuwait (2012 – 2014)
- Formerly, Member of the Board of Alamana Industries K.S.C Closed, Kuwait (2010 – 2014)
- Formerly, Member of the Board of Nile City Tourism Corporation, Egypt (2012 – 2014)
- Formerly, Managing Director of Shamsin International Trading & Contracting CO. W. L. L., Kuwait (2011 – 2014)
- Formerly, Member of Kuwaiti Bar Association, Kuwait (2007 – 2014)

BOARD OF **DIRECTORS**

Barrak Abdulmohsen Al Asfour

Board Member

Member of Board Risk Committee

Date of Appointment:

- October 31, 2020

Academic Qualifications:

- Bachelor's Degree, Business Administration (Major: Finance), Faculty of Commerce, Economics and Political Science. Kuwait University, Kuwait

Experience:

- Mr. Barrak has long experience in the international investments.
- Branch Manager then Manager at Credit Facilities Department at the Bank of Kuwait and the Middle East (BKME), Kuwait (1985 – 1989)
- Board Member in 1993, then Deputy Chairman of Kuwait Gypsum Manufacturing & Trading Company from 2004 to present.
- Moved to the private sector since 1989.
- Managing Director of Bridgestone Tiers Company W.L.L., from 1992 to present.

Ahmad Mohammed Al Bahar

Independent Board Member

Chairman, Board Nomination and Remuneration Committee

Date of Appointment:

- October 31, 2020

Academic Qualifications:

- Bachelor's Degree of Science in Business Administration, from Southern Oregon State University, USA

Experience:

- Chief Executive Officer of Gulf Custody Company (Kuwait),
- Chairman of Gulf Custody Company (Bahrain & Oman)
- Formerly, Partner in Charge – Settlement Group of The International Investor
- Formerly, Senior Manager – Settlement Department of Kuwait Foreign Trading Con., & Investment Co. (KFTCIC)
- Formerly, Manager – Consumer Loans Department of Arab European Financial Management (AREF)
- Formerly, Chairman of First Bahrain Co.
- Formerly, Board Member of National Cleaning Co.

Dr. AbdulRahman Mohammad Al-Taweel

Independent Board Member

Chairman, Board Risk Committee

Member of Board Compliance and Governance Committee

Date of Appointment:

- March 27, 2021

Academic Qualifications:

- Bachelor of Science in Chemical Engineering, University of Colorado, Boulder, USA
- Master of Business Administration (MBA), University of Colorado, Boulder, USA
- Doctor of Philosophy in Business Administration (PhD) - Finance, University of Colorado, Boulder, USA

Experience:

- Assistant Professor, Finance and Financial Institutions Department, College of Business Administration, Kuwait University.
- Dr. AbdulRahman has been very active in the academic and teaching profession for over 7 years, conducting various professional seminars, workshops and development programs during his career.
- He has many intellectual contributions relating to corporate finance and corporate governance in upcoming working papers.
- Advisor to the Director General of State Bureau of Financial Controllers from 2019.

Talal Ali Al Sayegh

Independent Board Member

Chairman, Board Audit Committee

Date of Appointment:

- September 12, 2021

Academic Qualifications:

- Bachelor of Arts in Accounting and Auditing, Kuwait University, Kuwait
- Executive MBA in Business Administration, American University Beirut, Lebanon

Experience:

- Formerly Advisor in Al Ahli Bank of Kuwait on AML/CFT and Financial Crime issues.
- Formerly president of Kuwait Financial Intelligence Unit, Kuwait.
- Formerly Deputy Manager On-Site Supervision, Central Bank of Kuwait.
- Formerly Senior Credit Analyst in Gulf Bank, Kuwait.

EXECUTIVE **MANAGEMENT**

Antoine Daher

Chief Executive Officer

Date of Joining Gulf Bank:

- July 7, 2013

Academic Qualifications:

- BSC in Civil Engineering from Cleveland State University, Ohio, USA.
- MBA from Case Western Reserve University, Ohio, USA.

Experience:

- More than 20 years of experience in international and local banking sector.
- Previously Deputy CEO of Gulf Bank in charge of Wholesale Banking and Investments.
- Previously worked at NBK, Kuwait heading Domestic Corporate Banking, and National Citi Bank in Ohio, USA focusing on Corporate Banking and Structured Finance.

Raghunandan Menon

Acting Deputy Chief Executive Officer

Date of Joining Gulf Bank:

- May 15, 2016

Academic Qualifications:

- BCom, University of Madras
- MBA, XLRI, India
- Associate Cost & Management Accountant, India
- Chartered Associate of Indian Institute of Bankers

Experience:

- More than 30 years of experience in Banking and Financial Services.
- Represents Gulf Bank in the Board of Directors of The Shared Electronic Banking Services Co. [KNET]
- Previously served in senior management positions at Standard Chartered Bank in London, New York, Singapore, and Mumbai. Held directorships in the board of Standard Chartered Plc subsidiaries in Korea, Nigeria, and Ireland.

Waleed Mandani

Deputy Chief Executive Officer

Date of Joining Gulf Bank:

- September 5, 2021

Academic Qualifications:

- BSc in Business Administration from University of Arizona, USA - 1992
- Executive Program in Project Management and Leadership from Cornell University, USA – 2011
- Specialized training course in Decision Making Strategies at Harvard Business School, USA - 2015
- Executive Program in Leading Change and Organizational Renewal at Harvard Business School, USA - 2018

Experience:

- More than 25 years of experience in leadership positions covering Private Banking, Retail and Wealth Management in Kuwait Finance House, BNP Paribas in Kuwait, and Ahli United Bank Bahrain.
- Board Member in KFH Capital, and Member of Board Risk Committee 2017 until 2021.
- Vice Chairman of TurkCapital Holding and Board Member 2015 until 2021.

David Challinor

Chief Financial Officer

Date of Joining Gulf Bank:

- April 14, 2021

Academic Qualifications:

- Honors Degree in Economics from the University of Newcastle, UK
- A Fellow of the Institute of Chartered Accountants in England and Wales.
- Qualified Chartered Accountant with Price Waterhouse in London, UK.

Experience:

- More than 25 years of experience in Financial Service Industry.
- Previously worked as Chief Financial Officer of Doha Bank, Qatar for 12 years.
- Experience in large financial institutions in Australia.
- Member of The Australian Institute of Company Directors.

EXECUTIVE **MANAGEMENT**

Farhan Mahmood

Chief Risk Officer

Date of Joining Gulf Bank:

- June 29, 2014

Academic Qualification:

- Bachelor of Business Administration in Management Information Systems from University of Memphis, USA

Experience:

- Over 30 years of international banking experience in leadership positions covering Risk Management, Audit, Corporate Banking and General Management.
- Worked in the UK, Asia, Africa and Middle East.
- Previously employed for 23 years at Citigroup and Deutsch Bank A.G.

Hussam Mustafa

Chief Internal Auditor

Date of Joining Gulf Bank:

- August 10, 2014

Academic Qualifications:

- BSc in Accounting, from Yarmouk University, Jordan, and several recognized Internal Audit certifications.

Experience:

- More than 25 years of Audit & Risk Management experience.
- Previously worked at the Central Bank of Jordan, UAE Sovereign Fund, and banks.

Mohammed AlQattan

General Manager
Consumer Banking

Date of Joining Gulf Bank:

- August 19, 2014

Academic Qualifications:

- Bachelor's Degree from Kuwait University in Statistics and Operations Research.
- MBA in Strategic Management from Maastricht Business School.

Experience:

- More than 21 years of experience in Banking and Financial Services.
- Previously worked in leadership positions in the Commercial Facilities Company.
- Board member in Public Institute for Social Security (PIFSS), and Head of Audit & Risk Committee.
- Board member in Credit Information Network Company (Ci-Net).
- Vice Chairman in Priority Automobile Company.
- Previously worked Board member in Oula Wasata.

Ahmad AlDuwaisan

General Manager
Corporate Banking

Date of Joining Gulf Bank:

- September 1, 2001

Academic Qualifications:

- BSc in Mechanical Engineering, Northeastern University in Boston, USA.
- Executive MBA, American University Beirut, Lebanon.

Experience:

- More than 20 years of Corporate Banking experience.
- Previously Deputy GM of remedial credit and structured workouts and Deputy GM of financial markets at Gulf Bank.
- Previously a Board Member of Kuwait Finance and Investment Company (KFIC), and Head of the Risk and Audit Committee.

EXECUTIVE **MANAGEMENT**

Sami Mahfouz

General Manager
Treasury

Date of Joining Gulf Bank:

- March 6, 2018

Academic Qualifications:

- Master's degree in Business Management, the Holy Spirit University in Lebanon.
- Completed extensive leadership and technical programs.

Experience:

- More than 25 years of banking experience in the region at leading international banks.
- Previously worked at Standard Chartered in the Middle East region for 18 years, most recently heading the MENA Public Sector Coverage Group, and earlier undertook a variety of senior Financial Markets roles in UAE, Bahrain and Lebanon, latest being Head of Financial Markets, UAE and GCC. Started his career at HSBC Lebanon.

Salma Al Hajjaj

General Manager
Human Resources

Date of Joining Gulf Bank:

- February 1, 2013

Academic Qualifications:

- BSc in Mathematics, Kuwait University.
- MA in Organizational Management from the University of Phoenix in Arizona.

Experience:

- More than 30 years of Human Resources experience.
- Previously worked at various key HR positions in the oil sector in both KPC and KPI as well as in Gulf Investment Corporation.
- Previously Member of the Arabian Society for Human Resources (ASHRM) board of trustees.
- Member of the Advisory Board of college of Business and Administration of GUST.
- Member of the Board of INJAZ a nonprofit organization for the development of the youth.
- Featured in the 2018 publication of 'Those who Inspire' – Kuwait Edition.
- Lifetime member of the International Society of Female Professionals.
- A Senior Certified Professional Coach from International Coaching.

Mona Mansour

General Manager
Customer Service Delivery

Date of Joining Gulf Bank:

- August 15, 2004

Academic Qualifications:

- BSc in Business Administration, Kuwait University.
- Emerging Leaders Program certificate from London Business School, UK.

Experience:

- More than 30 years of Banking experience.
- Previously worked at NBK for 20 years with diversified experience in IT, cards, customer services & operations.

Dari Al-Bader, CFA

General Manger
Corporate Affairs & Board Secretary

Date of Joining Gulf Bank:

- October 21, 2019

Academic Qualifications:

- BSc in Management Science and Mechanical Engineering from Massachusetts Institute of Technology, Cambridge, MA, USA.
- MBA from Columbia Business School, NY, USA.
- Chartered Financial Analyst.

Experience:

- More than 20 years of experience in business and banking.
- Previously President of Group Corporate Affairs at Alghanim Industries.
- Previously worked with a number of international and regional organizations such as JP Morgan, Citi Group, Dubai Capital Group, and the National Bank of Kuwait.
- Chairman of Asiya Capital Investments Company.

EXECUTIVE **MANAGEMENT**

Shahzad Anjum

Acting Chief Information Officer

Date of Joining Gulf Bank:

- August 1, 2019

Academic Qualifications:

- B.S. in computer science from Newport's institute Pakistan
- MBA from London Business School

Experience:

- More than 20 years of Information Technology experience
- Previously worked as Group CIO at Alghanim industries

CORPORATE **GOVERNANCE**

Introduction

Corporate Governance is the set of relationships between the Bank's Board of Directors, the Executive Management, Shareholders, and other Stakeholders which provides the structure through which the objectives of the Bank are set, as well as the means of attaining those objectives and monitoring performance. It helps define the way authorities and responsibilities are allocated and how corporate decisions are made.

The Bank's Board of Directors works with the management to establish and promote business goals, organizational objectives, and a strategy that promotes businesses that are in sync with the broader environment. Corporate Governance instills a culture whereby the Board of Directors and the Executive Management contemplate the impact of their decisions prior to implementation to consider the interests of all the stakeholders, first and foremost being the shareholders of the Bank.

Gulf Bank KSCP (herein "the Bank") believes that Corporate Governance is the guiding force that determines how the Bank is directed and controlled. Effective Corporate Governance, that is appropriately aligned with relevant local regulations and international best practices, is the basic tenet of Gulf Bank's business philosophy. As a Bank whose fundamental value is to maintain the highest ethical standards, the success of its business is dependent on the trust and confidence it earns from its shareholders, customers, and employees.

Governance is a holistic approach to the management and organization within a firm which, if directed in a comprehensive manner can make a substantial difference to the business's success and its long-term sustainability.

Gulf Bank has high standards in corporate governance which are the fundamental in maintaining the Bank's leading position within the local banking sector and the community. Continuous review and adherence to strong corporate governance practices help enhance compliance levels according to local & international standards, and best practice.

Gulf Bank continues its endeavor to enhance shareholders' value, protect their interests and defend their rights by practicing pursuit of excellence in banking life. The Bank shall not only comply with all regulatory requirements but also formulate and adhere to strong corporate governance practices. Gulf Bank shall continuously strive to best serve the interests of its stakeholders including shareholders, customers, employees, and the public at large. The Bank has always been focused on maintaining strong internal controls and effective governance.

The Bank has always been committed to achieving a high level of corporate governance. Ethical and responsible business practices have been embedded in the Bank's culture since its inception in 1960. The Bank focuses on transparency and disclosure to ensure it is in line with the best international standards and practices. The Bank continuously strives to enhance the level of trust amongst its stakeholders and to further focus on the principle of transparency. In addition, the Corporate Governance framework within the Bank is governed by the model set by the Central Bank of Kuwait (CBK) and the regulations of other regulators.

Corporate Governance Compliance with CBK Instructions

According to Central Bank of Kuwait (CBK) Corporate Governance regulations and its amendments, the CBK Corporate Governance regulations set out nine pillars for a sound Corporate Governance:

1. Board of Directors.
2. Corporate values, conflict of interests and group structure.
3. Executive Management.
4. Risk Management and Internal Controls.
5. Remuneration System and Policy.
6. Disclosure and Transparency.
7. Complex Corporate Structures.
8. Protection of Shareholders Rights and
9. Protection of Stakeholders Rights.

The Bank has put in place all relevant policies, manuals and guidelines aimed at being fully compliant with the nine pillars. The Bank has, under the leadership of the Chairman and the Board, established a sound and strong Corporate Governance structure as well as stringent and transparent processes of governance.

In carrying out the above, the Bank ensures a continuous compliance with all applicable laws and CBK regulations pertaining to Corporate Governance. In addition, the Corporate Governance principles are promoted among the various stakeholders, including regulators, shareholders, and business community.

Stakeholder Definition

In line with best practice, a stakeholder is a party that has an interest in a company and can either affect or be affected by the business. The following entities/ persons are deemed Bank's key stakeholders:

1. Customers and depositors
2. Shareholders
3. Regulators
4. Board of Directors and Executive Management
5. Employees
6. Suppliers and service providers
7. Local and correspondent banks
8. Community where the Bank operates

Corporate Governance - Policies and Procedures

The Bank has a comprehensive framework of Corporate Governance aimed at properly balancing between its ambitious objectives, on the one hand, and adherence to the local and international governance and compliance systems, on the other hand. Both Board and Executive Management strongly believe that governance should always be the object of concurrent critique aimed at continuously improving the standards in place.

The Bank implements a set of clear and user-friendly policies and procedures that establish and reinforce good governance. They include, inter alia:

1. Corporate Governance Manual
2. Disclosure and Notification Manual
3. Risk Appetite Document
4. Whistle Blowing Policy and Procedure Manual
5. Conflict of Interest Policy
6. Related Party Transactions Policy
7. Customer Complaint Handling Policy and Procedures
8. Internal Audit Charter
9. Human Resources Manual
10. Policy and Procedure Standards
11. Compliance Manual
12. Confidentiality Policy
13. Shareholders and Stakeholders Rights Policy
14. Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) Procedure Manual

CORPORATE **GOVERNANCE**

Gulf Bank Corporate Governance Manual – Roles and Responsibilities

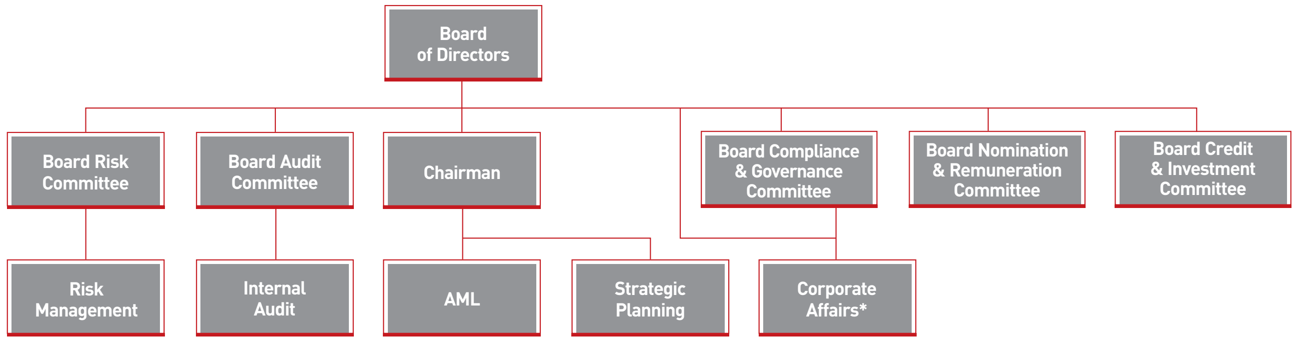
The Corporate Governance Manual defines the Board and Executive Management's respective roles. The overlap between the two roles is precluded. The Manual clearly defines the role of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Manager, Corporate Affairs, Chief Internal Auditor (CIA) and Chief Financial Officer (CFO). The independence of key executive roles is secured through well-defined reporting lines. The Board monitors the key executive positions in the Bank. CBK further protects and monitors those positions to ensure their independence.

Governance Structure

The Bank has established an organization-wide governance structure aimed at providing a sound practice reflected in the reporting lines, clear segregation of duties, independence of opinion and action in areas such as Anti- Money Laundering, Legal, Compliance, Internal Audit and Risk Management. The structure also adheres to CBK's regulatory instructions.

The Governance structure in place follows a three-tier approach: The Board Level, The Board Committees' Level and The Executive Management Level, through several Committees.

The Board - Governance Organization



* GM Corporate Affairs to report to the Board Compliance and Governance Committee for Corporate Governance, Compliance and Disclosure responsibilities.

Gulf Bank's Board of Directors is comprised of highly experienced, highly skilled, and well-respected individuals from a variety of professional and academic backgrounds. The Board members are fully committed to the Bank's long-term sustainability. The Directors are familiar with the Bank's business structure and operational procedures, allowing them to stay abreast of significant changes and act quickly to protect the Bank's long-term interests when necessary.

Gulf Bank's Board of Directors meets at least six times a year. In compliance with the latest amended CBK Corporate Governance regulations, The Board currently consists of eleven members. Among these, three members are independent. There are five Board Committees.

The Board of Directors is intended to accomplish the Bank's aspirations while always keeping shareholders' interests in mind. In accordance with the Corporate Governance Principles, the Board approves and oversees the implementation of the Bank's overall strategy, and it reviews the Bank's Corporate Governance framework on a regular basis to ensure its relevance in light of changes in the Bank's business strategy, scope of activities, and regulatory requirements. Along with Senior Management, the Board is also responsible for determining the Bank's risk appetite, considering the Bank's risk exposure and long-term objectives.

The Board members are properly and continuously trained to tackle the challenges that faces the Bank. Directors also receive comprehensive guidance from the Board Secretary on the Bank's governance framework and associated policies. During the year, the Board completed an in-house induction program and the members participated in several conferences and seminars about banking and financial activity.

Performance Evaluation

The Board undergoes a comprehensive performance evaluation annually. The evaluation is conducted with professional standards. This evaluation covers wide range of topics and include an assessment of individual Board Member's performance, skills, and expertise at Board level, succession planning, development of the Bank's strategy, and the form and content of management information provided to the Board. The evaluation also addresses training requirements. In 2021, the Board received professional development in several areas, including Corporate Governance, Fraud, latest trends on Information & Cyber Security and the threats, and Anti-Money Laundry (AML).

Board Overall Responsibilities

The Board of Directors assumes a comprehensive responsibility for the Bank's activity, including setting, overseeing, and monitoring the implementation of the Bank's strategic objectives, risk strategy and corporate governance. The Board is also responsible for overseeing the Executive Management's performance.

The Board's core responsibilities include the following:

- Monitor the Bank's business, financial soundness, and compliance with regulatory and legal requirements.
- Set out the Bank's strategic objectives and oversee the performance of the Executive Management.
- Preserve the interests of shareholders, depositors, creditors, employees, and other stakeholders.
- Approve the internal control framework and ensure its proper implementation.
- Ensure that transactions with related parties are properly reviewed and vetted prior to being carried out.
- Ensure that the Bank has adequate policies and processes in place for all areas of its activity.
- Disclose reliable and timely information to the shareholders with regard to the Bank's performance and forecasts.
- Set criteria for the evaluation, compensation, and succession for key management roles and
- Carry out a periodic review of the Corporate Governance practices to ensure their effectiveness.

The Board members take part in a series of training and continuing education programs. In addition to a formal induction program, the Board members receive regular bulletins designed to keep them abreast of industry progress relating to their duties and responsibilities.

The Chairman of the Board of Directors plays a key role in the proper functioning of the Board and maintenance of mutual trust among its members. He carries out the following:

- Ensure that Board decisions are made on a sound and well-informed basis.
- Oversee the implementation of the Whistle Blowing Policy and Program for the Bank.
- Build a constructive relationship between the Board and Executive Management.
- Ensure a high level of corporate governance in the Bank and
- Create a culture during Board meetings promoting constructive critique in case of divergent views and encourage discussion and voting in such cases.

Organization of the Board's Business

The Chairman, in consultation with Executive Management, proposes the items to be included to the agenda of the Board meeting.

The Board Secretary organizes the Board's business. The responsibility of the Board Secretary is to provide all stakeholders with confidence and comfort that the Bank is run openly. He also ensures that the Board members are provided with sufficient information and details well before the Board/ Committee meetings, enabling them to make enlightened decisions in respect of the matters to be discussed.

The Board Secretariat keeps a conflict of interest and related parties register which is annually updated by the Board Compliance and Governance Committee.

CORPORATE **GOVERNANCE**

The Board meets at least 6 times annually and at least once every quarter. The Board Secretary takes note of the Board's deliberations and resolutions. The Board Secretary, under the Chairman's supervision, is responsible for the follow- up on the implementation of Board resolutions.

Board Meetings and Attendance

During 2021, there were changes in the Board composition. In March 2021, The Board of Directors has been elected for the next tenor of three years' period, which nine non-independent members and three independent members were elected. In September 2021, an independent member has resigned (Mr. Manaf Al Hajery) and following the Board approval on the resignation, the Board summoned the independent reserve member (Mr. Talal Nasser Ali Al-Sayegh) in accordance with Article (192) of the Companies Law No. (1) of 2016, and Article (34) of the Bank's Articles of Association. Twice there was re-formation to the Board Committees during 2021.

The Board of Directors met regularly, and Directors received information between meetings about the Bank's activities and the activity of the Management Committees. In 2021, 8 Board meetings and 44 Board Committees meetings were held as detailed below:

	Board Meeting	Audit Committee	Risk Committee	Compliance and Governance Committee	Nomination and Remuneration Committee	Credit and Investment Committee
Number of meetings in 2021	8	8	5	2	4	25
Jassim Mustafa Boodai	8	*	*	2	*	25
Ali Morad Behbehani	5	*	*	*	1	*
Bader Nasser AlKharafi	7	*	5	*	*	*
Adnan Shihab-Eldin	8	7	*	2	*	*
Omar Hamad Youssef Al Essa	8	*	*	*	4	25
Fawaz Mohammad AlAwadhi	7	2	*	*	3	16
Barrak Abdulmohsen AlAsfour	8	*	4	*	*	*
Abdullah Sayer Bader Al Sayer	7**	5	*	*	*	*
Ahmad Mohammad AlBahar	8	*	1	*	4	*
Abdulrahman M. Al Taweel	7**	3	2	1	*	*
Talal Ali Nasser Al Sayegh	3*****	3	*	*	*	*
Manaf Abdulaziz Al Hajery	4****	*	2	*	*	*
Sayer Bader Al Sayer	1***	*	*	*	*	*
Ali Ibrahim Abdullah	1***	2***	*	1	*	*
Abdullateef Abdulaziz AlSharekh	1***	*	*	*	*	7

* Not a member of the committee.
** Joined the Board in March 2021
*** Left the Board in March 2021
**** Joined in March & Resigned in September 2021
***** Joined the Board in September 2021

The minutes of each meeting are part of the Bank's records.

All Board Committees have submitted quarterly updates to the Board about their respective activity.

Board Remuneration

The Board Nomination and Remuneration Committee recommended to the Board of Directors, subject to the approval of the shareholders at the Annual General Assembly Meeting, that the total remuneration of the Board of Directors for 2021 be equal to **KD 179.167 thousand** (2020: KD 113.542 thousand).

Board Committees' Structure

In line with the Governance regulations issued by the CBK, the Bank has in place five committees that assemble regularly to govern the Bank's activities. The committees are as following:

Board of Directors

Board Committees

The Board has established five committees: the Audit Committee, the Risk Committee, the Compliance and Governance Committee, the Nomination and Remuneration Committee and the Credit and Investment Committee (the "Committees"). Each Committee has a written bylaw. The Board expects to accomplish a substantial amount of its work through the Committees.

Each Committee shall report regularly to the Board, summarizing the Committee's actions and any significant issues considered by the Committee. Such reporting shall not be required if all committee members are present at the Committee meeting at which such actions or issues are considered. If any of the committee members is not present at the Committee meetings, they will be informed with respect to such actions or issues as appropriate. Each Committee shall be composed of no fewer than three members. Each Committee member must satisfy the membership and governance requirements set forth in the relevant Committee bylaw. A committee member may serve on more than one Committee.

I. Board Compliance and Governance Committee

a. Committee's Scope of Activity

The Board Compliance and Governance Committee (BCGC) is in charge of overseeing the overall structure of Corporate Governance in the Bank and ensuring compliance with relevant CBK Corporate Governance instructions. By implementing and monitoring processes to report any conflict of interest and related party transactions, the Committee ensures that depositors' and shareholders' interests are protected, and shareholders' obligations are met, while also taking into account the interests of other stakeholders.

b. Composition of the Committee

- Mr. Jassim Boodai, Committee Chairman
- Dr. Adnan Shihab-Eldin, Committee Deputy Chairman
- Dr. Abdulrahman Al Taweel, Committee Member
- Mr. Dari Al Bader, Committee Secretary

CORPORATE **GOVERNANCE**

c. Committee Meetings

The Board Compliance and Governance Committee convenes not less than twice per year. Consist of three non-executive members (including Independent Member) selected by Board of Directors. The presence of two members is required to hold a meeting.

d. Key Achievements in 2021

- Reviewed and assessed the adequacy of the Bank's Corporate Governance policies and Board practices.
- Reviewed and approved the Board Affairs Procedure Manual.
- Reviewed the approved the Annual Corporate Governance Report.
- Reviewed and approved the GM-Corporate Affairs Balanced Scorecard for 2021, and evaluated his annual performance for 2020.
- Reviewed the related parties' transactions and the conflict-of-interest reports.
- Reviewed Compliance and Disclosure Unit's activity for 2021 and approved their action plan for 2022.
- Reviewed the process of monitoring and reporting under the Whistleblowing policy.

e. Changes during the year

Subsequent to the re-formation of the Board committees on 27th March, 2021 following the elections, Mr. Jassim Boodai was appointed as the BCGC Chairman, Dr. Adnan Shihab-Eldin was appointed as BCGC Deputy Chairman, and Dr. Abdulrahman Al Taweel (Independent Member) was appointed as a BCGC Member.

II. Board Audit Committee

a. Committee's Scope of Activity

The Board Audit Committee (BAC) carries out its duties within the framework of governance principles and practices established by the Board of Directors. The Board Audit Committee promotes accountability of the key players and ensures that they perform in the best interest of the Bank and its shareholders to enhance shareholder value, considering the interests of other stakeholders. The Audit Committee's role is to assist the Board of Directors in fulfilling its oversight responsibilities. To this effect, the Board Audit Committee has been authorized to provide oversight and reasonable assurance on the financial reporting process and highlight the accounting issues of material impact on the financial statements, the integrity and adequacy of the Bank internal control and risk management system, Internal and external audit processes, effectiveness and assessment of performance, the Bank process for monitoring compliance with laws, regulations and code of conduct and, the Internal Audit function. The Board Audit Committee appraises the performance of the General manager/Chief Internal Auditor and recommends to the Board of Directors the nomination, termination, appointment, and remuneration of the external auditors. Since its effectiveness is directly linked to that of the Board of Directors, the Board Audit Committee works closely with Executive Management to obtain any information required to enhance the performance of the Board.

b. Composition of the Committee

- Mr. Talal Al Sayegh, Committee Chairman
- Dr. Adnan Shihab-Eldin, Committee Deputy Chairman
- Mr. Abdullah Al Sayer, Committee Member
- Mr. Dari Al Bader, Committee Secretary

c. Committee Meetings

The Board Audit Committee convenes once every three months or as needed, or at the request of its Chairman or its two members. Chaired by an Independent Director – selected by Board of Directors. The presence of two members is required to hold a meeting.

d. Key Achievements in 2021

- Monitored the activities of the Internal Audit Division, including review of its plans, strategies, procedures, follow-up activities, organizational structure and operation and staffing budgets.
- Approved the Internal Audit 3-Years strategic plan with related Key Performance Indicators (KPIs).
- Approved the Internal Audit updated three-year risk-based plan (2021 – 2023) and related update as well as reviewed the issues, action plans and recommendations set forth in the Internal Audit reports.
- Held private meetings with GM-Internal Audit, External Auditors and Bank Compliance and Disclosure Officer without the presence of Executive Management as per the regulatory requirements.
- Reviewed the scope and approach of External Auditor's audit plans for the year ending 31st December 2020.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed issues, action plan and recommendations set forth in the CBK mandated Internal Control Report.
- Reviewed and endorsed to the Board of Directors the revised Board Audit Committee By-laws/Charter.

e. Changes during the year

Subsequent to the re-formation of the Board committees on 27th March, 2021 following the elections, Dr. Abdulrahman Al Taweel was appointed as BAC Chairman, Dr. Adnan Shihab-Eldin was appointed as BAC Deputy Chairman and Mr. Abdullah Al Sayer was appointed as BAC Member. During September, and subsequent to the appointment of Mr. Talal Al Sayegh (Independent Board Member) replacing Mr. Manaf Al Hajery on the Board of Directors, Mr. Talal Al Sayegh was appointed as the BAC Chairman.

III. Board Risk Committee

a. Committee's Scope of Activity

The Board Risk Committee's (BRC) main duties are to provide oversight of the Bank's Risk Management, ensure autonomy of the Risk Management function and enhance the effectiveness of the Board of Directors monitoring of risk issues facing the bank. The Committee reviews significant risk exposures and provides the Board with an update on the Bank's current and future risk strategy and appetite and oversees the Executive Management's implementation of the strategy. The Committee evaluates the risk exposure, concentration and tolerance limits and has authority to approve the aggregate transactional and trading limits for extraordinary or new risks. Furthermore, the Committee reviews, on a quarterly basis, credit risks rated 6 or worse and exposures which constitute more than 10% of the Bank's capital. In addition, the Committee reviews any specific transaction or risk position and the impact analysis of any potential risks or changes in external environment that it deems relevant for the management of the risks facing the Bank and instructs actions to be taken to mitigate and manage risks to ensure conformity to the Bank's risk appetite. The committee on an ongoing basis reviews material Information & Cyber Security activities and events, and provides the Board with insight on the current status of the security programme's initiatives and activities.

b. Composition of the Committee

- Dr. Abdulrahman Al Taweel, Committee Chairman
- Mr. Bader AlKharafi, Committee Deputy Chairman
- Mr. Barrak AlAsfour, Committee Member
- Mr. Dari Al Bader, Committee Secretary

CORPORATE **GOVERNANCE**

c. Committee Meetings

The Board Risk Committee convenes not less than four times a year. Chaired by an Independent Director – selected by Board of Directors. The presence of two members is required to hold a meeting.

d. Key Achievements in 2021

- Reviewed the periodic risk management reports and risk dashboards and presented quarterly reports to the BoD.
- Reviewed and recommended the risk management, information and cyber security policies and risk committee bylaws for approval and ratification by the Board.
- Reviewed and recommended the Risk Appetite of the Bank for approval and ratification by the Board.
- Reviewed Information & Cyber Security Strategy & Objectives for approval and ratification by the Board.
- Reviewed and approved enhanced Operational Risk Management Strategy
- Reviewed and approved new risk indicators for monitoring Compliance, AML, Strategic, Information and Cyber Security risks.
- Reviewed summary of all credit approvals given by Credit Committees.
- Ensured appropriate organizational support and guidance was in place to achieve full CBK Cyber Framework compliance, including passing of the external independent audit for CBK with no gaps.
- Held meetings with the Chief Risk Officer without the presence of the Banks Executive Management.
- Periodically reviewed the status and provided guidance on significant projects including the ones related to enhancement of Cyber security of the Bank.
- Received in-depth training on the Bank's stress testing approaches and regulations.

e. Changes during the year

Subsequent to the re-formation of the Board committees on 27th March, 2021 following the elections, Mr. Manaf Al Hajery was appointed as BRC Chairman, Mr. Bader Al Kharafi was appointed as BRC Deputy Chairman and Mr. Barrak Al Asfour was appointed as BRC Member. During September, and subsequent to the resignation of Mr. Manaf Al Hajery (Independent Board Member & Committee Chairman) on 08th September 2021, Dr. Abdulrahman Al Taweel (Independent Member) was appointed as the BRC Chairman.

IV. Board Nomination and Remuneration Committee

a. Committee's Scope of Activity

The Board Nomination and Remuneration Committee (BNRC) is responsible for ensuring that all components of the granting financial remuneration framework serve the purpose of the purpose enhancing the effectiveness and management of the Bank's risk management. The Board Nomination and Remuneration Committee also submit recommendations to the Board of Directors (BoD) on the nomination of Board members. In line with the nomination committee's role, reviews are conducted of the nominated members' skills, capabilities and qualifications in accordance with the Bank's approved policies and standards, this takes place in adherence with the Central Bank of Kuwait's (CBK) instructions. The Committee conducts an annual review of the Board of Directors structure and draws 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 consistently knowledgeable of the latest banking updates and are fully capable of vetting the soundness of the principles and practices upon which remuneration is granted.

The BNRC, with the Board Risk Committee (BRC), review the compensation and benefits of members of the Executive Management (as specified by CBK), including the principles and criteria used to assess their annual performance. This also includes an evaluation of the authority of the board members and their leadership characteristics. In conducting its role, the Board Nomination and Remuneration Committee annually prepares and reviews the Remuneration Granting Policy to the Board of Directors.

b. Composition of the Committee

- Mr. Ahmad Al Bahar, Committee Chairman
- Mr. Omar Al Essa, Committee Deputy Chairman
- Dr. Fawaz Al Awadhi, Committee Member
- Mr. Dari Al Bader, Committee Secretary

c. Committee Meetings

The Board Nomination and Remuneration Committee convenes at least twice a year. Chaired by an Independent Director – selected by Board of Directors The presence of two members is required to achieve quorum and hold a meeting.

d. Key Achievements in 2021

- Endorsed and monitored the Kuwaitization plan for the Bank in line with the CBK issued mandate.
- Reviewed leadership succession plans closely in line with CBK recommendations and submitted to the Board for a resolution.
- Led the bank restructuring for optimization review.
- Recommended and approved executive compensation payouts and submitted recommendations to the Board for a resolution.
- Assessed Market Trends Study Reports and Compensation Results.
- Submitted recommendations to the Board in relation to salary increments and bonus payout for resolutions.
- Assessed the adequacy and effectiveness of Remuneration Policy.
- Completed third party audit of executive compensation.
- Approved and executed the plan for Board Effectiveness Assessment.

e. Changes during the year

Subsequent to the re-formation of the Board committees on 27th March, 2021 following the elections, Mr. Ahmad Al Bahar was appointed as the BNRC Chairman, Mr. Omar Al Essa was appointed as the BNRC Deputy Chairman, and Dr. Fawaz Al Awadhi was appointed as a BNRC Member.

V. Board Credit and Investment Committee

a. Committee's Scope of Activity

The BCIC is constituted of 3 board members and is chaired by the Chairman of the BoD. The overall purpose and scope of the Board Credit and Investment Committee (BCIC) that was formed in March 2018 are to review, approve, reject or modify or conditionally approve credit proposals exceeding the authority delegated to the Executive Credit Committee and up to the legal lending limit of the Bank, except credit facilities extended to the Bank's Board members as per CBK guidelines. BCIC is also empowered to approve all investments or divestments above the delegated authority of lower-level committees and discounts for settlements and write-offs for abandonment and discounts exceeding the authority delegated to the Executive Credit Committee. BCIC has also the authority to grant a credit delegation to the Executive Credit Committee.

b. Composition of the Committee

- Mr. Jassim Boodai, Committee Chairman
- Mr. Omar Al Essa, Committee Deputy Chairman
- Dr. Fawaz Al Awadhi, Committee Member
- Mr. Dari Al Bader, Committee Secretary

c. Committee Meetings

The Committee normally meets once in every two weeks or as and when required. At least 2 voting members are required to hold a meeting. Out of the two voting members, one must be the Chairman or the Deputy Chairman of the BCIC.

d. Key Achievements in 2021

- The approval of credit and investment proposals at the Board level has strengthened the Corporate Governance in line with the instructions and directives of the Central Bank of Kuwait and enhanced the efficiency and transparency of credit approval process.
- Approved large credit proposals that constitute the major portion of Bank's credit portfolio, including Bank limits and country limits.
- Approved settlement / recovery of several large remedial credits.
- Approved SME Rescue loan program and process flow in line with Central Bank of Kuwait guidelines.
- Approved Treasury limits in line with the Risk Appetite approved by the Board of Directors of the Bank and amendments in liquidity ratios based on Central Bank of Kuwait instructions.
- Reviewed Investment Portfolio of the Bank as per Central Bank guidelines and Gulf Bank Investment Policy.
- Approved ECC Bylaw amendments consequent to change in the voting members.

e. Changes During the Year

Subsequent to the re-formation of the Board committees on 27th March, 2021 following the elections, Mr. Jassim Boodai was appointed as the BCIC Chairman, Mr. Omar Al Essa was appointed as the BCIC Deputy Chairman, and Dr. Fawaz Al Awadhi was appointed as BCIC Member.

Executive Management Governance Structure

The modus operandi of Executive Governance is reflected in the committees operating at the Executive level. These include credit committees, risk committees and several other committees set out in the chart below:

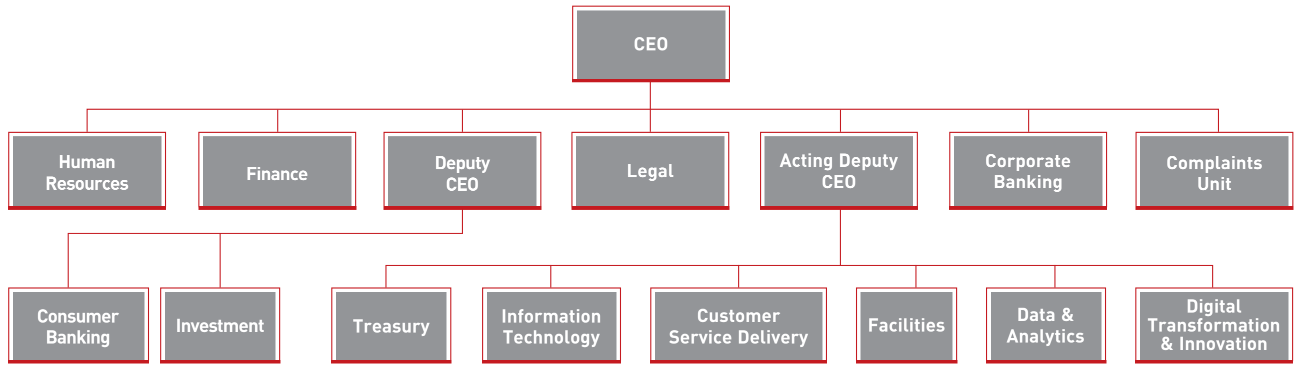
Credit Committees

- Executive Credit Committee
- Management Credit Committee
- Remedial Credit Committee
- Classification & Provisions Committee
- Consumer Banking Credit Committee
- Wealth Management Credit Committee

Management Committees

- Executive Risk Committee
- Asset & Liability Committee
- Fraudulent Cases Review Committee
- Internal Controls Governance Committee (ICGC)
- Technology Risk & Information Security (Sub-committee of ICGC)
- IT Steering Committee
- Policy and Procedure Committee
- Wealth Management Governance Committee
- Executive Product Committee
- Tender Committee
- Project Governance Committee
- Suspicious Transaction Reports Review Committee

Executive Management Organization



Succession Planning

The Board's Nomination and Remuneration Committee vetted the Bank's succession planning process for senior management to ensure transparency and satisfactory alignment with Bank strategy.

The succession plan is reviewed and approved by the Board of Directors with the purpose of identifying critical roles across the organization, which if not filled in a timely fashion would potentially place the organization at risk. Succession planning identifies a minimum of one successor for each key role.

Remuneration Policy

The Bank's Executive Remuneration is designed to attract, motivate and retain leadership responsible for strategic growth of the Bank while ensuring sustained shareholder value. Executive remuneration is intended to be based on a philosophy of 'Distinction to establish an ethos of 'Meritocracy', create a strong alignment between business performance and executive payout as well as compliance with Central Bank of Kuwait (CBK) and Capital Markets Authority (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, and internal mobility and differentiation based on performance and
- Is fair and equitable – ensures the mix of fixed and variable rewards that are relevant at the 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 undue and excessive risks.

The Remuneration policy is based on ensuring that the disclosure of payouts is 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 posture.

Salary Structure

The Bank seeks to recruit and retain employees in a manner that is externally competitive and internally adequate. The Bank's remuneration policy is applied consistently across all grades. The Bank's salary structure is designed to ensure internal and external salary equity, whilst providing flexibility to acknowledge different degrees of individual performance and acknowledge levels of responsibility.

Annual Merit Increment

The Bank shall review the performance of all employees on an annual basis and may award eligible employees a merit increment as agreed by the Management, effective 1st January of each calendar year.

Korn Ferry - Hay Group Job Evaluation

The Bank utilizes the Korn Ferry Hay Group Job Evaluation system which helps establish the relative value of jobs in the Bank to ensure a fair and equitable remuneration to incumbents holding various jobs in the organization based on a structured methodology of evaluating those jobs.

Promotion Increment

The Bank promotes competent and experienced employees when a position becomes available, and the incumbent meets the set criteria. The promotion will warrant an increase in the employee's basic salary and a change to allowances and benefits applicable to the new position. Such increments promote the culture of meritocracy.

The Remuneration Policy is fully compliant with regulatory requirements including application of "claw back" regulations that will allow the Bank to withhold payout of a part of the deferred compensation of key executives due to certain performance conditions not being met including misconduct, negligence, misstatement, exceeding credit approval and/or risk limits, and any other dubious business practices.

Employee Benefits

The Bank provides a range of employment related benefits. An employee may be eligible to certain benefits according to the eligibility criteria and job conditions, these include both Gulf Bank products/services at preferential terms, and non-Banking benefits in line with business needs and market practices.

Total Remuneration paid to senior management, material risk takers, risk management and financial & control functions: (2021/2020)

Total value of remuneration awards for the current fiscal year	2021 ***(Remuneration Amount KD Thousand)***		2020 *(Remuneration Amount KD Thousand)*	
	Unrestricted	Deferred	Unrestricted	Deferred
Fixed remuneration				
Cash - based	**3,390**	-	3,373	-
Shares and share-linked instruments	-	-	-	-
Other	-	-	-	-
Variable remuneration				
Cash - based	**1,122**	-	-	-
Shares and share-linked instruments	**-**	-	-	137
Other	**1,185**	-	763	-

Employee Categories	2021 ***(Remuneration Amount KD Thousand)***		2020 *(Remuneration Amount KD Thousand)*	
	Number of employees in the category	Total remuneration paid**	Number of employees in the category	Total remuneration paid**
*Senior Management	**17**	**3,967**	16	3,344
Material risk takers	**6**	**601**	5	271
Financial & Control functions	**9**	**1,129**	9	658

* The compensation of the senior management has been disclosed in note 23 to the financial statements.
** Includes actual cash paid plus estimated variable compensation.

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

The senior management include Chief Executive Officer, Deputy Chief Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and other business heads. Material risk takers are defined as executives whose activities have a material impact on the risk profile of the group.

The total remuneration paid to the top five senior executives was **KD1,961 thousand** (2020: KD 1,485 thousand).

The total remuneration paid to the Chief Executive Officer, Deputy Chief Executive Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor was **KD1,606 thousand** (2020: KD 1,135 thousand).

Compliance and Disclosure Unit

Due to the special nature of non-compliance risks, the Unit monitors the process of compliance with the laws, regulations, and instructions issued by CBK, CMA, Boursa Kuwait and the Ministry of Commerce and Industry, in addition to compliance with the resolutions and directives issued by the Board. The Unit advises the Board at first- hand on the degree of conformity of its resolutions with the regulatory authorities' instructions, and keeps them continuously updated on the latest developments, regulatory requirements, legislations, instructions and controls related to the bank's activities.

The Unit also enhances the Bank's compliance at all times with the organizational and legal/regulatory requirements related to disclosure and transparency, and ensures that all shareholders, investors and stakeholders are provided, in an accurate and timely manner, with all material information related to the Bank, including its financial position, performance, business results, any changes in the ownership or management of the Bank and any other matters as required under the rules and regulations issued in this regard, mainly under CBK Instructions on Corporate Governance related to Disclosure and Transparency, in addition to Resolution No. 72 of 2015 and the Executive Bylaw related to Law No. 7 of 2010 regarding the Establishment of Capital Markets Authority and the Regulation of Securities Activity, as amended.

The Bank ensures that consistent disclosure practices are applied and that the business community, including individual investors, have prompt and simultaneous access to the disclosed information.

Accordingly, the Bank has adopted a Disclosure and Transparency Policy setting forth the details of disclosure requirements and corporate responsibilities in that respect.

Insider Information

In accordance with regulatory authorities' instructions, the Bank set up clear board-approved policies and procedures for dealing with insider information, which prohibit employees, Executive Management, and members of the Board from using such information for personal gain or to trade or engage in any form of market manipulation or market abuse.

Code of Ethics

Gulf Bank's code of ethics is an integral component of the corporate governance framework and is complemented via the code of conduct. It is adhered to by the Board of Directors and Executive Management in their daily interactions with employees, customers, and other stakeholders.

Money Laundering

Money laundering is the process of using banks as vehicles to conceal the proceeds of criminal activity. Such activities are illegal, jeopardize a bank's integrity, harm its reputation, deter honest customers, and subject the bank to severe penalties.

Gulf Bank fully supports the international (legal and operational) campaign against this heinous crime and is committed to assisting authorities in the prevention of money laundering.

CORPORATE **GOVERNANCE**

Financing Terrorism

Financing Terrorism is any act by which any person provides, collects, or raises funds with the intention of using such funds to commit, or support the committing of, an act of terrorism directly, indirectly, willingly, or with the knowledge that such funds will be utilized, in whole or in part for such act, or in support of a terrorist organization or person.

Any of the acts stated in the preceding paragraph constitute a terrorism financing offense even if the act of terrorism is not finally committed or if the funds are not actually utilized. The country or territory in which the attempted or intended act of terrorism takes place is not relevant.

Gulf Bank fully supports the international convention, as well as the applicable Kuwaiti laws and Central Bank instructions, and will treat any activity that falls under the above definition by an employee or a customer as a serious offence, taking whatever action is deemed appropriate.

Conflict of Interest

Gulf Bank seeks to ensure that a conflict of interest does not adversely affect the interests of clients, the Bank, its shareholders or other stakeholders through the identification, prevention or management of any conflict of interest.

The Board ensures that executive management exercise high integrity and avoid conflict of interests. Also, the Board adopts controls to manage the transfer of information within various departments, to prevent using such information for personal gain. for that, Gulf Bank adopted a conflict-of-interest policy to ensure that all transactions are carried out at arms -length and transparently.

Confidentiality

In accordance with the rules and regulations issued by the Central Bank of Kuwait and other regulatory bodies, the Board of Directors, Executive Management and employees are committed to preserve the information security and the confidentiality of the data and information of the Bank, its customers, as well as data and information of other banks' customers and other stakeholders as per regulations.

Gulf Bank implements the necessary controls to ensure confidentiality of information as per the policies approved by the Board of Directors.

Whistle Blowing Policy

In compliance with CBK instructions, and further to the Bank's commitment towards the shareholders and third parties, and in pursuance of the highest ethics standards and business integrity requirements, the Bank established a "Whistle Blowing Policy" and a direct reporting channel to the Chairman. The policy aims at detecting any practices that fall out of the scope of laws, regulations, and sound professional conduct, so as to be remedied in a timely manner.

It is the employees' responsibility to speak up and report actual or potential suspicious and dishonest activities directly to Chairman of the Board of Directors, either via email, intranet or by letter.

Employees must report any suspected or presumed incidents of serious misconduct or behavior that violates the Bank's Code of Ethics and Conduct, policies, procedures, or any action by a Bank employee or any third party that is or could be harmful to the Bank's interests or reputation.

Those who report illegal or suspicious activities will be adequately protected, and their identities will be kept anonymous. They can express their concerns in complete confidentiality, and their names will not be revealed without their express permission.

Board Affairs Unit

The Board Affairs Unit oversees handling and managing all matters pertaining to the Board of Directors and its committees. The unit is in charge of creating agendas, scheduling meetings, and compiling minutes for the Board of Directors and its committees, as well as the Annual General Meeting of Shareholders. It also handles all issues pertaining to the Central Bank of Kuwait's Corporate Governance regulations.

The unit serves as a liaison and coordinator between the Board of Directors and Executive Management in matters pertaining to the implementation of the Board's policies and resolutions.

The Board Affairs unit also works with the Disclosure and Compliance Unit to ensure that the relevant instructions issued by the CBK, Capital Market Authority, Boursa Kuwait, and Ministry of Commerce and Industry are followed.

Investor Relations Unit

The Investor Relations (IR) Unit is dedicated to serving Gulf Bank's shareholders, credit rating agencies, analysts, and investors, locally and internationally. It is the main focal communication point and is responsible for the strategic management of promoting sustainable economic growth and establishing investor confidence in an effective two-way transparent communication between Gulf Bank, the financial community, and other constituencies. The efforts and commitment of our IR team significantly contributes to Gulf Bank's securities achieving fair valuation and strong credit ratings.

Gulf Bank frequently engages with its stakeholders, through the quarterly investor earnings call, attending investor conferences and conduct one-to-one meetings with existing and potential investors, managing the credit rating process of the Banks and producing the Annual Report.

Customer Complaints Unit

The Bank is eager to find appropriate solutions to customer complaints (individuals). To meet this goal, the bank established an independent unit specializing in customer service complaints in 2011, reporting directly to the CEO. The Unit has its own policies and procedures, as well as the necessary mechanisms to handle customer complaints in accordance with CBK instructions. The unit is also in charge of overseeing the implementation of the Customers Protection Manual, which ensures good performance and transparency in Gulf Bank's banking services provided to its customers.

The supervision over the implementation process of the Customer Protection Manual (CPM) alongside the activities of this unit enabled the Bank to successfully enhance satisfaction, protection, loyalty and trust of customers.

Related Party Transactions

Certain related parties (Major Shareholders, Board Members, and Officers of the Bank, as well as their families and companies in which they are the primary owners) are customers of the Bank in the ordinary course of business.

The Bank has in place robust processes for identifying, assessing, monitoring, and reporting the bank's exposures to related parties. These transactions are concluded at arm's length and on substantially the same terms as comparable transactions with unrelated parties.

The Board of Directors is provided with details of all transactions in which a Director and/or related parties may have actual or potential conflicts. Where a Director is interested, he or she does not participate in the discussion or vote on such issues. The Bank's policy is, to the greatest extent possible, to conduct transactions with related parties on arm's length terms and in accordance with applicable laws and regulations.

The details of such transactions are provided in Note 23 of the Financial Statements.

CORPORATE **GOVERNANCE**

Major Shareholders

Gulf Bank is listed in Boursa Kuwait, under Premier Market. Please refer to Gulf Bank's page at the official website of Boursa Kuwait (www.boursakuwait.com.kw) for the list of major shareholder(s) who own or have control over 5% of the Bank's share capital.

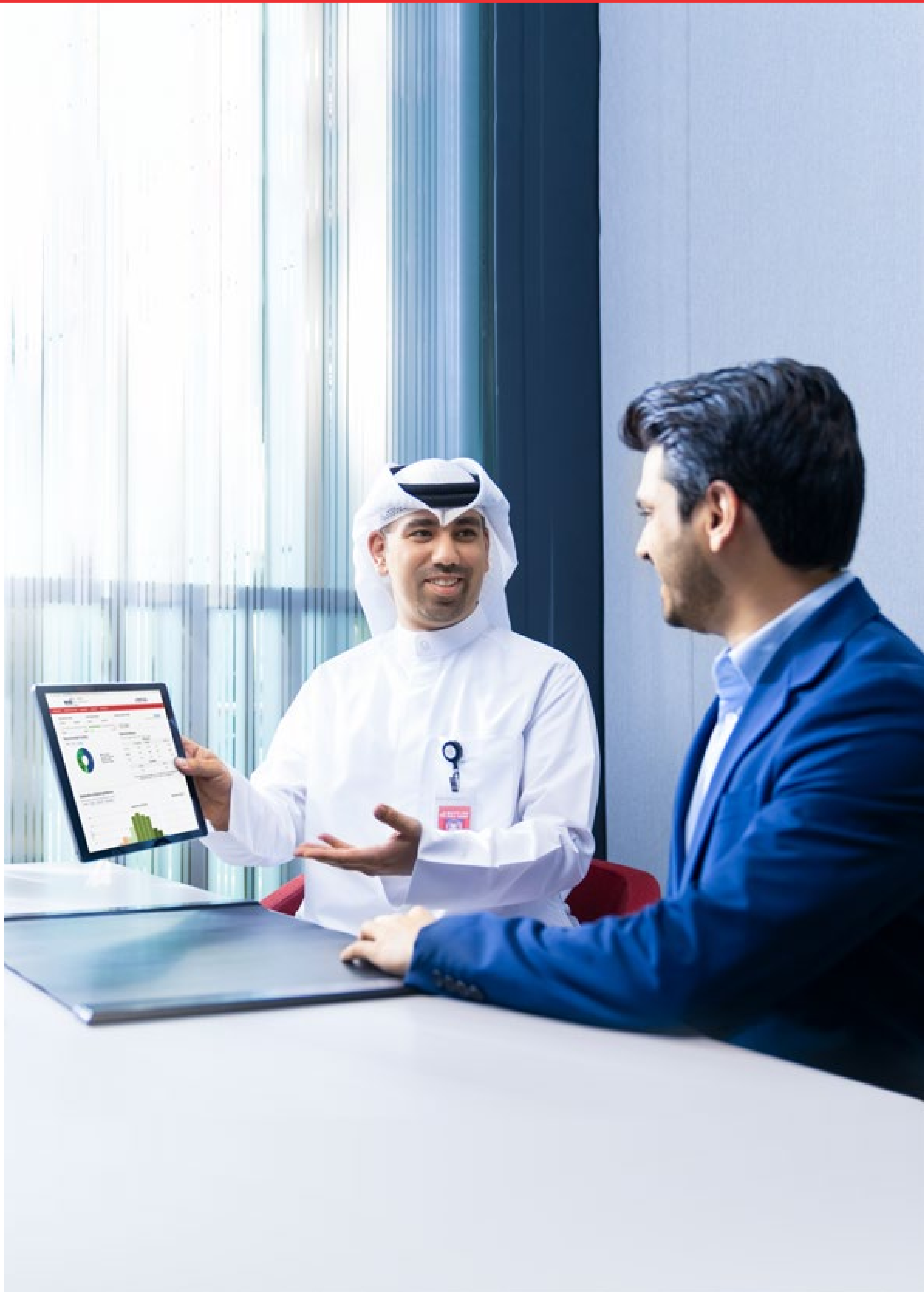
Adequacy of Internal Control Systems

The Board of Directors, further to CBK rules and instructions issued in June 2012, November, 2016 and revised guidelines issued in September, 2019, declares and certifies that it has reviewed the internal control systems in place and confirmed their effectiveness and adequacy.

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 in this respect to the Executive Management. The Executive Management is responsible for the establishment and maintenance of the Internal Control Systems. The Executive management is also responsible for the ongoing improvements to the 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 the following:

- Existence of appropriate Board approved policies and Executive Management approved procedures, which are subject to regular reviews and updates, to validate applicability and sufficiency.
- Existence of several Board level and Management Level which monitor all significant areas and activity.
- Existence of 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.
- Existence of an independent review process by Internal Audit Group, which assesses the Bank's as per its mandate including independent assurance and evaluation of the appropriateness of design & operating effectiveness of governance, systems controls, risk management and internal controls to monitor, manage and mitigate the Bank's key risks and its related processes, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risks, verifies and assesses the adequacy and effectiveness of the internal control system and reports significant issues and control gaps with the Management agreed actions, to the Board Audit Committee and the Board of Directors.
- Existence of independent control reviews on financial accounting records and statements by External Auditors as per the requirement of local laws and regulations and submit such audit reports in the form of Management letters to Board of Directors and CBK.
- Existence of a comprehensive independent Internal Control Review process, performed annually through an international audit firm (other than the external auditors), as per the requirement of CBK, which identifies and reports any internal control deficiencies along with a Management action plan, to address such issues. The latest report was issued in June, 2021 and included no significant findings (Annexure-A). A summary of ICR report for the year ended 31st December, 2020 was presented to the Board Audit Committee and Board of Directors during 2021 and was reviewed and approved by the latter. The external audit firm has conducted a follow-up review as at 30/09/2021 and 31/12/2021 to ascertain corrective actions to its findings as per CBK requirements.
- The Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports, Central Bank audit reports, Management Letters, Internal Control Review reports and monitors periodically the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.



INTERNAL CONTROL SYSTEMS **REPORT**

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Board of Directors,
Gulf Bank K.S.C.P,
P.O Box: 3200, Safat 13032,
Kuwait
27th June, 2021
Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 3 February 2021, we have examined the accounting and other records and internal control systems of Gulf Bank K.S.C.P, for the year ended 31 December 2020.

We covered the following processes of the Bank:

- Corporate Governance
- Consumer Banking
- Corporate Banking
- Treasury
- Investments
- Legal Affairs
- Compliance
- Anti-Money Laundering
- Securities Activities
- Fraud Prevention and Control
- Risk Management
- Customer Complaints
- Operations
- Finance
- Information Technology
- Human Resources
- Facilities Management
- Internal Audit
- Prevention of Confidentiality of Customer Information and Data

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 7 January 2021 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

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 and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition, that key 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 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.

Having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2020, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

a) the accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 7 January 2021,

b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2020, and

c) the actions taken by the Bank to address the findings referred in the report, including previous years findings, are satisfactory.

Yours faithfully,

Sanjeev Agarwal

Managing Director

Protiviti Member Firm Kuwait WLL

STRATEGIC REVIEW
BUSINESS OVERVIEW
GOVERNANCE
FINANCIAL STATEMENT

CAPITAL MANAGEMENT AND **ALLOCATION**

Capital Structure

In accordance with the Central Bank of Kuwait (CBK) guidelines (CBK circular No.2/RB,RBA/336/2014), the Kuwaiti banks must maintain a minimum capital adequacy ratio of 13% and minimum Tier 1 ratio of 11% . Tier 1 capital comprises of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital.

Gulf Bank K.S.C.P. (the "Bank") CET1 comprises of paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares. The Bank's Tier 2 comprises of allowed portion of general provisions (1.25% of the credit risk weighted assets) and subordinated Tier 2 bonds. The Bank has been identified as a Domestic Systemically Important bank (D-SIB) and is required to hold additional Common Equity Tier 1 capital (CET1) of 1% (2020: 1%). Further to support COVID -19 measures, the Bank is required to maintain a minimum capital adequacy ratio of 11.5% (2020: 11.5%) and a minimum Tier 1 ratio of 9.5% (2020: 9.5%).

Support measures on Covid-19

On April 2, 2020, the CBK issued the Circular No. 2/BS/IBS/454/2020 (the Circular) to provide support measures on Covid-19. The CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers.

Capital Conservation Buffer

As per the Circular, the Capital Conservation Buffer requirement of 2.5% in the form of CET1 has been released. Accordingly the minimum capital requirement has been reduced from 14% to 11.5% (including 1% D-SIB); minimum Tier1 capital requirements from 12% to 9.5% (including 1% D-SIB) and minimum CET1 requirements from 11.5% to 8% (including 1% D-SIB).

Further the CBK Circular No 2/BS/IBS/488/2021 dated 11 October 2021 details the phased plan to withdraw the relaxed capital ratios from 1 January 2022 and 1 January 2023. Accordingly, the minimum capital requirement will increase from 11.5% to 12.5% (including 1% DSIB), minimum Tier 1 capital requirements from 9.5% to 10.5% (including 1% DSIB) and minimum CET1 requirements from 8% to 9% (including 1% DSIB) from 1 January 2022 onwards. The following year from 1 January 2023 onwards, the minimum capital requirement will increase from 12.5% to 14% (including 1% DSIB), minimum Tier 1 capital requirements from 10.5% to 12% (including 1% DSIB) and minimum CET1 requirements 9% to 10.5% (including DSIB).

SME definition and risk weights

As per the Circular, the definition of SMEs has been standardized in accordance with the definition contained under Law No. (98) of 2013 on the Establishment of the National Fund for Small and Medium Enterprises Development, amended under Law No. (14) of 2018, its executive bylaw and amendments. Risk weight applied on exposure to SME portfolio has been reduced from 75% to 25%.The CBK Circular No 2/BS/IBS/488/2021 dated 11 October 2021 maintains the relaxed risk weight of 25% for SMEs.

2020-Consumer and instalment loans deferral

During the year 2020 in response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals are considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42,212 thousand arising from the modification of contractual cash-flows. The modification loss is charged to retained earnings in 2020 instead of income statement as required by IFRS 9 Financial Instruments in accordance with the CBK Circular No. 2/BS/IBS/461/2020.

As per the Circular, for the purpose of Capital Base, this loss will be included in retained earnings over the period of four years starting from the year 2021 until 2024. Accoringly the Bank has excluded the modification day 1 loss of **KD 31,659 thousand** (2020 KD 42,212 thousand) arising from loan deferral scheme from retained earnings.

The table below details the regulatory capital for the Bank as at 31 December 2021 and 31 December 2020: **(KD Million)**

Composition of Capital	31-Dec-21	31-Dec-20	Variance
Common Equity Tier 1 Capital: instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**473.1**	457.8	15.2
Retained earnings	**176.1**	182.3	(6.2)
Accumulated other comprehensive income (and other reserves)	**67.1**	64.0	3.1
Common Equity Tier 1 capital before regulatory adjustments	**716.3**	704.1	12.2
Common Equity Tier 1 Capital : regulatory adjustments	**-**	-	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(18.2)**	(24.5)	6.4
Total regulatory adjustments to Common equity Tier 1	**(18.2)**	(24.5)	6.4
Common Equity Tier 1 capital (CET1)	**698.2**	679.6	18.6
Additional Tier 1 capital : instruments	**-**	-	-
Additional Tier 1 capital : regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**698.2**	679.6	18.6
Tier 2 capital: instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	**50.0**	100.0	(50.0)
General provisions included in Tier 2 capital	**58.9**	55.5	3.4
Tier 2 capital before regulatory adjustments	**108.9**	155.5	(46.6)
Tier 2 capital: regulatory adjustments	**-**	-	-
Tier 2 capital	**108.9**	155.5	(46.6)
Total capital (TC= T1+T2)	**807.1**	835.1	(28.1)
Total risk weighted assets	**4,827.7**	4,576.1	251.6

CAPITAL MANAGEMENT AND ALLOCATION

(KD Million)

Composition of Capital	**31-Dec-21**	31-Dec-20	Variance
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**14.5%**	14.9%	-0.4%
Tier 1 (as a percentage of risk weighted assets)	**14.5%**	14.9%	-0.4%
Total capital (as a percentage of risk weighted assets)	**16.7%**	18.3%	-1.6%
Institution specific buffer requirement(minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	**8%**	8%	-
of which : capital conservation buffer requirement	**0.0%**	0.0%	0.0%
of which : bank specific countercyclical buffer requirement	**-**	-	-
of which : D-SIB buffer requirement	**1.0%**	1.0%	0.0%
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**7.5%**	7.9%	-0.4%
National minima	**-**	-	-
National Common Equity Tier 1 minimum ratio	**8.0%**	8.0%	0.0%
National Tier 1 minimum ratio	**9.5%**	9.5%	0.0%
National total capital minimum ratio excluding CCY and DSIB buffers	**10.5%**	10.5%	0.0%
Amounts below the thresholds for deduction (before risk weighting)	**-**	-	-
Non-significant investments in the capital of other financials	**-**	-	-
Significant investments in the common stock of financials	**-**	-	-
Mortgage servicing rights(net of related tax liability)	**-**	-	-
Deferred tax assets arising from temporary differences(net of related tax liability)	**-**	-	-
Applicable caps on the inclusion of provisions in Tier 2	**-**	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**262.6**	259.0	3.6
Cap on inclusion of provisions in Tier 2 under standardized approach	**58.9**	55.5	3.4
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-	-
Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-	-

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 other balance sheet items, off-balance-sheet facilities and trading (i.e. market risk) activities, and the Bank's future dividend policy.

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.

The following table below details the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank as at 31 December 2021 and 31 December 2020: (KD Million)

Credit Risk Exposures	**31-Dec-21**	31-Dec-20	Variance
Credit risk weighted assets	**4,713.0**	4,442.9	270.0
Less: Excess general provision	**(203.7)**	(203.4)	(0.2)
Net credit risk weighted exposures	**4,509.3**	4,239.5	269.8
Market risk weighted assets	**1.7**	2.1	(0.4)
Operational risk weighted exposures	**316.7**	334.5	(17.8)
Total Risk Weighted exposures	**4,827.7**	4,576.1	251.6

Regulatory Capital requirement at 10.50% **(KD Million)**

Credit Risk	**31-Dec-21**	31-Dec-20	Variance
Cash items	**-**	-	-
Claims on sovereigns	**5.8**	3.6	2.2
Claims on sovereigns	**10.6**	5.5	5.1
Claims on public sector entities (PSEs)	**0.0**	0.6	(0.6)
Claims on banks	**40.4**	34.6	5.9
Claims on corporates	**233.7**	230.5	3.3
Regulatory retail exposures	**167.9**	152.0	15.9
Past due exposures	**3.3**	4.3	(1.0)
Other exposures	**33.1**	35.4	(2.3)
Capital requirement for credit risk	**494.9**	466.5	28.4
Less: Excess general provision	**(21.4)**	(21.4)	(0.0)
Capital requirement for net Credit Risk	**473.5**	445.1	28.4

CAPITAL MANAGEMENT AND ALLOCATION

(KD Million)

Market Risk	31-Dec-21	31-Dec-20	Variance
Interest rate position risk	-	-	-
Foreign exchange risk	0.2	0.2	(0.0)
Capital requirement for market risk	**0.2**	0.2	(0.0)
Capital requirement for operational risk	**33.3**	35.1	(1.9)
Additional capital requirement (DSIB @ 1%)	**48.3**	45.8	2.5
TOTAL CAPITAL REQUIREMENT	**555.2**	526.2	29.0

Capital adequacy ratios (per cent)	31-Dec-21	31-Dec-20	Variance
Tier 1 ratio	**14.5%**	14.9%	-0.4%
Total capital adequacy ratio	**16.7%**	18.3%	-1.6%

The total risk-weighted exposure as at 31 December 2021 is **KD 4,827.7 million** (2020: KD 4,576.1 million), requiring a total capital at **11.5%** (2020: 11.5%) including 1% DSIB, of **KD 555.2 million** (2020: KD 526.2 million).

The Bank's regulatory capital as at 31 December 2021 is **KD 807.1 million** (2020: KD 835.1 million), translating to a capital adequacy ratio of **16.72%** (2020: 18.25%).

RISK **MANAGEMENT**

Organization of Governance and Risk Management

The Risk Management policies and risk appetite, approved by the Board provides the necessary framework on risk management approach, objectives, management and organization structure. The risk management policies and procedures are periodically reviewed and where necessary, modified and enhanced to reflect changes in products and the market.

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 to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of the Risk function of the Bank. The BRC reviews and recommends all risk management policies and risk appetite for the Board of Directors (BOD) approval. BRC reviews all high risk, large and any exposures which do not meet normal lending criteria. The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee. The Bank has also constituted an Executive Risk Committee (ERC), co-chaired by the Chief Executive Officer (CEO) and the CRO, which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

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 and its subsequent amendments in September 2019 as announced by the CBK. 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.

Risk Appetite and Portfolio Strategy

The Bank maintains a strong risk management culture and manages the risk/reward relationship within and across each of the Bank's lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to material asset valuation and earnings volatility.

The Bank has 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 Executive Risk Committee and Board Risk Committee. The Risk Appetite document is periodically reviewed and amended in line with market and economic factors. The Bank has a detailed credit policy approved by the Board and periodically revised in response to changes in risk and market conditions.

The Credit Policy Manual sets out the guiding principles and credit risk standards governing extension of credit to provide a structure around which the banking business must be based and ensure a consistent approach to all its lending activities. It also defines the policy on acceptable country risk exposure. The individual country limits are approved and reviewed by the Board Credit and Investment Committee (BCIC) which is the highest credit approving committee delegated by the Board of Directors within CBK guidelines.

The Bank classifies its exposure as per North American Industry Classification System (NAICS) Code. Such classification is in addition to the classification based on purpose codes as defined by CBK. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any. The Bank uses a credit rating model to rate corporate credit facilities to facilitate credit decisions and credit monitoring. In addition, the Bank computes a weighted average Portfolio Risk Rating through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the ERC as well as in the BRC.

RISK MANAGEMENT

RAROC (Risk Adjusted Return on Capital) Model is in use in the Bank to assess the net value created in the account after taking into account the cost of capital. The Model helps to make right credit decisions and create shareholder value.

The Internal Capital Adequacy Assessment Process ('ICAAP')

The Internal Capital Adequacy Assessment Process ('ICAAP') identifies, measures, aggregates and monitors the Bank's risks and enables the Bank to maintain an appropriate level of internal capital in relation to the Bank's overall risk profile and business plan. The Bank carries out an assessment of material risks such as Credit, Market, Operational, Credit Concentration (sector and name concentration) risk, Interest Rate risk, Liquidity risk, Legal risk, Reputational risk etc., as part of the ICAAP process. The Bank also runs a Stress Testing analysis to measure the impact on the value of collateral, income streams, downgrades of lending portfolio etc. over a one year horizon for three plausible stress scenarios (mild, medium and severe).

The capital allocation for each of the risks and stress testing results ar e reviewed and discussed at ERC and BRC meetings to ensure sufficient capital is allocated for each risk, keeping in view both macro and micro economic factors.

The Capital Adequacy Ratio under Pillar 1 (Basel III) as on 31 December 2021 is **16.72%** (2020: 18.25%) and the corresponding Capital Adequacy Ratio under ICAAP is 15.24% (2020: 16.64%).

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. The BOD has delegated all authority (except credit facilities to Board members and related names) for credit decisions to Board Credit and Investment Committee ("BCIC") who in turn can delegate its authority to Executive Credit Committee ("ECC") as stipulated by the Board of Directors within the CBK guidelines. 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 values or prices, including currency rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios (assets and financial instruments).

The Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis, as well as its holdings of financial assets and liabilities. The Treasury group manages the Bank's foreign exchange, interest rate risk and liquidity risks. The Investments group monitors the equity market risk for proprietary investment portfolio. Limits are to ensure that the Bank's market risk is managed within the overall CBK regulatory guidelines and internal limits set by the Bank's Risk Appetite. Interest rate, currency and liquidity mismatches are monitored constantly by the Treasury group and regularly reviewed by ALCO.

The Bank's primary treasury business involves foreign exchange transactions on behalf of corporate customers. Customer transactions are mostly 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.

Money Market activities are 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 material 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 as well as a portfolio of mostly GCC sovereign bonds denominated in USD to manage surplus 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.

Currency Risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. Note 24 (C) to the financial statements explains currency risk in detail.

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 or future cash flows of the financial instruments. The Bank monitors the impacts on the net interest income for a 12 month period as well as the change in economic value of the assets and liabilities under various interest rate scenarios. Note 24 (B) to the financial statements outlines the sensitivity of the Bank's net interest income to interest rate changes.

Equity Risk (Banking Book)

The Investments group is responsible for managing the proprietary investment securities portfolio in the Banking (i.e. non-trading) book. The Bank complies with all Investment related limits mandated by CBK.

Equity investments are classified as 'Fair value through other comprehensive income' ('FVOCI'). The accounting classifications and fair value measurements are disclosed in the significant accounting policies note to the financial statements. The types and accounting classifications of investments are disclosed in Note 13 of the financial statements.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. 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 the failure of people, processes or technology or the impact of external events. It includes fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events.

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.

The Bank's Operational Risk Management framework encompasses Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRI's). The Bank has an Incident reporting mechanism, whereby control failures are internally reported, the root causes identified and appropriate remedial measures are implemented in a timely manner. The Bank collates internal operational loss information and the data facilitates the Bank to put in place appropriate controls to prevent incidence of such losses in future. The Bank uses the Risk Nucleus Operational Risk solution for the purpose of monitoring operational risk. Note 24 (E) to the financial statements provides additional information on the Bank's operational risk management framework.

RISK MANAGEMENT

Credit Risk Exposure

The Bank uses the Moody's Risk Rating system for risk rating its credit exposures. Note 24 (A) 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) as of 31 December 2021 and 31 December 2020 are 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-21	31-Dec-20	Variance
Funded Gross Credit Exposure	**6,814.4**	6,367.4	447.0
Unfunded Gross Credit Exposure	**1,467.8**	1,393.5	74.3
Total Gross Credit Risk Exposure	**8,282.2**	7,760.9	521.3

Funded gross credit risk exposure as of 31 December 2021 is **82%** (2020: 82%) 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 2021 and 31 December 2020 are detailed below:

Funded and Unfunded credit facilities (Average) as at 31 December **(KD Thousands)**

	2021			2020		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**52,732**	**-**	**52,732**	52,614	-	52,614
Claims on sovereigns	**904,400**	**101**	**904,501**	925,976	991	926,967
Claims on PSEs	**300,052**	**22,560**	**322,612**	276,712	12,672	289,384
Claims on MDBs	**5,386**	**-**	**5,386**	11,523	-	11,523
Claims on banks	**872,446**	**262,120**	**1,134,566**	806,807	287,530	1,094,337
Claims on corporates	**2,313,421**	**1,120,879**	**3,434,300**	2,323,256	1,101,851	3,425,107
Retail exposures	**1,657,668**	**485**	**1,658,153**	1,560,193	13,281	1,573,474
Past due exposures	**49,554**	**6,580**	**56,134**	53,336	4,060	57,396
Other exposures	**341,415**	**249**	**341,664**	350,941	328	351,269
Total	**6,497,074**	**1,412,974**	**7,910,048**	6,361,358	1,420,713	7,782,071

Average funded gross credit risk exposure for 2021 is **82.14%** (2020: 81.74%) 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 2020 to 31 December 2021 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 2021 and 31 December 2020 are shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2021 - Region wise **(KD Thousands)**

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**59,057**	**-**	**-**	**-**	**-**	**-**	**59,057**
Claims on sovereigns	**830,966**	**149,872**	**-**	**-**	**-**	**-**	**980,838**
Claims on PSEs	**197,028**	**194,833**	**-**	**-**	**-**	**-**	**391,861**
Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Claims on banks	**66,961**	**693,201**	**148,079**	**64,414**	**169,460**	**15,131**	**1,157,246**
Claims on corporates	**3,125,366**	**287,613**	**88,849**	**9,754**	**40,075**	**1,651**	**3,553,308**
Retail exposures	**1,751,218**	**843**	**287**	**62**	**497**	**482**	**1,753,389**
Past due exposures	**31,103**	**9,271**	**-**	**-**	**-**	**-**	**40,374**
Other exposures	**343,743**	**2,170**	**183**	**-**	**-**	**-**	**346,096**
Total	**6,405,442**	**1,337,803**	**237,398**	**74,230**	**210,032**	**17,264**	**8,282,169**
Percentage of gross credit risk exposure by geographical region	**77.2%**	**16.2%**	**2.9%**	**0.9%**	**2.5%**	**0.2%**	**100%**

Total gross credit risk exposures as at 31 December 2020 - Region wise (KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	51,355	-	-	-	-	-	51,355
Claims on sovereigns	842,768	112,989	-	-	-	-	955,757
Claims on PSEs	202,191	98,646	-	-	-	-	300,837
Claims on MDBs	-	-	-	-	-	11,422	11,422
Claims on banks	58,545	458,557	394,242	41,401	170,953	8,689	1,132,387
Claims on corporates	2,977,689	179,176	82,728	9,743	55,734	7,142	3,312,212
Retail exposures	1,606,278	667	298	80	321	417	1,608,061
Past due exposures	50,627	-	-	-	-	-	50,627
Other exposures	333,544	4,280	294	-	-	130	338,248
Total	6,122,997	854,315	477,562	51,224	227,008	27,800	7,760,906
Percentage of gross credit risk exposure by geographical region	78.8%	11.0%	6.2%	0.7%	2.9%	0.4%	100%

The majority of the Bank's credit exposure is in Kuwait which comprises **KD 6.41 billion** (77% of total gross credit exposure) at 31 December 2021, compared with KD 6.12 billion (79% of total gross credit exposure) at 31 December 2020.

RISK MANAGEMENT

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2021 and 2020, broken down by geographical region and standard credit risk portfolio are shown below:

Total gross credit risk exposures as at 31 December 2021 (Average) - Region wise **(KD Thousands)**

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	52,732	-	-	-	-	-	52,732
Claims on sovereigns	779,425	125,076	-	-	-	-	904,501
Claims on PSEs	203,868	118,744	-	-	-	-	322,612
Claims on MDBs	-	-	-	-	-	5,386	5,386
Claims on banks	51,457	591,506	255,247	63,845	163,717	8,794	1,134,566
Claims on corporates	3,030,709	248,975	84,154	9,807	54,378	6,277	3,434,300
Regulatory retail exposures	1,656,609	551	62	67	421	443	1,658,153
Past due exposures	53,128	3,006	-	-	-	-	56,134
Other exposures	339,182	2,277	195	-	-	10	341,664
Total	6,167,110	1,090,135	339,658	73,719	218,516	20,910	7,910,048
Percentage of gross credit risk exposure by geographical region	78.0%	13.8%	4.3%	0.9%	2.8%	0.3%	100%

Total gross credit risk exposures as at 31 December 2020 (Average) - Region wise (KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	52,614	-	-	-	-	-	52,614
Claims on sovereigns	815,175	111,792	-	-	-	-	926,967
Claims on PSEs	182,995	106,389	-	-	-	-	289,384
Claims on MDBs	-	-	-	-	-	11,523	11,523
Claims on banks	63,321	514,263	268,563	44,268	189,916	14,006	1,094,337
Claims on corporates	3,067,691	263,574	46,952	9,839	29,360	7,691	3,425,107
Regulatory retail exposures	1,571,532	746	374	88	363	371	1,573,474
Past due exposures	57,396	-	-	-	-	-	57,396
Other exposures	348,599	2,359	301	-	-	10	351,269
Total	6,159,323	999,123	316,190	54,195	219,639	33,601	7,782,071
Percentage of gross credit risk exposure by geographical region	79.2%	12.8%	4.1%	0.7%	2.8%	0.4%	100%

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 2021 and 31 December 2020 are shown below:

Total gross credit risk exposures as at 31 December 2021- Industry wise **(KD Thousands)**

	Personal	Financial	Trade & commerce	Crude oil & gas	Constr-uction	Manufa-cturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	59,057	59,057
Claims on sovereigns	-	189,486	-	-	-	-	-	791,352	980,838
Claims on PSEs	-	40,940	-	225,975	-	-	-	124,946	391,861
Claims on MDBs	-	-	-	-	-	-	-	-	-
Claims on banks	-	1,157,246	-	-	-	-	-	-	1,157,246
Claims on corporates	263,952	175,907	792,286	207,521	639,574	350,773	632,376	490,919	3,553,308
Regulatory retail exposures	1,747,930	6	-	-	-	-	-	5,453	1,753,389
Past due exposures	10,279	44	18	49	20,300	-	9,463	221	40,374
Other exposures	40,693	-	-	-	145	-	140,611	164,648	346,097
Total	2,062,854	1,563,629	792,304	433,545	660,019	350,773	782,450	1,636,595	8,282,169
Percentage of gross credit risk exposure by industry segment	24.9%	18.9%	9.6%	5.2%	8.0%	4.2%	9.4 %	19.8%	100%

Total gross credit risk exposures as at 31 December 2020- Industry wise (KD Thousands)

	Personal	Financial	Trade & commerce	Crude oil & gas	Constr-uction	Manufa-cturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	51,355	51,355
Claims on sovereigns	-	217,108	-	-	-	-	-	738,649	955,757
Claims on PSEs	-	22,917	-	191,410	-	-	-	86,510	300,837
Claims on MDBs	-	11,422	-	-	-	-	-	-	11,422
Claims on banks	-	1,132,387	-	-	-	-	-	-	1,132,387
Claims on corporates	223,822	201,151	688,890	169,845	661,400	314,972	575,001	477,131	3,312,212
Regulatory retail exposures	1,606,811	210	654	-	225	6	-	155	1,608,061
Past due exposures	773	28	5,519	49	25,486	-	18,149	623	50,627
Other exposures	30,117	-	-	-	-	-	146,257	161,874	338,248
Total	1,861,523	1,585,223	695,063	361,304	687,111	314,978	739,407	1,516,297	7,760,906
Percentage of gross credit risk exposure by industry segment	23.9%	20.4%	9.0%	4.7%	8.9%	4.1%	9.5%	19.5%	100%

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 2021 and 31 December 2020 are shown below:

Total gross credit risk exposures as at 31 December 2021 **(KD Thousands)**

	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	59,057	-	-	-	-	-	59,057
Claims on sovereigns	525,988	146,557	122,074	39,583	77,895	68,741	980,838
Claims on PSEs	4,459	9,006	122	2,719	117,181	258,374	391,861
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	480,854	177,364	45,635	102,183	312,629	38,581	1,157,246
Claims on corporates	358,641	668,770	302,535	647,765	661,457	914,140	3,553,308
Regulatory retail exposures	47,794	8,151	7,044	16,417	111,784	1,562,199	1,753,389
Past due exposures	15,389	366	57	5,882	2,321	16,359	40,374
Other exposures	135,696	91,212	36,993	50,262	1,191	30,743	346,097
Total	1,627,878	1,101,426	514,460	864,811	1,284,458	2,889,136	8,282,169
Percentage of gross credit risk exposure by residual maturity	19.7%	13.3%	6.2%	10.4%	15.5%	34.9%	100%

Total gross credit risk exposures as at 31 December 2020 (KD Thousands)

	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	51,355	-	-	-	-	-	51,355
Claims on sovereigns	506,277	126,533	127,689	23,029	109,023	63,206	955,757
Claims on PSEs	11,159	13,771	8,396	3	52,156	215,352	300,837
Claims on MDBs	-	-	-	11,422	-	-	11,422
Claims on banks	656,881	44,033	42,851	77,311	228,526	82,785	1,132,387
Claims on corporates	269,091	796,937	361,466	442,700	736,576	705,442	3,312,212
Regulatory retail exposures	76,622	16,109	11,175	19,513	106,864	1,377,778	1,608,061
Past due exposures	33,668	4,942	66	220	11,524	207	50,627
Other exposures	137,198	87,859	7,624	68,419	8,028	29,120	338,248
Total	1,742,251	1,090,184	559,267	642,617	1,252,697	2,473,890	7,760,906
Percentage of gross credit risk exposure by residual maturity	22.5%	14.0%	7.2%	8.3%	16.1%	31.9%	100%

Impaired Loans and Provisions

Impaired Loans and Provisions by Industry Segments

Impairment on credit facilities shall be recognised in the statement of financial position at an amount equal to the higher of Expected Credit Losses under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. The accounting and measurements of impaired loans and provisions are disclosed in the significant accounting policies note and in Note 12 to the financial statements.

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2021 and 31 December 2020 are shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2021 **(KD Thousands)**

	Impaired Loans (NPLs)		Specific Provision Cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	10,279	18,608	8,330	44.8%
Financial	-	-	-	0.0%
Trade and commerce	-	102	102	100.3%
Crude oil and gas	49	49	-	0.0%
Construction	15,120	15,802	682	4.3%
Manufacturing	-	-	-	0.0%
Real estate	9,463	13,049	3,586	27.5%
Others	203	203	-	0.0%
Total	35,114	47,813	12,700	26.6%

Impaired loans and provisions (by industry segment) as at 31 December 2020 (KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	772	1,427	655	45.9%
Financial	-	-	-	0.0%
Trade and commerce	5,502	7,101	1,599	22.5%
Crude oil and gas	49	49	-	0.0%
Construction	18,225	23,517	5,292	22.5%
Manufacturing	-	-	-	0.0%
Real estate	18,149	18,749	600	3.2%
Others	624	636	12	0.0%
Total	43,321	51,479	8,158	15.8%

Non-performing loans have decreased by KD 4 million in 2021 (for details refer Note 12 and 24 (A) of the financial statements and the following table).

RISK MANAGEMENT

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 2021 (by Industry Segments) **(KD Thousands)**

	Charge/(Release) for impairment provision		
	Specific Charge	**General Charge**	**Total Charge**
Personal	**22,658**	**1,778**	**24,436**
Financial	**591**	**633**	**1,224**
Trade and commerce	**6,363**	**220**	**6,583**
Crude oil and gas	**-**	**641**	**641**
Construction	**18,147**	**(217)**	**17,930**
Manufacturing	**152**	**272**	**424**
Real estate	**2,986**	**387**	**3,373**
Others	**(12)**	**4,837**	**4,825**
Total	**50,885**	**8,551**	**59,436**

Provision Charges and Write - offs during 2020 (by Industry Segments) (KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	General Charge	Total Charge
Personal	22,380	1,046	23,426
Financial	34,867	(20,913)	13,954
Trade and commerce	11,116	(852)	10,264
Crude oil and gas	-	463	463
Construction	14,674	(1,030)	13,644
Manufacturing	-	1,274	1,274
Real estate	600	155	755
Others	158	4,756	4,914
Total	83,795	(15,101)	68,694

Specific charge mentioned above excludes **KD 43.2 million** (2020: KD 80.8 million) amounts written off during the year.

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 2021 and 31 December 2020 are shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2021 **(KD Thousands)**

	Impaired Loans (NPLs)			
	Past due portion	**Balance outstanding**	**Specific Provisions Cash**	**Specific Provision Cover**
Kuwait	**25,842**	**37,860**	**12,019**	**31.7%**
Other Middle East	**9,271**	**9,953**	**682**	**6.8%**
Western Europe	**-**	**-**	**-**	**0.0%**
USA & Canada	**-**	**-**	**-**	**0.0%**
Asia Pacific	**-**	**-**	**-**	**0.0%**
Rest of World	**-**	**-**	**-**	**0.0%**
Total	**35,114**	**47,813**	**12,700**	**26.6%**

Impaired loans and provisions (by Geographical Region) as at 31 December 2020 (KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	Balance outstanding	Specific Provisions Cash	Specific Provision Cover
Kuwait	43,321	51,479	8,158	15.8%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	43,321	51,479	8,158	15.8%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2021 and 31 December 2020, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2021 **(KD Thousands)**

	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	59,057	-	59,057	59,057	-	-	59,057
Claims on sovereigns	980,721	118	980,839	980,721	59	22	980,802
Claims on PSEs	380,381	11,480	391,861	380,381	5,740	-	386,121
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	889,075	268,171	1,157,246	889,075	126,470	493	1,016,038
Claims on corporates	2,371,425	1,181,883	3,553,308	2,371,425	533,145	354	2,904,924
Retail exposures	1,752,793	596	1,753,389	1,752,793	271	-	1,753,064
Past due exposures	35,114	5,259	40,373	35,114	2,629	-	37,743
Other exposures	345,841	255	346,096	345,841	128	-	345,969
Total	6,814,407	1,467,762	8,282,169	6,814,407	668,442	869	7,483,718

Gross credit risk exposure before CRM as at 31 December 2020 (KD Thousands)

	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	51,355	-	51,355	51,355	-	-	51,355
Claims on sovereigns	955,752	5	955,757	955,752	3	29	955,784
Claims on PSEs	283,098	17,739	300,837	283,098	8,554	-	291,652
Claims on MDBs	11,422	-	11,422	11,422	-	-	11,422
Claims on banks	864,321	268,066	1,132,387	864,321	130,232	149	994,702
Claims on corporates	2,212,604	1,099,608	3,312,212	2,212,604	489,418	236	2,702,258
Retail exposures	1,607,573	488	1,608,061	1,607,573	244	-	1,607,817
Past due exposures	43,321	7,306	50,627	43,321	3,653	-	46,974
Other exposures	337,973	275	338,248	337,973	138	-	338,111
Total	6,367,419	1,393,487	7,760,906	6,367,419	632,242	414	7,000,075

Credit Risk Mitigation and Credit Risk-Weighted Assets

Under the Basel III standardized 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. As per Basel III CBK guidelines, real estate is not considered as an eligible CRM for capital computation purposes.

As per Credit Policy of the Bank, collateral requirement, coverage and top up, if any, will be decided upon by the Credit Committee who approves the credit facilities based on various factors including financial strength of the borrower, cash flows sources for repayment, track record, group support, volatility, etc. Wherever the share collateral is the main source of repayment , a top up clause must be maintained. 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 or partially settle exposure to increase the coverage. Quoted shares are valued daily by using Boursa Kuwait prices and recognised stock exchange. In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The CRM treatment of these guarantees for capital computation is strictly as stipulated under Basel guidelines.

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer 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, or a personal guarantee or standing orders, is taken on some occasions when consumer loans are granted without an assignment of salary.

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

The exposure after CRM, as at 31 December 2021 and 31 December 2020 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 2021 **(KD Thousands)**

	Credit exposure before CRM	CRM		Credit exposure after CRM	Risk - Weighted Assets		
		Eligible Financial Collateral	Eligible Guarantees		Rated	Unrated	Total
Cash items	59,057	-	-	59,057	-	-	-
Claims on sovereigns	980,802	59	-	980,743	55,028	-	55,028
Claims on PSEs	386,121	17,179	-	368,942	101,071	-	101,071
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	1,016,038	1,835	-	1,014,203	384,933	2	384,935
Claims on corporates	2,904,924	688,979	-	2,215,945	44,476	2,181,664	2,226,140
Retail exposures	1,753,064	153,255	-	1,599,809	-	1,599,264	1,599,264
Past due exposures	37,743	4,355	-	33,388	-	31,665	31,665
Other exposures	345,969	81,050	-	264,919	-	314,853	314,853
Total	7,483,718	946,712	-	6,537,006	585,508	4,127,448	4,712,956

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2020 (KD Thousands)

		CRM			Risk - Weighted Assets		
	Credit exposure before CRM	Eligible Financial Collateral	Eligible Guarantees	Credit exposure after CRM	Rated	Unrated	Total
Cash items	51,355	-	-	51,355	-	-	-
Claims on sovereigns	955,784	102	-	955,682	34,420	-	34,420
Claims on PSEs	291,652	33,467	-	258,185	52,156	-	52,156
Claims on MDBs	11,422	-	-	11,422	5,711	-	5,711
Claims on banks	994,702	576	-	994,126	329,134	1	329,135
Claims on corporates	2,702,258	505,483	-	2,196,775	1,894	2,192,987	2,194,881
Retail exposures	1,607,817	158,964	-	1,448,853	-	1,448,289	1,448,289
Past due exposures	46,974	4,940	-	42,034	-	41,131	41,131
Other exposures	338,111	59,363	-	278,748	-	337,219	337,219
Total	7,000,075	762,895	-	6,237,180	423,315	4,019,627	4,442,942

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 facilitating customer needs, trading and the Bank's Balance Sheet management.

The Bank uses standardised approach for determining the capital required for market risk. The trading book is marked to market on a daily basis and the Bank uses a structure of limits to manage and control the market risk exposures from trading activities. The Bank also uses trading Value at Risk (VAR) to track and observe foreign exchange risks. As per Basel III, total market risk weighted assets is determined by multiplying the market risk capital charge by 12.5.

The details of the market risk capital charge for the Bank as at 31 December 2021 and 31 December 2020 are shown in the following table: (KD Thousands)

Market Risk	**31-Dec-21**	31-Dec-20	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**134**	167	(33)
Total market risk capital charge	**134**	167	(33)
Market risk - weighted assets	**1,675**	2,088	(413)
Total market risk capital requirement at 10.50% (2020 10.50%)	**176**	219	(44)

On 31 December 2021, total market risk weighted assets were **KD 1.68 million** (2020: KD 2 million) and total capital requirement was **KD 176 thousand** (2020: KD 219 thousand).

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 2021 and 31 December 2020 are shown in the following table: (KD Thousands)

Operational Risk as at 31 December 2021	**3 year average gross income**	**Beta factor**	**Operational risk capital charge**
Trading and sales	**29,554**	**18%**	**5,320**
Commercial banking	**70,732**	**15%**	**10,610**
Retail banking	**78,372**	**12%**	**9,405**
Total	**178,658**		**25,335**
Total operational risk weighted exposure			**316,688**
Total operational risk capital requirement (at 10.50%)			**33,252**

(KD Thousands)

Operational Risk as at 31 December 2020	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	34,309	18%	6,176
Commercial banking	76,161	15%	11,424
Retail banking	76,318	12%	9,158
Total	186,788		26,758
Total operational risk weighted exposure			334,475
Total operational risk capital requirement (at 10.50%)			35,120

As per Basel III, the total operational risk capital charge is calculated by multiplying the three year average gross income of the business lines by a pre-defined beta factor. The total operational risk weighted exposure is determined by multiplying the operational risk capital charge by 12.5. Gross income includes net interest income and net non-interest income. At 31 December 2021 operational risk-weighted exposure was **KD 316.7 million** (2020: KD 334.5 million) and total operational risk capital requirement at 10.50% was **KD 33 million** (2020 at 13%: KD 35 million).

Equity Risk in the Banking Book

The Bank does not trade in equities. All of the Bank's equity investments are held in the Banking (i.e. non-trading) book and are classified as FVOCI, 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. Fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity. The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate for the instrument.

RISK MANAGEMENT

The fair values of unquoted instruments estimated by 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/net asset values. The Bank uses external valuation services when necessary.

The fair value of the investment securities-equity held at 31 December 2021 and 31 December 2020 are shown below, along with the cumulative unrealised gains in the fair valuation reserve in equity and the regulatory capital implications.

Information related to the licensed Bank's equity position in the banking book as at 31 December 2021 **(KD Thousands)**

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	**11,038**	**23,832**	**34,870**
Unrealised gains in equity securities (part of CET1)	**1,580**	**793**	**2,373**
Regulatory capital details			
Regulatory capital requirement	**1,269**	**2,741**	**4,010**
Disposal details			
Realised gain on equity securities at FVOCI			**505**

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2020 (KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	12,104	26,057	38,161
Unrealised gains in equity securities (part of CET1)	1,431	2,254	3,685
Regulatory capital details			
Regulatory capital requirement	1,695	3,648	5,343
Disposal details			
Realised gain on equity securities at FVOCI			350

The Bank has a significant equity investment in a financial institution, which is classified as 250% risk weight (Investments in FIs below the deduction Threshold).

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.

Counter Party Credit Risk

The Bank has put in place risk policies and processes to identify, measure, monitor and report on counter party credit risk. These policies are integrated into credit risk management and have been applied in determining the internal limits for maximum exposures based on the counterparty's credit rating. High grade counter parties will attract higher limits exposures while low credit grade customers will be restricted lower level exposures. These limits have been determined based on the probability of default associated with each risk grade of borrowers. Based on the probability of default the Bank seeks to minimize the unexpected losses.

For foreign exchange contracts the limits structure have been set up are based on the tenor of the contract and the risks which are the function of the volatility of the underlying. Counterparty limits structures are in place, by product, including limits for settlement risk.

Remuneration Policy

For details refer annual report - Part 4 of Corporate Governance section.

Leverage ratio common disclosure template

In accordance with the CBK guidelines (CBK circular No.2/BS/342/2015), Kuwait banks must maintain minimum leverage ratio of 3%. Leverage ratio is calculated as a ratio of Tier 1 capital as per Basel III to the total exposure. Total exposure is the sum of on balance sheet exposures and off balance sheet exposures after adjusting the credit conversion factor.

(KD Thousands)

		31-Dec-21	31-Dec-20	Variance
On-balance sheet exposures				
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**6,555, 910**	6,112,708	443,202
2.	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-	-
3.	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**6,555,910**	6,112,708	443,202
Derivative exposures				
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-	-	-
5.	Add-on amounts for PFE associated with all derivatives transactions	-	-	-
6.	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-	-
7.	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-	-
8.	(Exempted CCP leg of client-cleared trade exposures)	-	-	-
9.	Adjusted effective notional amount of written credit derivatives	-	-	-
10.	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-	-
11.	**Total derivative exposures (sum of lines 4 to 10)**	-	-	-
Securities financing transaction exposures				
12.	Gross SFT assets (with no recognition of netting)	-		-
13.	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-	-
14.	CCR exposure for SFT assets	-	-	-
15.	Agent transaction exposures	-	-	-
16.	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-	-
Other off-balance sheet exposures				
17.	Off-balance sheet exposure (before implementation of CCF)	**2,426,436**	2,359,585	66,851
18.	(Adjustments for conversion to credit equivalent amounts)	**(1,630,582)**	(1,623,519)	(7,063)
19.	**Off-balance sheet items (sum of lines 17 and 18)**	**795,854**	736,066	59,788
Capital and total exposures				
20.	Tier 1 capital	**698,151**	679,576	18,575
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**7,351,764**	6,848,774	502,990
Leverage ratio				
22.	**Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))**	**9.50%**	9.92%	(0.43%)

Following is the reconciliation of on balance sheet assets as per the published financial statements along with the total exposure amount in the leverage ratio measure.

SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE

(KD Thousands)

		31-Dec-21	31-Dec-20	Variance
1.	Total consolidated assets as per published financial statements	**6,555,910**	6,112,708	443,202
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-	-
3.	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-	-
4.	Adjustments for derivative financial instruments	-	-	-
5.	Adjustment for securities financing transactions (i.e. repo and similar secured lending)	-	-	-
6.	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures	**795,854**	736,066	59,788
7.	Other adjustments	-	-	-
8.	**Leverage ratio exposure**	**7,351,764**	6,848,774	502,990

FINANCIAL STATEMENTS 04

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

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Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2021, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Kuwait for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Credit losses on loans and advances

The recognition of credit losses on loans and advances ("credit facilities") to customers and banks is the higher of Expected Credit Loss ("ECL") determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2 and Note 12 to the financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Furthermore, as disclosed in Note 24, the COVID-19 pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, as well as the high degree of estimation uncertainty due to the economic impacts of COVID-19, this was considered as a key audit matter.

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

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and assessed the Bank's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they were in accordance with the requirements of IFRS 9 and CBK guidelines. For a sample of credit facilities, we have assessed the Bank's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Bank and the overlays considered by the management in view of the ongoing COVID-19 pandemic, in order to determine ECL taking into consideration CBK guidelines. We have also assessed the consistency of various inputs and assumptions used by the Bank's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Bank's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and reperformed the resultant provision calculations.

Other information included in the Bank's 2021 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Bank's 2021 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the 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 and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our 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 during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

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

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

10 February 2022
Kuwait

INCOME **STATEMENT**

Year Ended 31st December 2021

	NOTES	2021 KD000's	2020 KD000's
Interest income	4	**185,994**	209,348
Interest expense	5	**(53,681)**	(84,581)
Net interest income		**132,313**	124,767
Net fees and commissions	6	**27,428**	24,136
Net gains from dealing in foreign currencies		**9,058**	7,443
Dividend income		**679**	572
Other income		**580**	1,350
Operating income		**170,058**	158,268
Staff expenses		**47,712**	36,873
Occupancy costs		**2,628**	2,765
Depreciation		**6,823**	7,618
Other expenses		**21,018**	16,670
Operating expenses		**78,181**	63,926
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**91,877**	94,342
Charge of provisions:			
- specific	7	**55,833**	64,476
- general	12,18	**3,603**	4,218
Loan recoveries, net of write-off	12	**(11,943)**	(5,512)
Net provision on other financial assets		**110**	(122)
Impairment loss on other assets	14	**-**	992
		47,603	64,052
OPERATING PROFIT		**44,274**	30,290
Directors' remuneration	22	**179**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**446**	302
National Labour Support Tax		**1,098**	752
Zakat		**446**	302
PROFIT FOR THE YEAR		**42,105**	28,799
EARNINGS PER SHARE Basic and diluted per share (Fils)	8	**14**	10

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF **COMPREHENSIVE INCOME**

Year Ended 31st December 2021

	2021 KD000's	2020 KD000's
Profit for the year	**42,105**	28,799
Other comprehensive income		
Items that will not to be reclassified subsequently to the income statement:		
Net changes in fair value of investment securities-equity	**(807)**	(3,486)
Revaluation of premises and equipment	**25**	(256)
Other comprehensive loss for the year	**(782)**	(3,742)
Total comprehensive income for the year	**41,323**	25,057

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF **FINANCIAL POSITION**

As at 31st December 2021

	NOTES	2021 KD000's	2020 KD000's
ASSETS			
Cash and cash equivalents	9	**942,495**	1,105,925
Kuwait Government treasury bonds	10	**74,000**	108,500
Central Bank of Kuwait bonds	11	**281,197**	280,724
Deposits with banks and other financial institutions	9	**124,642**	3,033
Loans and advances to banks	12	**278,451**	192,063
Loans and advances to customers	12	**4,558,086**	4,116,537
Investment securities	13	**141,941**	174,855
Other assets	14	**120,705**	97,018
Premises and equipment		**34,393**	34,053
TOTAL ASSETS		**6,555,910**	6,112,708
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**595,501**	550,543
Deposits from financial institutions	15	**673,169**	705,337
Customer deposits	16	**4,303,995**	4,033,719
Other borrowed funds	17	**215,000**	100,000
Other liabilities	18	**101,753**	85,745
TOTAL LIABILITIES		**5,889,418**	5,475,344
EQUITY			
Share capital	19	**304,813**	304,813
Proposed bonus shares	22	**15,241**	-
Statutory reserve	20	**46,562**	42,135
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**18,194**	18,169
Fair valuation reserve		**2,374**	3,686
Retained earnings		**144,441**	140,073
		684,649	661,900
Treasury shares	21	**(18,157)**	(24,536)
TOTAL EQUITY		**666,492**	637,364
TOTAL LIABILITIES AND EQUITY		**6,555,910**	6,112,708

Jassim Mustafa Boodai
(CHAIRMAN)

Antoine Daher
(CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF **CASH FLOWS**

Year Ended 31st December 2021

	NOTES	2021 KD000's	2020 KD000's
OPERATING ACTIVITIES			
Profit for the year		**42,105**	28,799
Adjustments:			
Effective interest rate adjustment		**-**	(34)
Dividend income		**(679)**	(572)
Depreciation		**6,823**	7,618
Loan loss provisions	7,12,18	**59,436**	68,694
Net provision on other financial assets		**110**	(122)
Impairment loss on other assets		**-**	992
CASH FLOWS FROM OPERATING ACTIVITES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**107,795**	105,375
Decrease/(increase) in operating assets:			
Kuwait Government treasury bonds		**34,500**	123,500
Central Bank of Kuwait bonds		**(473)**	(2,049)
Deposits with banks and other financial institutions		**(121,612)**	125,417
Loans and advances to banks		**(86,767)**	20,838
Loans and advances to customers		**(497,449)**	(1,164)
Other assets		**(21,274)**	13,495
Increase/(decrease) in operating liabilities:			
Due to banks		**44,958**	151,830
Deposits from financial institutions		**(32,168)**	(313,150)
Customer deposits		**270,276**	83,818
Other liabilities		**12,851**	(29,808)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		**(289,363)**	278,102
INVESTING ACTIVITIES			
Purchase of investment securities		**(22,498)**	(14,371)
Proceeds from sale of investment securities		**52,085**	8,808
Purchase of premises and equipment		**(7,138)**	(5,263)
Dividend income received		**679**	572
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**23,128**	(10,254)
FINANCING ACTIVITIES			
Net proceeds from other borrowed funds	17	**115,000**	-
Dividend paid	22	**(15,056)**	(31,947)
Proceeds from sale of treasury shares		**2,861**	22,143
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**102,805**	(9,804)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(163,430)**	258,044
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,105,925**	847,881
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**942,495**	1,105,925
Additional cash flows information			
Interest received		**184,319**	217,055
Interest paid		**55,739**	101,520

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF **CHANGES IN EQUITY**

As at 31st December 2021

	Share capital KD 000's	Proposed bonus shares KD 000's	RESERVES Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury shares 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 2020	304,813	-	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
Profit for the year	-	-	-	-	-	-	-	28,799	28,799	-	28,799
Other comprehensive loss for the year	-	-	-	-	(256)	-	(3,486)	-	(3,742)	-	(3,742)
Total comprehensive (loss) income for the year	-	-	-	-	(256)	-	(3,486)	28,799	25,057	-	25,057
Dividend paid (Note 22)	-	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Modification loss on consumer lending (Note 3)	-	-	-	-	-	-	-	(42,212)	(42,212)	-	(42,212)
Realised gain on equity securities at FVOCI	-	-	-	-	-	-	(350)	350	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	49,069	49,069
Loss on sale of treasury shares	-	-	-	-	-	(24,111)	-	(2,815)	(26,926)	-	(26,926)
Transfer to reserve	-	-	3,029	-	-	-	-	(3,029)	-	-	-
At 31 December 2020	304,813	-	42,135	153,024	18,169	-	3,686	140,073	357,087	(24,536)	637,364
At 1 January 2021	**304,813**	**-**	**42,135**	**153,024**	**18,169**	**-**	**3,686**	**140,073**	**357,087**	**(24,536)**	**637,364**
Profit for the year	-	-	-	-	-	-	-	42,105	42,105	-	42,105
Other comprehensive income (loss) for the year	-	-	-	-	25	-	(807)	-	(782)	-	(782)
Total comprehensive income (loss) for the year	-	-	-	-	25	-	(807)	42,105	41,323	-	41,323
Dividend paid (Note 22)	-	-	-	-	-	-	-	(15,056)	(15,056)	-	(15,056)
Realised gain on equity securities at FVOCI	-	-	-	-	-	-	(505)	505	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	6,379	6,379
Loss on sale of treasury shares	-	-	-	-	-	-	-	(3,518)	(3,518)	-	(3,518)
Transfer to reserve	-	-	4,427	-	-	-	-	(4,427)	-	-	-
Proposed bonus shares (Note 22)	-	15,241	-	-	-	-	-	(15,241)	(15,241)	-	-
At 31 December 2021	**304,813**	**15,241**	**46,562**	**153,024**	**18,194**	**-**	**2,374**	**144,441**	**364,595**	**(18,157)**	**666,492**

The attached notes 1 to 29 form part of these financial statements.

NOTES TO THE FINANCIAL **STATEMENTS**

31st December 2021

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. The Bank's shares are listed on Boursa 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 2021 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 13 January 2022. 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.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost basis, except for investment securities at fair value through other comprehensive income, derivative financial instruments, freehold land and buildings that have been measured at fair value.

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 have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) with the following amendments:

- Expected credit loss ("ECL") on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular No. 2/BS/IBS/461/2020. Modification losses referred to in the circular, should be recognized in retained earnings instead of income statement as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in income statement in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognized in the income statement. The application of the policy will result in application of different accounting presentation for modification loss in 2020 compared to 2021 (Note 3).

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

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 previous year except as noted below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

The amendments include the following practical expedients:

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

As of 31 December 2021, the Bank has not transitioned to an alternative interest rate benchmark for any of its position and will transition to risk-free benchmark reference rates ("RFRs") not later than June 2023. The Banks's exposure to financial assets as of 31 December 2021 that are based on USD LIBOR maturing after June 2023 is **KD 557,367 thousand**. The Bank's exposure to USD IBOR linked financial liabilities is relatively insignificant. The non-USD floating rate exposures amounts to only **KD 13,612 thousand**. The Bank's IBOR project team is managing the transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The Bank is in discussion to effect an orderly transition of these exposures to the relevant RFRs.

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

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

The Bank classifies its financial assets, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively), and fair value through profit or loss ("FVTPL"). The Bank determines the classification of financial assets based on the business model in which assets are managed and their contractual cash flow characteristics.

Business model assessment

The business model reflects how the Bank manages the financial assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

SPPI Test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

NOTES TO THE FINANCIAL STATEMENTS

In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility in contractual cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Recognition/de-recognition

A financial asset or a financial liability is recognised at fair value when the Bank becomes a party to the contractual provisions of the instrument. Transaction costs are added to, or subtracted from, only for those financial instruments that are not measured at fair value through income statement.

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 when:

- the contractual rights to receive cash flows from the asset have expired, or
- 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
- 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 assets transferred or liabilities assumed, is recognised in the income statement.

Measurement of financial instruments

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 profit or loss.

The Bank classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

Financial assets carried at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Cash and cash equivalents, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances to banks, loans and advances to customers, certain investment debt securities and certain other assets are classified as financial assets carried at amortised cost using the Effective Interest rate (EIR) method and are presented net of expected credit losses. Interest income from these financial assets is included in 'Interest income' using the EIR method.

Debt instruments at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in income statement. When the debt instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to income statement and recognised in 'Realised gains from disposal of investment securities'. Interest income from these financial assets is included in 'Interest income' using the EIR method.

All other financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on debt instruments that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in income statement and presented in the income statement within 'Net trading income' in the period in which it arises.

Equity instruments at FVOCI

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity instruments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not

NOTES TO THE FINANCIAL STATEMENTS

subsequently reclassified to income statement, including on disposal. Such classification is determined on an instrument by instrument basis. Equity instruments at FVOCI are not subject to impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in income statement as 'Dividend income' when the Bank's right to receive payments is established.

Financial asset at FVTPL

The Bank classifies financial assets as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Included in this classification are derivatives that are not designated as hedging instruments in a hedge relationship, that have been acquired principally for the purpose of selling or repurchasing in the near term. Income recognised from these financial assets is included in 'Net gains from dealing in foreign currencies'.

Impairment on financial assets

The Bank computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances to banks and customers including commitments;
- letters of credit, acceptances and financial guarantee contracts including commitments;
- investment in debt securities measured at amortised cost or FVOCI; and
- balances and deposits with banks and other financial institutions.

The Bank considers impairment on financial assets mainly in two following catagories:

Impairment on credit facilities

Credit facilities include loans and advances to banks, loans and advances to customers, guarantees, letter of credit and acceptances and undrawn commitments. Impairment on credit facilities shall be recognised in the statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Impairment on other financial assets (other than credit facilities)

The Bank recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks and other financial institutions. Equity investments are not subject to ECL.

Balances with the Central Bank of Kuwait, Kuwait Government treasury bonds and Central Bank of Kuwait bonds are considered to be low risk and fully recoverable and hence no ECL is recognised.

The Bank recognises a 12-month ECL on current accounts with banks and other financial institutions, placements with banks and other financial institutions and debt securities carried at amortised cost since these are determined to have low credit risk at the reporting date and these financial instrument represent investments in corporate and sovereign bonds that are of high credit quality grade.

<u>Expected Credit Losses</u>

The ECL provision is based on the credit losses expected to arise over the life of the asset ("the Life Time Expected Credit Loss" or "LT ECL"), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' Expected Credit Loss ("12m ECL").

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

The 12m ECL is the portion of LT ECLs that represent the ECLs that result from default events on a credit facility that are possible within the 12 months after the reporting date. Both LT ECLs and 12m ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of Credit Facilities.

The Bank applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised. The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Credit facilities, considered as credit-impaired, are those facilities where any payment of principal or interest is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan and credit rating downgrades. For Stage 3, ECL for credit impaired financial asset shall be calculated at 100% of the net default balance after excluding eligible collateral value.

Determining the significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Bank considers quantitative, qualitative information and back stop indicators and analysis based on the Bank's historical experience, internal credit rating and expert credit risk assessment, including forward-looking information for triggering a significant increase in credit risk for credit facility. Regardless of the change in credit grades, if contractual payments are more than 30 days past due for credit facilities, the credit risk is deemed to have increased significantly since initial recognition. All financial assets, where there has been a significant increase in credit risk since initial recognition are migrated to Stage 2.

At each reporting date, the Bank assesses whether a financial asset or group of financial assets is credit impaired. The Bank considers facilities as credit impaired when there is objective evidence of impairment including whether any payment of principal or interest is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan and credit rating downgrades. All credit impaired financial assets are classified as Stage 3 for ECL measurement purposes. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

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

Measurement of ECLs

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money. The 12-months ECL is equal to the discounted sum over the next 12-months PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of PD over the full remaining life multiplied by LGD and EAD.

The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and;
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Lifetime ECL are recorded on financial assets that exhibit significant increase in credit risk since inception or are credit-impaired.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. If the amount to be written off is greater than the impairment provision, the difference is first treated as an addition to the provision that is then applied against the gross carrying amount. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Commitments

When estimating LT ECLs for undrawn commitments, the Bank estimates the expected portion of the commitment that will be drawn down over its expected life. The EAD is calculated after applying credit conversion factor as prescribed by the CBK. ECLs for undrawn commitments is calculated based on same methodology followed for other drawn credit facilities.

Guarantee contracts and letters of credit

The Bank's liability under each guarantee or letter of credit is measured at the higher of the amount initially recognised less cumulative amortization recognised in the income statement, higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a PD-weighting of the three scenarios.

Modification of loans and advances to customers

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. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be

originated credit-impaired. When loans and advances to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Provisions for credit losses in accordance with CBK instructions

The Bank is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due but not impaired and Impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions %
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91 to 180 days	20%
Doubtful	Irregular for a period of 181 to 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Bank may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances. In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities, net of certain categories of collateral, to which the Instructions are applicable and not subject to specific provisions.

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;

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. The fair value of investments in managed funds are based on latest published net asset values.

Fair values of 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/net asset values.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through the income statement. 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 to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

Hedge effectiveness requirements

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument;
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item.

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 re-classified 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. Repossessed collaterals

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

The Bank reviews its repossessed collaterals classified as 'other assets' at each reporting date and ensures that those are valued as per accounting policy applicable to the same class of investments.

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.

NOTES TO THE FINANCIAL STATEMENTS

e. End of service indemnity

The Bank is liable under the Kuwait Labor Law and specific employee contracts, if any, to make payment under end of service benefits to employees at cessation of employment. The entitlement to these benefits is usually based upon employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The defined benefit plan is unfunded. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

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, including directly attributable cost. 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 statutory reserve and other reserves. 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.

g. Premises and equipment

Land and buildings are initially recognised at cost. After initial recognition land is 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 land 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

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

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 rate method. The EIR 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. Once a financial asset categorised as loans and advances is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

At inception of a contract, the Bank assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The Bank elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value. Those lease payments are recognized as an operating expense in the income statement on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Bank recognises right-of-use assets in 'property and equipment' in the statement of financial position.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Bank recognises lease liabilities in 'other liabilities' in the statement of financial position.

m. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Bank and accordingly are not included in the statement of financial position. Income from fiduciary activities is included in 'Net fees and commissions'.

n. Foreign currencies

Foreign currency transactions are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting 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 consists of cash in hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding thirty days 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. Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a

transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

r. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed and is included in the same line item in the income statement. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

s. Other borrowed funds

Other borrowed funds include Subordinated Tier 2 bonds and medium term borrowings. These are financial liabilities and are initial recognised at their fair value being the issue proceeds net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

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

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Banks's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. 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. Refer Note 2.3.a classification of financial instruments for more information.

Impairment losses on financial instruments

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and

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- Establishing the number and relative weightings of forward-looking scenarios.

The Bank estimates expected credit loss for debt instruments at amortised cost and FVOCI excluding loans and advances to banks and customers for which the Bank apply impairment requirements under CBK regulations. The determination of expected credit loss involves significant use of external and internal data and assumptions. Refer Note 2.3.a impairment of financial instruments for more information.

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

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2022 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The Bank does not expect any material impact on its financial statements.

3. IMPACT OF COVID-19

Covid-19 Pandemic 2020

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

2021-Consumer and instalment loans deferral

Kuwait banks announced postponement of payment of consumer and instalment loans to eligible citizen customers, upon their request, in accordance with the CBK circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 ("the Law")

regarding the deferral of the financial obligations for a six-month period with cancellation of interest resulting from this deferral ("the 2021 scheme"). The instalment deferrals are considered as short-term liquidity support to address borrower's potential cash-flow issues, the cost of which is fully borne by the Government of Kuwait in accordance with the Law.

The Bank implemented the 2021 scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows amount of **KD 26,084 thousand** in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant in accordance with the Law. The Bank has recorded the Government Grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the statement of financial position (Note 14).

2020-Consumer and instalment loans deferral

In response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals are considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42,212 thousand arising from the modification of contractual cash-flows, as on 1 April 2020. The modification loss is charged to retained earnings in accordance with the Bank's accounting policy as stated in Note 2.1.

2020-Other impacted non-retail customers

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

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

2020-Government grant

To mitigate the impact of the Covid-19 pandemic, the Government of Kuwait had introduced measures to aid private entities in response to the pandemic. These measures include government assistance made in respect of eligible staff expenses in the private sector.

During the year 2020, the Bank received Covid-19 financial support from the Public Authority for Manpower of the Government of Kuwait and recognized in the income statement as a deduction to 'staff expenses' on a systematic basis over the periods in which the Bank recognizes expenses for the related staff expenses.

Support measures on Covid-19

On April 2, 2020, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. Below are the measures valid up to 31 December 2021:

- Decrease the Liquidity Coverage Ratio from 100% to 80%; effective from 1 January 2022: 90%

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- Decrease the Net Stable Financing Ratio from 100% to 80%; effective from 1 January 2022: 90%
- Decrease the regulatory Liquidity Ratio from 18% to 15%; effective from 1 January 2022: 16.5%
- Increase the maximum limits of the negative cumulative gap for liquidity across various time bands
- Increase the maximum limits available for finance from 90% to 100% of deposits; effective from 1 January 2022: 95%
- Release the Capital Conservation Buffer of 2.5% of risk-weighted assets in the form of CET1; effective from 1 January 2022: 1.5%
- Decrease the risk weights for lending to SMEs from 75% to 25% for the purposes of Capital Adequacy

Business continuity

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

Refer to Note 24 to financial statement for credit risk and liquidity risk updates due to Covid-19.

4. INTEREST INCOME

	2021 KD 000's	2020 KD 000's
Kuwait Government treasury bonds and CBK Bonds	**5,573**	9,425
Debt investment securities	**3,339**	4,692
Placements with banks	**2,333**	5,902
Loans and advances to banks and customers	**174,749**	189,329
	185,994	209,348

5. INTEREST EXPENSE

	2021 KD 000's	2020 KD 000's
Sight and savings accounts	**3,711**	3,483
Time deposits	**39,304**	65,293
Bank borrowings	**5,077**	9,208
Other borrowed funds	**5,589**	6,597
	53,681	84,581

6. NET FEES AND COMMISSIONS

	2021 KD 000's	2020 KD 000's
Total fees and commission income	**38,060**	31,715
Total fees and commission expense	**(10,632)**	(7,579)
	27,428	24,136

Total fees and commission income includes **KD 537 thousand** (2020: KD 366 thousand) from fiduciary activities.

7. SPECIFIC PROVISIONS

	2021 KD 000's	2020 KD 000's
Loans and advances to customers		
– Cash (Note 12)	**52,628**	62,360
– Non-cash (Note 18)	**3,205**	2,116
	55,833	64,476

8. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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 for the year 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 2021.

	2021 KD 000's	2020 KD 000's
Profit for the year	**42,105**	28,799
Weighted average number of shares outstanding during the year, net of treasury shares	**Shares 3,008,509,602**	Shares 2,927,815,660
Basic and diluted earnings per share	**Fils 14**	Fils 10

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9. CASH AND CASH EQUIVALENTS

	2021 KD 000's	2020 KD 000's
Balances with the Central Bank of Kuwait	**316,277**	303,156
Cash in hand and in current accounts with other banks and other financial institutions	**74,407**	220,517
Deposits with banks and other financial institutions maturing with in 30 days	**551,878**	582,301
	942,562	1,105,974
Less: Provision for ECL	**(67)**	(49)
	942,495	1,105,925

At 31 December 2021, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 124,645 thousand** (2020: KD 3,033 thousand) adjusted by ECL provision amount of **KD 3 thousand** (2020: KD Nil).

At 31 December 2021 and 2020, cash and equivalents and deposits with banks and other financial institutions are classified as Stage 1. During the year, there were no movement between stages.

10. KUWAIT GOVERNMENT TREASURY BONDS

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

	2021 KD 000's	2020 KD 000's
Maturing within one year	**52,000**	34,500
Maturing after one year	**22,000**	74,000
	74,000	108,500

At 31 December 2021 and 2020, Kuwait Government treasury bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

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 from the date of issuance.

	2021 KD 000's	2020 KD 000's
Central Bank of Kuwait Bonds	**281,197**	280,724

At 31 December 2021 and 2020, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent amounts 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 2021:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	2,069,060	-	-	-	2,106	2,071,166
Financial	115,862	73,834	-	-	-	189,696
Trade and commerce	424,826	10,013	15,848	-	-	450,687
Crude oil and gas	299,164	45,375	-	-	-	344,539
Construction	179,554	9,953	-	-	-	189,507
Manufacturing	304,883	13,613	-	-	-	318,496
Real estate	726,515	30,761	-	-	-	757,276
Others	214,485	302,476	-	-	-	516,961
Gross loans and advances to customers	4,334,349	486,025	15,848	-	2,106	4,838,328
Less: Provision for impairment						(280,242)
Loans and advances to customers						4,558,086
B. Loans and advances to banks						
Gross loans and advances to banks	60,606	190,575	9,075	4,606	15,125	279,987
Less: Provision for impairment						(1,536)
Loans and advances to banks						278,451

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At 31 December 2020:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	1,855,043	-	-	-	7,143	1,862,186
Financial	112,607	27,949	-	-	-	140,556
Trade and commerce	399,810	3,033	17,231	-	-	420,074
Crude oil and gas	259,739	22,744	-	-	-	282,483
Construction	225,636	10,561	-	-	-	236,197
Manufacturing	270,195	1,213	-	-	-	271,408
Real estate	694,954	15,981	-	-	-	710,935
Others	212,949	247,284	-	-	-	460,233
Gross loans and advances to customers	4,030,933	328,765	17,231	-	7,143	4,384,072
Less: Provision for impairment						(267,535)
Loans and advances to customers						4,116,537
B. Loans and advances to banks						
Gross loans and advances to banks	30,729	141,971	-	-	20,520	193,220
Less: Provision for impairment						(1,157)
Loans and advances to banks						192,063

Movement in provision for impairment

	2021 KD 000's			2020 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**14,888**	**253,804**	**268,692**	33,292	249,030	282,322
Amounts written-off	**(43,193)**	**-**	**(43,193)**	(80,764)	-	(80,764)
Charge to income statement	**52,628**	**3,651**	**56,279**	62,360	4,774	67,134
At 31 December	**24,323**	**257,455**	**281,778**	14,888	253,804	268,692

The specific and general provisions are based on the requirements of the CBK instructions and IFRS 9 according to CBK guidelines. Refer Note 2.3.a impairment of financial instruments for more information.

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 654 thousand** (2020: KD 5,846 thousand) and recoveries of **KD 12,597 thousand** (2020: KD 11,358 thousand).

Movement in provisions for impairment of loans and advances by class is as follows:	**2021 KD 000's**			2020 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**251,018**	**17,674**	**268,692**	259,905	22,417	282,322
Amounts written-off	**(27,927)**	**(15,266)**	**(43,193)**	(57,483)	(23,281)	(80,764)
Charge to income statement	**31,714**	**24,565**	**56,279**	48,596	18,538	67,134
At 31 December	**254,805**	**26,973**	**281,778**	251,018	17,674	268,692

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

Provision for non-cash facilities of **KD 18,563 thousand** (2020: KD 15,406 thousand) is included under other liabilities (Note 18).

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

	2021 KD 000's	2020 KD 000's
Provision on cash facilities	**281,778**	268,692
Provision on non-cash facilities	**18,563**	15,406
Total provisions on credit facilities	**300,341**	284,098
IFRS 9 ECL on credit facilities	**188,631**	171,978
Excess of total provisions over IFRS 9 ECL on credit facilities	**111,710**	112,120
Excess provisions as a percentage of total provisions	**37%**	39%

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13. INVESTMENT SECURITIES

	2021			2020		
	Amortised cost KD 000's	**FVOCI KD 000's**	**Total KD 000's**	Amortised cost KD 000's	FVOCI KD 000's	Total KD 000's
Quoted investments						
Sovereign bonds/sukuk	**71,626**	**-**	**71,626**	81,620	-	81,620
Other bonds	**32,596**	**-**	**32,596**	34,147	-	34,147
Equity securities	**-**	**11,038**	**11,038**	-	12,104	12,104
	104,222	**11,038**	**115,260**	115,767	12,104	127,871
Unquoted investments						
Other bonds	**-**	**3,019**	**3,019**	20,807	201	21,008
Equity securities/others	**-**	**23,832**	**23,832**	-	26,057	26,057
	-	**26,851**	**26,851**	20,807	26,258	47,065
Less: Provision for ECL	**(166)**	**(4)**	**(170)**	(81)	-	(81)
At 31 December	**104,056**	**37,885**	**141,941**	136,493	38,362	174,855

At 31 December 2021 and 2020, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

14. OTHER ASSETS

	2021 KD 000's	2020 KD 000's
Accrued interest receivable	**16,155**	14,480
Sundry debtors and others (Note 3)	**45,738**	22,920
Less: impairment loss on other receivables	**(620)**	(620)
Repossessed collaterals (refer movement below)	**59,432**	60,238
	120,705	97,018

Movement in repossessed collaterals:

	2021 KD 000's	2020 KD 000's
At 1 January	**60,238**	72,826
Disposals	**(806)**	(12,216)
Impairment loss	**-**	(372)
At 31 December	**59,432**	60,238

Investment securities amounting to **KD Nil** (2020: KD 806 thousand) are fair valued using quoted market prices (Level 1). The fair values of the real estate properties are not materially different from their carrying values. The fair value was determined by approved valuers based on the market comparable approach (Level 3).

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2021 KD 000's	2020 KD 000's
Due to banks		
Current accounts and demand deposits	**11,790**	39,207
Time deposits	**583,711**	511,336
	595,501	550,543
Deposits from financial institutions		
Current accounts and demand deposits	**100,966**	80,909
Time deposits	**572,203**	624,428
	673,169	705,337

16. CUSTOMER DEPOSITS

	2021 KD 000's	2020 KD 000's
Current accounts	**1,404,148**	1,301,226
Savings accounts	**410,168**	390,823
Time deposits	**2,489,679**	2,341,670
	4,303,995	4,033,719

Customer deposits include **KD 12,756 thousand** (2020: KD 12,787 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

17. OTHER BORROWED FUNDS

	Effective interest rate	**2021 KD 000's**	2020 KD 000's
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	**4.00%**	**25,000**	-
Subordinated Tier 2 bonds- KWD 2031 (Floating tranche capped at 5%)	**CBK+2.25%**	**25,000**	-
Medium term borrowings-Floating	**2.50% to 2.70%**	**165,000**	-
Subordinated Tier 2 bonds- KWD 2026 (Fixed tranche)*	**6.00%**	**-**	50,000
Subordinated Tier 2 bonds- KWD 2026 (Floating tranche capped at 7%)*	**CBK+4.00%**	**-**	50,000
		215,000	100,000

*Subordinated Tier 2 bonds have been fully repaid during the year.

18. OTHER LIABILITIES

	2021 KD 000's	2020 KD 000's
Accrued interest payable	**11,899**	13,957
Deferred income	**3,855**	4,118
Provisions for non-cash facilities (refer movement below)	**18,563**	15,406
Staff related provisions	**26,607**	22,969
Lease liabilities	**2,830**	4,170
Others	**37,999**	25,125
	101,753	85,745

Movement in provisions for non-cash facilities:

	2021 KD 000's	2020 KD 000's
At 1 January	**15,406**	13,846
Charge to the income statement	**3,157**	1,560
At 31 December	**18,563**	15,406

19. SHARE CAPITAL

	2021 KD 000's	2020 KD 000's
Authorised, issued and fully paid shares	**304,813**	304,813

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2021 is **3,048,127,898** (2020: 3,048,127,898).

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' remuneration, contribution to KFAS, NLST and Zakat has been transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 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 land owned by the Bank. The balance in this reserve is non distributable and is taken directly to retained earnings when the underlying assets are disposed off.

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2021 KD 000's	2020 KD 000's
Number of treasury shares	**37,000,000**	50,000,000
Percentage of treasury shares	**1.21%**	1.64%
Cost of treasury shares (KD 000's)	**18,157**	24,536
Weighted average market value of treasury shares as at 31 December (KD 000's)	**8,695**	11,450

Movement in treasury shares was as follows:

	No. of shares	
	2021	2020
Balance as at 1 January	**50,000,000**	149,994,610
Sales	**(13,000,000)**	(99,994,610)
Balance as at 31 December	**37,000,000**	50,000,000

An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium and retained earnings through out the holding period of treasury shares.

22. PROPOSED DIVIDEND AND DIRECTORS REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **7 fils** per share (2020: 5 fils per share) and bonus shares of **5%** amounting to **KD 15,241 thousand** (2020: Nil) on the outstanding issued share capital as at 31 December 2021 which is subject to approval of shareholders at the Annual General Meeting. The cash dividend and proposed bonus shares, if approved by Annual General Meeting, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

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

Directors' remuneration of **KD 179 thousand** (2020: 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 executive management 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. The terms of these transactions were approved as per the Bank's policies.

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

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	Number of Board Members or executive management		Number of related parties			
	2021	2020	**2021**	2020	**2021 KD 000's**	2020 KD 000's
Board members:						
Balances						
Loans and advances	**1**	1	**10**	12	**163,558**	152,896
Credit cards	**2**	2	**4**	4	**34**	19
Deposits	**8**	7	**73**	72	**72,124**	30,774
Commitments/derivatives						
Guarantees /letters of credit	**-**	-	**10**	9	**7,898**	7,454
Transactions						
Interest income	**1**	2	**15**	22	**4,147**	5,783
Interest expense	**4**	5	**13**	20	**374**	412
Net fees and commissions	**-**	-	**12**	11	**100**	51
Other expenses	**-**	-	**13**	12	**1,257**	1,654
Purchase of equipment	**-**	-	**3**	3	**162**	231
Executive management:						
Balances						
Loans and advances	**4**	3	**-**	-	**207**	83
Credit cards	**14**	10	**-**	-	**20**	19
Deposits	**15**	14	**-**	-	**2,631**	1,695
Transactions						
Interest income	**5**	3	**-**	-	**9**	3
Interest expense	**16**	16	**-**	-	**22**	21

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2% to 5.5%** (2020: 2% to 6%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 31 December 2021 was **KD 109,687 thousand** (2020: KD 106,708 thousand).

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

	2021 KD 000's	2020 KD 000's
Salaries and other short-term benefits	**3,655**	2,708
End of service/termination benefits	**312**	636
	3,967	3,344

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 instruments 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 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 Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Bank. The BRC reviews and recommends all risk management policies and risk appetite for Board of Directors (BOD) approval. BRC reviews all high risk, large and any exposure which do not meet the normal lending criteria. The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee. The Bank has also constituted an Executive Risk Committee (ERC), co-chaired by the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

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

A. CREDIT RISK

Credit risk is the potential for financial loss due to failure of debtors or counterparties to meet obligations to pay the Bank in accordance with agreed terms. It arises principally from lending, trade finance and treasury activities.

Concentrations of credit risk arise when there is a potential for aggravation of losses owing to correlated exposures, for example, when a number of counterparties have common ownership, or 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, geographic location or ownership.

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimized by setting limits for transactions with individual counterparties and counterparties under common ownership, monitoring credit exposures against these limits and continually assessing collateral coverage/quality and the creditworthiness of counterparties.

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Individual customer and customer groups, industry segment and country 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.

Independent Credit Departments covering wholesale and consumer risk, reporting to CRO, is responsible for providing centralised management of credit risk. The responsibilities of the teams 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 rank order risk and categorize 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 criteria for each of its retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment, minimum salary, etc. Applicants must also provide a reference from their employer, specifying salary and length of service, and in most cases, 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.

Other than BRC, the Bank has – seven credit committees: Board Credit and Investment Committee (BCIC), Executive Credit Committee ('ECC'), Management Credit Committee ('MCC'), Consumer Credit Committee ('CCC'), Remedial Credit Committee ('RCC'), Wealth Management Credit Committee ('WMCC') and Classification and Provisions Committee ('CPC').

The Board of Directors has delegated all authority (except credit facilities to Board members and related names) for credit decisions to the BCIC within the CBK guidelines. The responsibilities of the BCIC are to review and approve, reject, modify or conditionally approve credit proposals up to the legal lending limit of the Bank in compliance with the credit policies of the Bank. BCIC is also vested the authority to grant credit delegation to ECC as stipulated by the Board of Directors.

The ECC has the authority to approve, sanction and amend credit facilities within the approved delegated authority. ECC can also approve credit criteria, credit programs and treasury limits within the approved risk appetite of the Bank. ECC has the authority to form new or amend existing Credit Committees within the limits of ECC's overall delegated authority. A summary of all credit approvals are reported to the BRC.

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 and BCIC based on respective delegation. All MCC decisions are periodically reviewed by the CRO.

The CCC meets as required 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.

RCC reviews all remedial management credits and/or approves or recommends for MCC's or 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 are referred to the relevant Credit Committee.

WMCC has authority to approve, reject or modify credit applications from Wealth Management clients submitted to it within its delegated authority levels. Applications that fall outside the delegated authority limits of the WMCC are referred to the ECC and BCIC based on respective delegation.

CPC operates within the principles of CBK's rules and regulations and the Bank's Credit Policy guidelines for

credit facilities classification, computation of their provisions and accounting of income generated therefrom and govern the classification of the credit portfolios of the Bank and provisioning decisions. The CPC is responsible for making provisions as per IFRS 9 models and methodologies adopted by the Bank in line with the guidelines issued by CBK.

Depending on the amount and risk profile of the client, credit applications for corporate and international lending may be reviewed by the Board of Directors, BCIC, ECC, MCC and Remedial Credit Committee and typically include the following information: executive summary, customer profile, summary of limits, amounts outstanding; risk rating and credit memorandum; 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 approval is being considered in respect of relevant credit applications or participations.

The Bank has a detailed credit policy approved by the Board and this is periodically revised. The Credit Policy Manual sets out the guiding principles and credit risk standards 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. The individual country limits are approved and reviewed by the BCIC. This approval is based on the country analysis and assessment of business requirements undertaken by the Bank's Financial Institutions division and recommended by the MCC and ECC.

The Financial Institutions division regularly reviews the Bank's overall country limits and exposures. The review focuses on the spread of country 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 provides 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 Bank's business.

ECL methodology

The Bank is equipped with an internal credit rating system and has developed models to arrive at the ECL based on the requirements of IFRS 9. IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition wherein if a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Refer to note 2.3.a impairment of financial instruments for more information related to stage classification.

The Bank calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

ECL is arrived at on the basis of Probability of Default (PD) for the corresponding rating grade of the facility, Loss Given Default (LGD) and Exposure at Default (EAD). Further details are provided in the ensuing paragraphs of the Section on ECL Methodology. The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc. The ECL methodology is summarised below:

- Stage 1: The 12 months ECL is calculated as the loss that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL provision based on the expectation of a default occurring in the 12 months following the reporting date.
- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination due to quantitative and qualitative factors, the Bank records an allowance for the LT ECLs. The mechanics are

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similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For Credit Facility considered credit-impaired i.e, having objective evidence of default, the Bank calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

Significant increase in credit risk

The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally accepted definition of 'investment grade'. Credit facilities (other than consumer/ installment facilities) are classified under Stage 2 when there has been a downgrade in the obligor risk rating by 2 grades for the credit facilities with investment grade and by 1 grade for those with non-investment grade.

The Bank applies consistent quantitative criteria for internally rated portfolio to assess significant increase in credit risk. In the absence of ratings at inception, the Bank considers current rating at reporting date, the account conduct and past dues, to determine the stage in which the facilities to be classified. In addition, the Bank considers all restructured credit facilities which are not credit impaired as stage 2.

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

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

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

The Bank considers expected maturity period of 7 years for credit facilities to corporate customers classified in stage 2 unless these facilities have non-extendable contractual maturity date and periodic schedule of repayments with final repayment amount not exceeding 50% of the original credit facilities. The expected maturity period of minimum of 5 years is considered for consumer financing and credit cards and 15 years for housing loans and financing.

The Bank considers all facilities which are in default and rated 8 to 10 as Stage 3 accounts.

Staging review

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

The Bank considers a financial asset as 'cured' (i.e. no longer be impaired) and therefore reclassified out of Stage 3, when it no longer meets any of the credit impaired criteria. In respect of impaired facilities which are classified in Stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Bank for consideration

for classifying the facility in Stage 2/Stage 1. The Bank also considers related CBK guidelines before any credit facility is reclassified between stages. One year curing period is not applicable for consumer and instalment facilities.

ECL on loans and advances to banks and loans and advances to customers is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Probability of default

The Bank's policy is to assess 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 operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

The framework adopted by the Bank for calculating the PD is based upon obligor risk rating, internal default and macro-economic data. Under macro-economic data, three scenarios (a base case, upside case, and a downside case) has been considered. The Bank uses industry standard rating tools for assessing ratings/ scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Bank also uses external ratings by recognised rating agencies for externally rated portfolios.

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

For Consumer banking, the payment behaviour of the borrower is monitored on a periodic basis. Consumer loans are generally not secured, but the credit risk is minimized by the 'assignment of salary' condition that requires the customer's employer to pay their salary directly to their Gulf Bank's salary account. If salaries are not credited and there are no funds available in accounts, the related exposures get delinquent. The days past due is used to determine the credit risk of the retail customers. 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. PD used for retail credit facilities has been segmented into pools that share similar risk characteristics.

For financial instruments in Treasury, Investment securities, money market instruments and other assets portfolios, external rating agency credit grades are used. These published grades are continuously monitored and updated.

The Bank applies minimum thresholds for 12 months PD at 1% for non-investment grade credit facilities and 0.75% for investment grade credit facilities. However, these minimum thresholds are not applicable for consumer and housing loans and financing and also to credit facilities to governments and banks with external credit rating of investment grade.

Loss given default

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. For secured facilities, the Bank applies a minimum haircut to its collateral values as prescribed by CBK guidelines. For all unsecured credit facilities, the Bank considers a minimum of 50% LGD for senior debt and 75% LGD for subordinated debt as prescribed by CBK guidelines.

Covid-19 updates: The Bank has undertaken the exercise of updating the PD and LGD models used for ECL

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

Exposure at default

EAD represents the amount which the obligor will owe to the Bank at the time of default. The Bank considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values in accordance with credit conversion factor prescribed by CBK guidelines.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, consumer price index and government expenditure, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Covid-19 updates: As the IFRS 9 impairment model is forward-looking, the Bank is required to consider a range of possible future economic scenarios and their probability to calculate ECL. During the year 2020 and 2021, the economies were impacted due to shutdowns and with uncertainties creeping into economic activities, the Bank faced challenges to quantify the impact with the existing forward-looking models in place. Therefore, based on expert credit judgement, adjustments to models as appropriate were carried out.

Collateral and other credit enhancements

The Bank employs a range of tools to reduce credit risk. The Bank seeks collateral coverage, assignment of contract proceeds and other forms of protection to secure lending and minimize 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 secured by collateral, wherever required, 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.

As of 31 December 2021, **27%** (2020: 26%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals.

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

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 2021 KD 000's**	Maximum exposure 2020 KD 000's
Cash and cash equivalents (excluding cash in hand)	**883,438**	1,054,570
Kuwait Government treasury bonds	**74,000**	108,500
Central Bank of Kuwait bonds	**281,197**	280,724
Deposits with banks and other financial institutions	**124,642**	3,033
Loans and advances to banks	**278,451**	192,063
Loans and advances to customers:		
- Corporate lending	**2,694,332**	2,449,947
- Consumer lending	**1,863,754**	1,666,590
Debt investment securities (Note 13)	**107,071**	136,694
Other assets	**61,273**	36,780
Total	**6,368,158**	5,928,901
Contingent liabilities and commitments	**2,404,830**	2,361,808
Foreign exchange contracts (including spot contracts)	**35,050**	8,017
Total	**2,439,880**	2,369,825
Total credit risk exposure	**8,808,038**	8,298,726

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 2021 is **12.4%** (2020: 12.2%).

Geographic region:	**2021**		2020	
	Assets KD 000's	***Off balance sheet items KD 000's***	*Assets KD 000's*	*Off balance sheet items KD 000's*
Domestic (Kuwait)	**4,983,925**	**1,922,166**	4,692,855	1,958,911
Other Middle East	**1,161,217**	**202,455**	785,261	78,627
Europe	**131,637**	**105,329**	378,116	99,087
USA and Canada	**49,942**	**24,288**	26,723	24,501
Asia Pacific	**24,345**	**185,642**	18,309	208,699
Rest of world	**17,092**	**-**	27,637	-
	6,368,158	**2,439,880**	5,928,901	2,369,825

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Industry sector:	2021 Assets KD 000's	2021 Off balance sheet items KD 000's	2020 Assets KD 000's	2020 Off balance sheet items KD 000's
Personal	**2,042,570**	**46,362**	1,843,041	5,179
Financial	**1,194,003**	**494,106**	1,140,810	501,593
Trade and Commerce	**446,317**	**622,861**	414,557	574,196
Crude Oil and Gas	**125,762**	**97,450**	103,365	92,411
Construction	**187,089**	**621,214**	228,849	586,051
Government	**1,162,555**	**67,858**	1,030,747	122,682
Manufacturing	**311,845**	**116,887**	265,089	134,668
Real Estate	**746,350**	**135,802**	703,384	86,448
Others	**151,667**	**237,340**	199,059	266,597
	6,368,158	**2,439,880**	5,928,901	2,369,825

Internal credit quality rating

The Bank's policy is to assess 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 CreditLens 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 operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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 'quality. 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 the CBK.

The Bank classifies its loans and advances to customers mainly into two catagories; corporate lending and consumer lending. Corporate lending includes credit facilities and trade finance products to its corporate and institutional customers. Consumer lending includes consumer and instalment facilities, credit cards and other credit facilities to high net worth individuals and SMEs. 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 computes a weighted average Risk Rating through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the ERC as well as in the BRC.

RAROC Model

RAROC (Risk Adjusted Return on Capital) model is in use in the Bank to assess the net value created in the account after taking into account the cost of capital. The Models help to make right credit decisions and create shareholder value.

Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, 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 a Credit Application system for dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Bank's credit rating system.

2021	Neither past due nor impaired High KD 000's	Neither past due nor impaired Standard KD 000's	Neither past due nor impaired Acceptable KD 000's	Past due but not impaired KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	848,715	34,790	-	-	883,505
Kuwait Government treasury bonds	74,000	-	-	-	74,000
Central Bank of Kuwait bonds	281,197	-	-	-	281,197
Deposits with banks and other financial institutions	124,645	-	-	-	124,645
Loans and advances to banks	246,742	33,245	-	-	279,987
Loans and advances to customers:					
- Corporate lending	2,130,475	703,523	78,906	5,640	2,918,544
- Consumer lending	1,683,995	56,646	-	131,330	1,871,971
Debt investment securities (Note 13)	107,241	-	-	-	107,241
Other assets	61,273	-	-	-	61,273
	5,558,283	828,204	78,906	136,970	6,602,363

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2020	Neither past due nor impaired High KD 000's	Standard KD 000's	Acceptable KD 000's	Past due but not impaired KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	1,009,132	45,487	-	-	1,054,619
Kuwait Government treasury bonds	108,500	-	-	-	108,500
Central Bank of Kuwait bonds	280,724	-	-	-	280,724
Deposits with banks and other financial institutions	3,033	-	-	-	3,033
Loans and advances to banks	170,262	22,958	-	-	193,220
Loans and advances to customers:					
- Corporate lending	2,005,890	591,203	30,341	22,664	2,650,098
- Consumer lending	1,555,180	42,686	-	84,629	1,682,495
Debt investment securities (Note 13)	136,775	-	-	-	136,775
Other assets	36,780	-	-	-	36,780
	5,306,276	702,334	30,341	107,293	6,146,244

91% (2020: 70%) of the past due but not impaired category is below 60 days and **9%** (2020: 30%) is between 60-90 days.

Financial assets by class individually impaired

2021	***Gross exposure KD 000's***	***Impairment provision KD 000's***	***Fair value of collateral KD 000's***
Loans and advances to customers:			
- Corporate lending	**29,057**	**4,268**	**24,089**
- Consumer lending	**18,756**	**8,432**	**339**
	47,813	**12,700**	**24,428**

2020	*Gross exposure KD 000's*	*Impairment provision KD 000's*	*Fair value of collateral KD 000's*
Loans and advances to customers:			
- Corporate lending	49,710	7,163	24,226
- Consumer lending	1,769	995	260
	51,479	8,158	24,486

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.

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

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

These derivative financial instruments comprise of foreign exchange contracts. Foreign exchange contracts allow the Bank and its customers to transfer, modify or reduce their foreign exchange risk. Foreign exchange contracts are subject to credit risk and are limited to the current replacement value of instruments that are favorable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding.

These instruments are disclosed in Note 28. This credit risk exposure was managed as part of the overall borrowing limits granted to customers.

An analysis of the carrying amounts of Credit Facilities (cash facilities: loans and advances to banks and customers, and non-cash facilities: contingent liabilities and commitments), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

At 31 December 2021:	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
Loans and advances to banks and customers				
- High	**4,045,828**	**13,547**	**-**	**4,059,375**
- Standard	**611,039**	**182,375**	**-**	**793,414**
- Acceptable	**-**	**78,906**	**-**	**78,906**
- Past due but not impaired	**94,130**	**42,840**	**-**	**136,970**
- Impaired	**-**	**-**	**49,650**	**49,650**
	4,750,997	**317,668**	**49,650**	**5,118,315**

At 31 December 2020:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Loans and advances to banks and customers				
- High	3,678,518	51,742	-	3,730,260
- Standard	476,707	180,140	-	656,847
- Acceptable	-	30,341	-	30,341
- Past due but not impaired	91,439	15,854	-	107,293
- Impaired	-	-	52,551	52,551
	4,246,664	278,077	52,551	4,577,292

At 31 December 2021:	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
Contingent liabilities and commitments				
- High	**1,953,110**	**15,120**	**-**	**1,968,230**
- Standard	**234,532**	**151,009**	**-**	**385,541**
- Acceptable	**-**	**31,718**	**-**	**31,718**
- Impaired	**-**	**-**	**19,341**	**19,341**
	2,187,642	**197,847**	**19,341**	**2,404,830**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2020:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Contingent liabilities and commitments				
- High	2,022,812	11,034	-	2,033,846
- Standard	198,411	80,615	-	279,026
- Acceptable	-	30,547	-	30,547
- Impaired	-	-	18,389	18,389
	2,221,223	122,196	18,389	2,361,808

An analysis of the movement in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines:

At 31 December 2021:	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
ECL balance as at 1 January 2021	**40,972**	**75,196**	**55,810**	**171,978**
Impact due to transfer between stages:				
- Transfer to Stage 1	**5,070**	**(1,483)**	**(3,587)**	**-**
- Transfer to Stage 2	**(2,505)**	**5,485**	**(2,980)**	**-**
- Transfer to Stage 3	**(234)**	**(1,845)**	**2,079**	**-**
ECL (release)/charge for the year	**(1,579)**	**18,919**	**42,506**	**59,846**
ECL release on written off facilities	**-**	**-**	**(43,193)**	**(43,193)**
ECL balance as at 31 December 2021	**41,724**	**96,272**	**50,635**	**188,631**

At 31 December 2020:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL balance as at 1 January 2020	33,692	107,625	48,625	189,942
Impact due to transfer between stages:				
- Transfer to Stage 1	6,108	(1,243)	(4,865)	-
- Transfer to Stage 2	(1,294)	3,719	(2,425)	-
- Transfer to Stage 3	(81)	(36,546)	36,627	-
ECL charge for the year	2,547	1,641	58,612	62,800
ECL release on written off facilities	-	-	(80,764)	(80,764)
ECL balance as at 31 December 2020	40,972	75,196	55,810	171,978

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Given the uncertainties involved and the economic impact of the ongoing pandemic, the Bank on a conservate basis used higher weight for the downside case for the key macroeconomic variables used to estimate the ECL. The weighting is reflected in the measurement of the ECL. Therefore, the Bank is sufficiently covered for any sensitivity analysis if the Bank uses only downward case scenario. Further, the

Bank carries an excess of 37% total provisions over ECL on credit facilities (Note 12) for any increase in ECL resulting due to sensitivity.

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. Normally, the banking business 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. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk.

The interest rate sensitivity of the income statement measures the effect of assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and liabilities held at year end. The interest rate sensitivity on equity (comprehensive income) is the impact of changes in interest rates on the fair value of FVOCI fixed/floating rate bonds held at year end.

The following table reflects the effects of 25 basis points change in interest rates on the income statement and equity (comprehensive income), with all other variables held constant:

	2021			2020		
Currency	**Change in interest rate in basis points**	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
KWD	**(+) 25**	**2,154**	**(2)**	(+) 25	2,180	-
USD	**(+) 25**	**797**	**-**	(+) 25	699	-

C. CURRENCY RISK

Currency risk is the risk that the fair value 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 Bank complies with all CBK and internally approved limits. Positions are monitored on a daily basis 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 income statement and other comprehensive income is as follows:

	2021			2020		
Currency	**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**	**(171)**	**107**	+5	(178)	107

Bank's investments are held in well diversified portfolio of equity, debt instruments and 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.

NOTES TO THE FINANCIAL STATEMENTS

D. LIQUIDITY RISK

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may 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 Bank measures and monitors Basel III short term and long term liquidity ratios of LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The objective of LCR is to improve the short-term liquidity profile of the Bank by ensuring that the Bank has sufficient stock of High Quality Liquid Assets to cover a 30 day period of stressed cash outflows. Similarly, NSFR aims to improve the long-term liquidity profile by ensuring that the Bank has stable funding sources to cover funding requirements over the short and long term period.

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; 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 minimized by adherence to the strict CBK liquidity requirements. In response to the Covid-19, CBK had provided temporary relaxation to the regulatory liquidity ratios untill 31 December 2021, namely: minimum LCR of 80% (2020: 80%); minimum NSFR of 80% (2020: 80%); maturity ladder mismatch limits for specific time periods: -20% for 7 days or less (2020: -20%); -30% for 1 month or less (2020: -30%); -40% for 3 months or less (2020: -40%); -50% for 6 months or less (2020: -50%); the requirement to hold 15% (2020: 15%) of KD customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 100% (2020: 100%).

In response to the Covid-19 outbreak, the Bank evaluated its liquidity and funding positions by closely monitoring its cash flows and forecasts and strengthening the cash and short-term funds. The Bank also adopted the selective loan disbursals and focused to strengthen the customer deposit base. The Bank continues to monitor its liquidity position and funding risks arising due to the COVID-19 crisis.

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

At 31 December 2021:	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 cash equivalents	942,495	-	-	-	-	-	942,495
Kuwait Government treasury bonds	11,000	15,000	-	26,000	19,500	2,500	74,000
Central Bank of Kuwait bonds	48,485	123,232	109,480	-	-	-	281,197
Deposits with banks and other financial institutions	-	124,642	-	-	-	-	124,642
Loans and advances to banks	233	5,434	15,001	67,928	189,855	-	278,451
Loans and advances to customers	239,970	597,624	225,010	656,986	603,203	2,235,293	4,558,086
Investment securities	-	13,593	25,684	13,561	50,215	38,888	141,941
Other assets	26,188	935	30,507	2,371	60,319	385	120,705
Premises and equipment	-	-	-	-	-	34,393	34,393
Total assets	1,268,371	880,460	405,682	766,846	923,092	2,311,459	6,555,910
Liabilities:							
Due to banks	59,850	163,934	248,689	123,028	-	-	595,501
Deposits from financial institutions	257,087	201,403	157,335	42,975	14,369	-	673,169
Customer deposits	2,489,572	776,486	498,483	497,863	41,591	-	4,303,995
Other borrowed funds	-	-	-	-	165,000	50,000	215,000
Other liabilities	32,247	30,604	8,934	7,449	22,519	-	101,753
Total liabilities	2,838,756	1,172,427	913,441	671,315	243,479	50,000	5,889,418

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2020:	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 cash equivalents	1,105,925	-	-	-	-	-	1,105,925
Kuwait Government treasury bonds	-	-	17,500	17,000	57,500	16,500	108,500
Central Bank of Kuwait bonds	62,973	123,220	94,531	-	-	-	280,724
Deposits with banks and other financial institutions	-	3,033	-	-	-	-	3,033
Loans and advances to banks	633	442	26	41,171	149,791	-	192,063
Loans and advances to customers	182,428	679,930	239,945	473,023	577,383	1,963,828	4,116,537
Investment securities	8,190	-	15,144	9,001	74,175	68,345	174,855
Other assets	27,464	1,165	5,723	2,511	59,772	383	97,018
Premises and equipment	-	-	-	-	-	34,053	34,053
Total assets	1,387,613	807,790	372,869	542,706	918,621	2,083,109	6,112,708
Liabilities:							
Due to banks	136,934	72,744	218,826	122,039	-	-	550,543
Deposits from financial institutions	260,266	220,557	126,045	98,469	-	-	705,337
Customer deposits	2,197,683	929,904	431,114	463,464	11,554	-	4,033,719
Other borrowed funds	-	-	-	-	100,000	-	100,000
Other liabilities	23,365	23,466	8,355	8,478	22,081	-	85,745
Total liabilities	2,618,248	1,246,671	784,340	692,450	133,635	-	5,475,344

The tables below summarize 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 2021:

Financial liabilities:	**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	**59,999**	**164,603**	**373,818**	**-**	**-**	**598,420**
Deposits from financial institutions	**257,539**	**202,886**	**203,170**	**14,611**	**-**	**678,206**
Customer deposits	**2,491,250**	**782,452**	**1,009,715**	**42,478**	**-**	**4,325,895**
Other borrowed funds	**512**	**991**	**4,566**	**228,277**	**-**	**234,346**
Other liabilities	**32,247**	**30,604**	**16,383**	**22,519**	**-**	**101,753**
Total undiscounted liabilities	**2,841,547**	**1,181,536**	**1,607,652**	**307,885**	**-**	**5,938,620**

At 31 December 2020:

Financial liabilities:	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	66,773	5,003	432,713	51,571	-	556,060
Deposits from financial institutions	85,458	202,602	354,670	67,439	-	710,169
Customer deposits	1,742,541	251,169	1,824,113	235,288	-	4,053,111
Other borrowed funds	-	1,479	4,521	102,482	-	108,482
Other liabilities	23,365	23,466	16,833	22,081	-	85,745
Total undiscounted liabilities	1,918,137	483,719	2,632,850	478,861	-	5,513,567

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

At 31 December 2021:

	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	**18,759**	**37,240**	**285,325**	**440,062**	**682,276**	**1,463,662**
Commitments	**5,756**	**9,417**	**113,132**	**281,053**	**531,810**	**941,168**
	24,515	**46,657**	**398,457**	**721,115**	**1,214,086**	**2,404,830**

At 31 December 2020:

	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	23,323	13,948	212,903	528,585	601,020	1,379,779
Commitments	6,238	4,131	65,901	298,995	606,764	982,029
	29,561	18,079	278,804	827,580	1,207,784	2,361,808

NOTES TO THE FINANCIAL STATEMENTS

The table below shows the contractual expiry by maturity of the Bank's forward foreign exchange contracts positions:

At 31 December 2021:

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	Total KD 000's
Forward foreign exchange	**-**	**-**	**6,851**	**6,851**

At 31 December 2020:

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	Total KD 000's
Forward foreign exchange contracts	383	2,874	1,978	5,235

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. 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 primarily monitored through the Operational Risk Management Unit in the Risk Management Department. The department has specialized units focusing on Fraud, Policy & Procedures, Business Continuity, Information and Cyber Security. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management. The Operational Risk Management function is 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.

F. EQUITY PRICE RISK

This is a risk that the value of equity investments 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.

A portion of the Bank's investments are held in well diversified portfolio of managed 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 FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

Market indices	*% Change in equity price*	***2021 Impact on statement of comprehensive income KD 000's***	*2020 Impact on statement of comprehensive income KD 000's*
Kuwait Stock Exchange	+5%	**552**	605

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 interest bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Ba nk 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 amounts 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:

At 31 December 2021:

Financial assets at FVOCI:	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Equity securities	**11,038**	**686**	**23,146**	**34,870**
Debt securities	**-**	**3,015**	**-**	**3,015**
	11,038	**3,701**	**23,146**	**37,885**

At 31 December 2020:

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

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

Financial assets at FVOCI: Equity securities	At 1 January KD 000's	Change in fair value KD 000's	Additions/ disposals KD 000's	Exchange rate movements KD 000's	At 31 December KD 000's
2021	**25,415**	**(1,627)**	**(632)**	**(10)**	**23,146**
2020	17,128	(648)	8,919	16	25,415

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

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

The amortized cost and fair value of investment securities at amortised cost as at 31 December 2021 were **KD 104,056 thousand** (2020: KD 136,493 thousand) and **KD 105,235 thousand** (Level 1) (2020: KD 118,551 thousand) and **KD Nil** (Level 2) (2020: KD 20,800 thousand) respectively.

NOTES TO THE FINANCIAL STATEMENTS

The fair values of other financial assets and liabilities which are carried at amortised cost are estimated using the valuation models that incorporate a range of input assumptions. These assumptions may include estimates using credit spreads, forward looking discounted cash flow models using the assumptions which the management believes are consistent with those which would be used by market participants in valuing such financial assets and liabilities. The Bank has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact.

The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

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:

	2021 KD 000's	2020 KD 000's
Guarantees	**1,177,918**	1,135,900
Letters of credit and acceptances	**285,744**	243,879
Undrawn irrevocable commitments	**17,542**	23,947
Undrawn revocable commitments	**923,626**	958,082
	2,404,830	2,361,808

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

Segmental information for the year ended 31 December is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2021 KD 000's	2020 KD 000's	**2021 KD 000's**	2020 KD 000's	**2021 KD 000's**	2020 KD 000's
Operating income (loss)	**143,334**	137,109	**12,492**	(239)	**155,826**	136,870
Segment result	**66,744**	52,015	**10,708**	(1,646)	**77,452**	50,369
Unallocated income					**14,232**	21,398
Unallocated expense					**(49,579)**	(42,968)
Profit for the year					**42,105**	28,799
Segment assets	**4,950,610**	4,399,677	**1,509,633**	1,642,198	**6,460,243**	6,041,875
Unallocated assets					**95,667**	70,833
Total Assets					**6,555,910**	6,112,708
Segment liabilities	**3,399,102**	3,133,593	**2,345,760**	2,207,827	**5,744,862**	5,341,420
Unallocated liabilities and equity					**811,048**	771,288
Total Liabilities and Equity					**6,555,910**	6,112,708

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 2021 or 2020.

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 2021:				*Notional amounts by term to maturity*	
Derivatives instruments held as:	*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*
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	7	(4)	6,851	-	6,851

At 31 December 2020:				*Notional amounts by term to maturity*	
Derivatives instruments held as:	*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*
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	25	(28)	5,235	3,257	1,978

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 currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

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 reducing the market risk. Arbitrage involves identifying and profiting from price differentials between markets or products.

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Bank.

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2021 and 31 December 2020 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2021 KD 000's	2020 KD 000's
Risk weighted assets	**4,827,656**	4,576,070
Capital required: 11.5% (2020: 11.5%) (Note 3)	**555,180**	526,248
Capital available		
Tier 1 capital	**698,151**	679,576
Tier 2 capital	**108,912**	155,537
Total capital	**807,063**	835,113
Tier 1 capital adequacy ratio	**14.46%**	14.85%
Total capital adequacy ratio	**16.72%**	18.25%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2021 and 31 December 2020 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2021 KD 000's	2020 KD 000's
Tier 1 capital	**698,151**	679,576
Total Exposure	**7,351,764**	6,848,774
Financial leverage ratio	**9.50%**	9.92%

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/BS/ 342/2014 dated 21 October 2014 for the year ended 31 December 2021 and 31 December 2020 are included under the 'Risk Management' section of the annual report.

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1885588

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NOTES

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