

GULF BANK K.S.C.P.
INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)

30 JUNE 2020



**Building a better
working world**

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C.P. (the "Bank") as at 30 June 2020, and the related interim condensed statement of income and interim condensed statement of comprehensive income for the three months and six months periods then ended and the related interim condensed statement of cash flows and interim condensed statement of changes in equity for the six months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the six months period ended 30 June 2020 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the six months period ended 30 June 2020 that might have had a material effect on the business of the Bank or on its financial position.

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09 August 2020
Kuwait

GULF BANK K.S.C.P.
Interim Condensed Statement of Income
(Unaudited)
PERIOD ENDED 30 JUNE 2020

| | | <i>3 months ended</i> | <i>3 months ended</i> | <i>6 months ended</i> | <i>6 months ended</i> |
|---|----|-----------------------|-----------------------|-----------------------|-----------------------|
| | | <i>30 June</i> | <i>30 June</i> | <i>30 June</i> | <i>30 June</i> |
| | | <i>2020</i> | <i>2019</i> | <i>2020</i> | <i>2019</i> |
| <i>Notes</i> | | <i>KD 000's</i> | <i>KD 000's</i> | <i>KD 000's</i> | <i>KD 000's</i> |
| Interest income | | 55,245 | 64,403 | 113,269 | 128,139 |
| Interest expense | | 22,836 | 27,490 | 51,967 | 53,650 |
| Net interest income | | 32,409 | 36,913 | 61,302 | 74,489 |
| Net fees and commissions | | 4,734 | 7,229 | 11,491 | 13,898 |
| Net gains from dealing in foreign currencies and derivatives | | 1,524 | 2,392 | 3,593 | 4,581 |
| Dividend income | | - | - | 352 | 575 |
| Other income | | 231 | 1,803 | 475 | 2,040 |
| Operating income | | 38,898 | 48,337 | 77,213 | 95,583 |
| Staff expenses | | 8,882 | 11,515 | 20,389 | 23,250 |
| Occupancy costs | | 678 | 652 | 1,411 | 1,289 |
| Depreciation | | 1,932 | 1,730 | 3,870 | 3,448 |
| Other expenses | | 3,236 | 4,450 | 7,804 | 11,942 |
| Operating expenses | | 14,728 | 18,347 | 33,474 | 39,929 |
| OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES | | 24,170 | 29,990 | 43,739 | 55,654 |
| Charge (release) of provisions: | | | | | |
| - specific | | 23,979 | 22,313 | 32,246 | 35,317 |
| - general | | (547) | 531 | 2,752 | (346) |
| Loan recoveries, net of write-off | | (2,948) | (5,802) | (3,867) | (4,890) |
| Net provision on other financial assets | | (5) | 41 | (84) | 332 |
| Impairment loss on other assets | 12 | 372 | 140 | 372 | 140 |
| OPERATING PROFIT | | 3,319 | 12,767 | 12,320 | 25,101 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | 32 | 128 | 123 | 252 |
| National Labour Support Tax | | 84 | 316 | 307 | 622 |
| Zakat | | 32 | 128 | 123 | 252 |
| PROFIT FOR THE PERIOD | | 3,171 | 12,195 | 11,767 | 23,975 |
| BASIC AND DILUTED EARNINGS PER SHARE (Fils) | 3 | 1 | 4 | 4 | 8 |

The attached notes 1 to 13 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Interim Condensed Statement of Comprehensive Income
(Unaudited)
PERIOD ENDED 30 JUNE 2020

| | <i>3 months ended 30 June 2020 KD 000's</i> | <i>3 months ended 30 June 2019 KD 000's</i> | <i>6 months ended 30 June 2020 KD 000's</i> | <i>6 months ended 30 June 2019 KD 000's</i> |
|--|---|---|---|---|
| Profit for the period | 3,171 | 12,195 | 11,767 | 23,975 |
| Other comprehensive income | | | | |
| <i>Items that will not be reclassified subsequently to interim condensed statement of income :</i> | | | | |
| Net changes in fair value of investment securities-equity | (607) | (918) | (4,459) | 1,254 |
| <i>Items that are reclassified or may be reclassified subsequently to interim condensed statement of income:</i> | | | | |
| Net changes in fair value of debt instruments at FVOCI | 1 | (7) | 1 | (12) |
| Other comprehensive income for the period | (606) | (925) | (4,458) | 1,242 |
| Total comprehensive income for the period | 2,565 | 11,270 | 7,309 | 25,217 |

The attached notes 1 to 13 form part of the interim condensed financial information.

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

| | | <i>(Unaudited)</i> 30 June 2020 KD 000's | <i>(Audited)</i> 31 December 2019 KD 000's | <i>(Unaudited)</i> 30 June 2019 KD 000's |
|--|--------------|--|--|--|
| | <i>Notes</i> | | | |
| ASSETS | | | | |
| Cash and cash equivalents | | 811,826 | 847,881 | 847,848 |
| Treasury bills and bonds | | 165,500 | 232,000 | 326,500 |
| Central Bank of Kuwait bonds | | 279,634 | 278,675 | 283,992 |
| Deposits with banks and other financial institutions | | 55,855 | 128,368 | 160,966 |
| Loans and advances to banks | | 206,102 | 212,978 | 133,736 |
| Loans and advances to customers | | 4,188,995 | 4,224,608 | 3,955,333 |
| Investment securities | | 164,855 | 170,694 | 153,702 |
| Other assets | 12 | 117,315 | 113,549 | 111,920 |
| Premises and equipment | | 35,195 | 36,664 | 36,875 |
| TOTAL ASSETS | | 6,025,277 | 6,245,417 | 6,010,872 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES | | | | |
| Due to banks | | 434,474 | 398,713 | 505,504 |
| Deposits from financial institutions | | 873,851 | 1,018,487 | 841,527 |
| Customer deposits | | 3,915,754 | 3,949,901 | 3,804,447 |
| Subordinated Tier 2 bonds | | 100,000 | 100,000 | 100,000 |
| Other liabilities | | 101,887 | 113,993 | 134,465 |
| TOTAL LIABILITIES | | 5,425,966 | 5,581,094 | 5,385,943 |
| EQUITY | | | | |
| Share capital | 4 | 304,813 | 304,813 | 304,813 |
| Statutory reserve | | 39,106 | 39,106 | 32,429 |
| Share premium | | 153,024 | 153,024 | 153,024 |
| Property revaluation reserve | | 18,425 | 18,425 | 17,983 |
| Treasury share reserve | | 22,926 | 24,111 | 24,111 |
| Fair valuation reserve | | 2,714 | 7,522 | 8,348 |
| Retained earnings | | 128,885 | 190,927 | 157,826 |
| | | 669,893 | 737,928 | 698,534 |
| Treasury shares | 5 | (70,582) | (73,605) | (73,605) |
| TOTAL EQUITY | | 599,311 | 664,323 | 624,929 |
| TOTAL LIABILITIES AND EQUITY | | 6,025,277 | 6,245,417 | 6,010,872 |


Jassim Mustafa Boodai
(Chairman)


Antoine Daher
(Chief Executive Officer)

The attached notes 1 to 13 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Interim Condensed Statement of Cash Flows
(Unaudited)
PERIOD ENDED 30 JUNE 2020

| | Notes | 6 months ended 30 June 2020 KD 000's | 6 months ended 30 June 2019 KD 000's |
|--|-------|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the period | | 11,767 | 23,975 |
| Adjustments: | | | |
| Effective interest rate adjustment | | (16) | (132) |
| Dividend income | | (352) | (575) |
| Depreciation | | 3,870 | 3,448 |
| Loan loss provisions | | 34,998 | 34,971 |
| Net provision on other financial assets | | 372 | 332 |
| Impairment loss on other assets | 12 | (84) | 140 |
| OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES | | 50,555 | 62,159 |
| <i>Decrease/(increase) in operating assets:</i> | | | |
| Treasury bills and bonds | | 66,500 | 69,236 |
| Central Bank of Kuwait bonds | | (959) | 37,961 |
| Deposits with banks and other financial institutions | | 72,592 | (4,712) |
| Loans and advances to banks | | 6,818 | 10,057 |
| Loans and advances to customers | | (40,051) | (40,028) |
| Other assets | | (6,108) | (4,746) |
| <i>Increase/(decrease) in operating liabilities:</i> | | | |
| Due to banks | | 35,761 | 91,022 |
| Deposits from financial institutions | | (144,636) | (164,367) |
| Customer deposits | | (34,147) | 69,692 |
| Other liabilities | | (13,578) | (3,367) |
| NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES | | (7,253) | 122,907 |
| INVESTING ACTIVITIES | | | |
| Purchase of investment securities | | (5,452) | (13,307) |
| Proceeds from sale of investment securities | | 8,808 | 28,035 |
| Purchase of premises and equipment | | (2,401) | (3,490) |
| Dividend income received | | 352 | 575 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | 1,307 | 11,813 |
| FINANCING ACTIVITIES | | | |
| Dividend paid | 6 | (31,947) | (28,981) |
| Proceeds from sale of treasury shares | | 1,838 | - |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | | (30,109) | (28,981) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (36,055) | 105,739 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | | 847,881 | 742,109 |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | | 811,826 | 847,848 |
| Additional cash flows information | | | |
| Interest received | | 108,006 | 133,273 |
| Interest paid | | 54,404 | 50,471 |

The attached notes 1 to 13 form part of the interim condensed financial information.

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

PERIOD ENDED 30 JUNE 2020

| | RESERVES | | | | | | | Treasury shares KD 000's | Total KD 000's |
|---|---------------------------|-------------------------------|---------------------------|--|------------------------------------|------------------------------------|-------------------------------|--------------------------------|-------------------|
| | Share capital KD 000's | Statutory reserve KD 000's | Share premium KD 000's | Property revaluation reserve KD 000's | Treasury share reserve KD 000's | Fair valuation reserve KD 000's | Retained earnings KD 000's | Sub-total reserves KD 000's | |
| At 1 January 2019 | 304,813 | 32,429 | 153,024 | 17,983 | 24,111 | 7,382 | 162,556 | 397,485 | 628,693 |
| Profit for the period | - | - | - | - | - | - | 23,975 | 23,975 | 23,975 |
| Other comprehensive income for the period | - | - | - | - | - | 1,242 | - | 1,242 | 1,242 |
| Total comprehensive income for the period | - | - | - | - | - | 1,242 | 23,975 | 25,217 | 25,217 |
| Dividend paid (Note 6) | - | - | - | - | - | - | (28,981) | (28,981) | (28,981) |
| Realised gain on equity securities at FVOCI | - | - | - | - | - | (276) | 276 | - | - |
| At 30 June 2019 | 304,813 | 32,429 | 153,024 | 17,983 | 24,111 | 8,348 | 157,826 | 393,721 | 624,929 |
| At 1 January 2020 | 304,813 | 39,106 | 153,024 | 18,425 | 24,111 | 7,522 | 190,927 | 433,115 | 664,323 |
| Profit for the period | - | - | - | - | - | - | 11,767 | 11,767 | 11,767 |
| Other comprehensive income for the period | - | - | - | - | - | (4,458) | - | (4,458) | (4,458) |
| Total comprehensive income for the period | - | - | - | - | - | (4,458) | 11,767 | 7,309 | 7,309 |
| Dividend paid (Note 6) | - | - | - | - | - | - | (31,947) | (31,947) | (31,947) |
| Modification loss on consumer lending (Note 13) | - | - | - | - | - | - | (42,212) | (42,212) | (42,212) |
| Realised gain on equity securities at FVOCI | - | - | - | - | - | (350) | 350 | - | - |
| Sale of treasury shares | - | - | - | - | - | - | - | - | - |
| Loss on sale of treasury shares | - | - | - | - | - | - | - | - | - |
| At 30 June 2020 | 304,813 | 39,106 | 153,024 | 18,425 | 22,926 | 2,714 | 128,885 | 365,080 | 599,311 |

The attached notes 1 to 13 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2020

1. INCORPORATION AND REGISTRATION

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

The interim condensed financial information of the Bank for the six months period ended 30 June 2020 was authorised by the Board of Directors for issue on 22 July 2020.

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

2. BASIS OF PRESENTATION

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

The annual financial statements for the year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standard (“IFRS”) as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (“CBK”). These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of IFRS as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted for use by the State of Kuwait). Further, during the period ended 30 June 2020, the CBK has extended their regulations to require that modification losses arising from postponement of instalments of consumer and instalment loans and credit card instalments for a period of six months in response to the economic impact of Covid -19 are to be recognized in retained earnings instead of the income statement.

The accounting policies used in the preparation of the interim condensed financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2019 except as mentioned above.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2020 did not have any material impact on the accounting policies, financial position or performance of the Bank.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Bank’s annual financial statements for the year ended 31 December 2019. Further, operating results for the six months period ended 30 June 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

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

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2020

3. BASIC AND DILUTED EARNINGS PER SHARE

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

| | <i>3 months ended 30 June 2020 KD 000's</i> | <i>3 months ended 30 June 2019 KD 000's</i> | <i>6 months ended 30 June 2020 KD 000's</i> | <i>6 months ended 30 June 2019 KD 000's</i> |
|---|---|---|---|---|
| Profit for the period | <u>3,171</u> | <u>12,195</u> | <u>11,767</u> | <u>23,975</u> |
| | <u>Shares</u> | <u>Shares</u> | <u>Shares</u> | <u>Shares</u> |
| Weighted average number of shares outstanding during the period, net of treasury shares | <u>2,904,294,491</u> | <u>2,898,133,288</u> | <u>2,902,723,099</u> | <u>2,898,133,288</u> |
| Basic and diluted earnings per share (Fils) | <u>1</u> | <u>4</u> | <u>4</u> | <u>8</u> |

4. SHARE CAPITAL

| | <i>(Unaudited) 30 June 2020 KD 000's</i> | <i>(Audited) 31 December 2019 KD 000's</i> | <i>(Unaudited) 30 June 2019 KD 000's</i> |
|---|--|--|--|
| Authorised, issued and fully paid up 3,048,127,898 (31 December 2019: 3,048,127,898 and 30 June 2019: 3,048,127,898) shares of 100 fils | <u>304,813</u> | <u>304,813</u> | <u>304,813</u> |

5. TREASURY SHARES

| | <i>(Unaudited) 30 June 2020</i> | <i>(Audited) 31 December 2019</i> | <i>(Unaudited) 30 June 2019</i> |
|---|---|---|---|
| Number of treasury shares | <u>143,833,407</u> | <u>149,994,610</u> | <u>149,994,610</u> |
| Percentage of treasury shares | <u>4.72%</u> | <u>4.92%</u> | <u>4.92%</u> |
| Cost of treasury shares (KD 000's) | <u>70,582</u> | <u>73,605</u> | <u>73,605</u> |
| Weighted average market value of treasury shares (KD 000's) | <u>34,664</u> | <u>44,098</u> | <u>44,398</u> |

This includes 13,641,280 treasury shares costing KD 5,488 thousand, which represent collaterals repossessed in settlement of debts from customers. The balance in the treasury share reserve of **KD 22,926 thousand** (31 December 2019: KD 24,111 thousand and 30 June 2019: KD 24,111 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings through out the holding period of treasury shares.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2020

6. DIVIDEND

The shareholders at the Annual General Meeting (AGM) held on 31 March 2020 approved a cash dividend of **11 fils** per share (2018: 10 fils) for the year ended 31 December 2019. The cash dividend was recorded on 31 March 2020 and paid subsequently.

7. SEGMENTAL ANALYSIS

By Business Unit

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

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

Segmental information for the six months period ended 30 June is as follows:

| | Commercial Banking | | Treasury & Investments | | Total | |
|--|---------------------------|-----------------|-----------------------------------|-----------------|------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | KD 000's | KD 000's | KD 000's | KD 000's | KD 000's | KD 000's |
| Operating income (excluding unallocated income provided below) | 66,183 | 73,718 | (2,370) | 4,598 | 63,813 | 78,316 |
| Segment result | 24,692 | 30,356 | (2,966) | 3,737 | 21,726 | 34,093 |
| Unallocated income | | | | | 13,400 | 17,267 |
| Unallocated expense | | | | | (23,359) | (27,385) |
| Profit for the period | | | | | 11,767 | 23,975 |
| Segment assets | 4,497,573 | 4,206,290 | 1,447,648 | 1,735,250 | 5,945,221 | 5,941,540 |
| Unallocated assets | | | | | 80,056 | 69,332 |
| Total Assets | | | | | 6,025,277 | 6,010,872 |
| Segment liabilities | 2,925,822 | 2,991,231 | 2,316,787 | 2,178,595 | 5,242,609 | 5,169,826 |
| Unallocated liabilities and equity | | | | | 782,668 | 841,046 |
| Total Liabilities and Equity | | | | | 6,025,277 | 6,010,872 |

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

30 June 2020

8. RELATED PARTY TRANSACTIONS

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

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

| | <i>Number of Board Members or executive management</i> | | | | <i>Number of related parties</i> | | | | | |
|------------------------------------|--|------------------|--------------|--------------|----------------------------------|------------------|-----------------|--------------|------------------|--------------|
| | <i>(Audited)</i> | | | | <i>(Audited)</i> | | | | | |
| | 30 June 2020 | 31 December 2019 | 30 June 2019 | 30 June 2020 | 30 June 2020 | 31 December 2019 | 30 June 2019 | 30 June 2020 | 31 December 2019 | 30 June 2019 |
| | | | | | <i>KD 000's</i> | | <i>KD 000's</i> | | <i>KD 000's</i> | |
| Board members: | | | | | | | | | | |
| Balances | | | | | | | | | | |
| Loans and advances | - | 1 | 1 | 13 | 14 | 14 | 14 | 216,202 | 176,918 | 149,780 |
| Credit cards | 1 | 6 | 3 | 3 | 7 | 4 | 4 | 12 | 86 | 54 |
| Deposits | 5 | 8 | 8 | 68 | 60 | 53 | 53 | 67,182 | 25,560 | 608,098 |
| Commitments/derivatives | | | | | | | | | | |
| Guarantees / letters of credit | - | 1 | 1 | 7 | 5 | 6 | 6 | 5,149 | 5,388 | 5,893 |
| Forward foreign exchange contracts | - | - | - | - | - | 1 | 1 | - | - | 14,649 |
| Transactions | | | | | | | | | | |
| Interest income | 1 | 1 | 1 | 19 | 19 | 19 | 19 | 3,143 | 7,025 | 3,317 |
| Interest expense | 3 | 5 | 5 | 18 | 21 | 17 | 17 | 184 | 9,512 | 7,715 |
| Net fees and commissions | - | - | - | 6 | 12 | 11 | 11 | 18 | 120 | 72 |
| Other expenses | - | - | - | 12 | 12 | 10 | 10 | 933 | 2,655 | 843 |
| Purchase of equipment | - | - | - | 2 | 2 | 2 | 2 | 10 | 173 | 115 |
| Executive management: | | | | | | | | | | |
| Balances | | | | | | | | | | |
| Loans and advances | 2 | 2 | 2 | - | - | - | - | 39 | 47 | 58 |
| Credit cards | 7 | 11 | 10 | - | - | - | - | 17 | 28 | 19 |
| Deposits | 13 | 12 | 11 | - | - | - | - | 2,083 | 1,491 | 1,477 |
| Transactions | | | | | | | | | | |
| Interest income | 2 | 2 | 2 | - | - | - | - | 2 | 3 | 1 |
| Interest expense | 13 | 13 | 11 | - | - | - | - | 13 | 28 | 13 |

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 June 2020

8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to directors and executive management are repayable within CBK regulatory limits and have interest rates of **2% to 6%** (2019: 3.5% to 6%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 30 June 2020 was **KD 116,390 thousand** (31 December 2019: KD 116,820 thousand and 30 June 2019: KD 71,177 thousand).

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

| | <i>6 months ended 30 June 2020 KD 000's</i> | <i>6 months ended 30 June 2019 KD 000's</i> |
|--|---|---|
| Salaries and other short-term benefits | 1,406 | 2,204 |
| End of service/termination benefits | 396 | 259 |
| | <u>1,802</u> | <u>2,463</u> |

9. CONTINGENT LIABILITIES AND COMMITMENTS

| | <i>(Unaudited) 30 June 2020 KD 000's</i> | <i>(Audited) 31 December 2019 KD 000's</i> | <i>(Unaudited) 30 June 2019 KD 000's</i> |
|-----------------------------------|--|--|--|
| Guarantees | 1,217,348 | 1,213,861 | 1,251,490 |
| Letters of credit and acceptances | 187,131 | 247,720 | 219,513 |
| | <u>1,404,479</u> | <u>1,461,581</u> | <u>1,471,003</u> |

As at reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD 314,200 thousand** (31 December 2019: KD 291,604 thousand and 30 June 2019: KD 208,109 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

10. DERIVATIVES

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

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

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

| At 30 June 2020: | <i>Notional amounts by term to maturity</i> | | | | |
|---|---|---|---|---|-------------------------------------|
| | <i>Positive fair value KD 000's</i> | <i>Negative fair value KD 000's</i> | <i>Notional amount total KD 000's</i> | <i>Within 3 months KD 000's</i> | <i>3-12 months KD 000's</i> |
| Derivatives instruments held as: | | | | | |
| Trading (and non qualifying hedges) | | | | | |
| Forward foreign exchange contracts | 287 | (94) | 55,201 | 52,089 | 3,112 |

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10. DERIVATIVES (continued)

| At 31 December 2019: | Positive fair value KD 000's | Notional Negative fair value KD 000's | Notional amount total KD 000's | Notional amounts by term to maturity | |
|-------------------------------------|------------------------------------|--|---|---|----------------------------|
| | | | | Within 3 months KD 000's | 3-12 months KD 000's |
| Derivatives instruments held as: | | | | | |
| Trading (and non qualifying hedges) | | | | | |
| Forward foreign exchange contracts | 13 | (215) | 74,130 | 71,022 | 3,108 |

| At 30 June 2019: | Positive fair value KD 000's | Negative fair value KD 000's | Notional amount total KD 000's | Notional amounts by term to maturity | |
|-------------------------------------|------------------------------------|------------------------------------|---|---|----------------------------|
| | | | | Within 3 months KD 000's | 3-12 months KD 000's |
| Derivatives instruments held as: | | | | | |
| Trading (and non qualifying hedges) | | | | | |
| Forward foreign exchange contracts | 261 | (236) | 34,317 | 34,138 | 179 |

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

At 30 June 2020:

| | Level 1 KD '000 | Level 2 KD '000 | Level 3 KD '000 | Total KD '000 |
|-----------------------------------|--------------------|--------------------|--------------------|------------------|
| Financial assets at FVOCI: | | | | |
| Equity securities | 10,303 | 6,001 | 11,934 | 28,238 |
| Debt securities | - | 202 | - | 202 |
| | 10,303 | 6,203 | 11,934 | 28,440 |

The amortized cost and fair value of investment securities at amortised cost as at 30 June 2020 were **KD 136,415 thousand** (31 December 2019: KD 136,727 thousand; 30 June 2019: KD 117,737 thousand) and **KD 118,106 thousand** (Level 1) (31 December 2019: KD 118,235 thousand; 30 June 2019: KD 98,736 thousand) and **KD 20,800 thousand** (Level 2) (31 December 2019: KD 20,800 thousand; 30 June 2019: KD 20,800 thousand) respectively.

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2019:

| | <i>Level 1</i> <i>KD '000</i> | <i>Level 2</i> <i>KD '000</i> | <i>Level 3</i> <i>KD '000</i> | <i>Total</i> <i>KD '000</i> |
|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|--------------------------------|
| <i>Financial assets at FVOCI:</i> | | | | |
| Equity securities | 15,868 | 5,978 | 11,920 | 33,766 |
| Debt securities | - | 201 | - | 201 |
| | <u>15,868</u> | <u>6,179</u> | <u>11,920</u> | <u>33,967</u> |

At 30 June 2019:

| | <i>Level 1</i> <i>KD '000</i> | <i>Level 2</i> <i>KD '000</i> | <i>Level 3</i> <i>KD '000</i> | <i>Total</i> <i>KD '000</i> |
|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|--------------------------------|
| <i>Financial assets at FVOCI:</i> | | | | |
| Equity securities | 15,598 | 5,413 | 13,844 | 34,855 |
| Debt securities | - | 1,110 | - | 1,110 |
| | <u>15,598</u> | <u>6,523</u> | <u>13,844</u> | <u>35,965</u> |

During the period, there were no transfers between any of the fair value hierarchy levels.

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

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

12. OTHER ASSETS

| | <i>(Unaudited)</i> <i>30 June</i> <i>2020</i> <i>KD 000's</i> | <i>(Audited)</i> <i>31 December</i> <i>2019</i> <i>KD 000's</i> | <i>(Unaudited)</i> <i>30 June</i> <i>2019</i> <i>KD 000's</i> |
|---|--|--|--|
| Accrued interest receivable | 27,450 | 22,187 | 16,407 |
| Sundry debtors and others | 17,411 | 18,536 | 20,839 |
| Reposessed collaterals (refer movement below) | 72,454 | 72,826 | 74,674 |
| | <u>117,315</u> | <u>113,549</u> | <u>111,920</u> |

Movement in reposessed collaterals:

| | <i>(Unaudited)</i> <i>30 June</i> <i>2020</i> <i>KD 000's</i> | <i>(Audited)</i> <i>31 December</i> <i>2019</i> <i>KD 000's</i> | <i>(Unaudited)</i> <i>30 June</i> <i>2019</i> <i>KD 000's</i> |
|----------------------------|--|--|--|
| Beginning balance | 72,826 | 71,031 | 71,031 |
| Additions | | | |
| - Listed equity securities | - | 8,432 | 8,432 |
| Disposals | - | (5,378) | (4,649) |
| Impairment loss | (372) | (1,259) | (140) |
| Closing balance | <u>72,454</u> | <u>72,826</u> | <u>74,674</u> |

Investment securities amounting to **KD 2,522 thousand** (31 December 2019: KD 2,894 thousand and 30 June 2019: KD 3,643 thousand) are fair valued using quoted market prices (Level 1).

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13. COVID-19 IMPACT

COVID-19 Pandemic 2020

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

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. The modification loss is charged to retained earnings in accordance with the Bank's accounting policy as stated in Note 2.

Other impacted non-retail customers

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

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 2020:

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

Business continuity

In response to the pandemic, the Bank has implemented protocols and processes to help protect employees, customers and community partners. These measures include: leveraging our online platforms and business continuity plans and enhancing our capabilities to support employees to work from home, 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.

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13. COVID-19 IMPACT (continued)

Expected Credit Loss updates

The Bank has considered the potential impact of the uncertainties caused by the COVID-19 pandemic while estimating the Expected Credit Loss (ECL) requirements for the period ended 30 June 2020.

Significant increase in credit risk

The Bank takes into account their historic experience of losses updated to reflect current conditions as well as forecasts of future economic conditions to assess if there is significant increase in credit risk or objective evidence of impairment in the light of COVID-19 situation. Key areas that the Bank has given focus for ECL computation for the period ended 30 June 2020 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
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available
- Deferral of instalments will not automatically trigger significant increase in credit risk

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

Staging review

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

Macro-economic factors

As the IFRS 9 impairment model is forward-looking, the Bank is required to consider a range of possible future economic scenarios and their probability to calculate ECL. As the economies coming to a near shutdown and uncertainty creeping into economic activities, the Bank is finding it extremely challenging to quantify the impact with the existing forward-looking models in place. Therefore, adjustments to model results, based on expert credit judgement as mentioned above could be necessary to reflect the information available at the reporting date appropriately.

Nevertheless, the Bank has undertaken the exercise of updating the Probability of Defaults (PD) and Loss Given Default (LGD) models used for ECL calculation with historical experience to derive links between changes in economic conditions and customer behaviour. The Bank has applied the latest macroeconomic overlays to reflect the present economic conditions in the PD and LGD model. The Bank has also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays resulted in significant increase in the amount of ECL requirements for the period ended 30 June 2020.

Notwithstanding the above, ECL requirements for credit facilities estimated as at 30 June 2020 continue to be lower than the provisions required as per CBK instructions. In accordance with Bank's accounting policy, the higher amount being provision required as per CBK instructions is recognized as provisions for credit losses on credit facilities.