Annual Report 2023

A Journey towards transformation

بنك الخليج
GULF BANK

H.H. Sheikh
Meshal AL-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

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STRATEGIC REVIEW

GULF BANK AT **A GLANCE**

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's 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 manages the Bank's proprietary investment and offer investment products to clients.

7.2
KD Billion
Total Assets YE 2023

+50
Branches across Kuwait

1984
Listed on Kuwait Stock Exchange

1960
Founded

2023 Board of Directors Activity

46
Meetings

Board Meetings	8
Audit Committee	5
Risk Committee	4
Compliance and Governance Committee	2
Nomination and Remuneration Committee	3
Credit and Investment Committee	24

2023 External Recognitions

A3	Moody's	Positive
A	Fitch Ratings	Stable
A+	Capital Intelligence	Stable

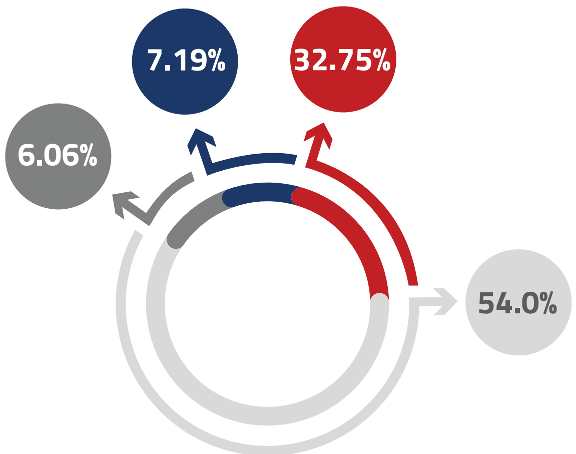
Best Prepaid Card Program in Kuwait
By Mastercard Prepaid Card

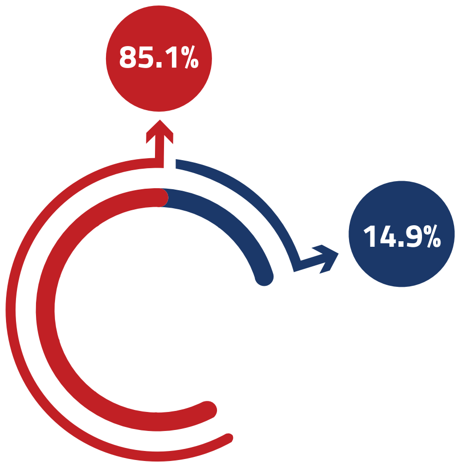
Best Training and Development
By the Middle East and North Africa Human Resources Management Summit 2023

Excellence in Diversity and Inclusion
By the Middle East and North Africa Human Resources Management Summit 2023

The Prestigious Excellence in Data Innovation leveraging data - by Finnovex Awards Summit

Ownership Structure





Alghanim Trading	32.75%
Public Institution for Social Securities (PIFSS)	7.19%
Behbehani Investment Co.	6.06%
Other Shareholders	54.0%

Local Shareholders	85.1%
Foreign Shareholders	14.9%

Note: As of 31 Dec 2023

SHAREHOLDERS **INFORMATION**

Gulf Bank Index Landscape

FTSE Russell

Listed in Boursa Kuwait Under Premier Market

MSCI

S&P DJI Emerging Market Index since December 2018

S&P Dow Jones Indices
A Division of S&P Global

MSCI Emerging Market Index since November 2020

بورصة الكويت
BOURSA KUWAIT

FTSE Russell Emerging Markets Index since September 2017

Exchange
Boursa Kuwait

Ticker
GBK

Stock Number
102

ISIN
KW0EQ0100028

Number of Shares Issued
3,621,430,571

Market Cap as of 31 December 2023
KD 1,018 Million

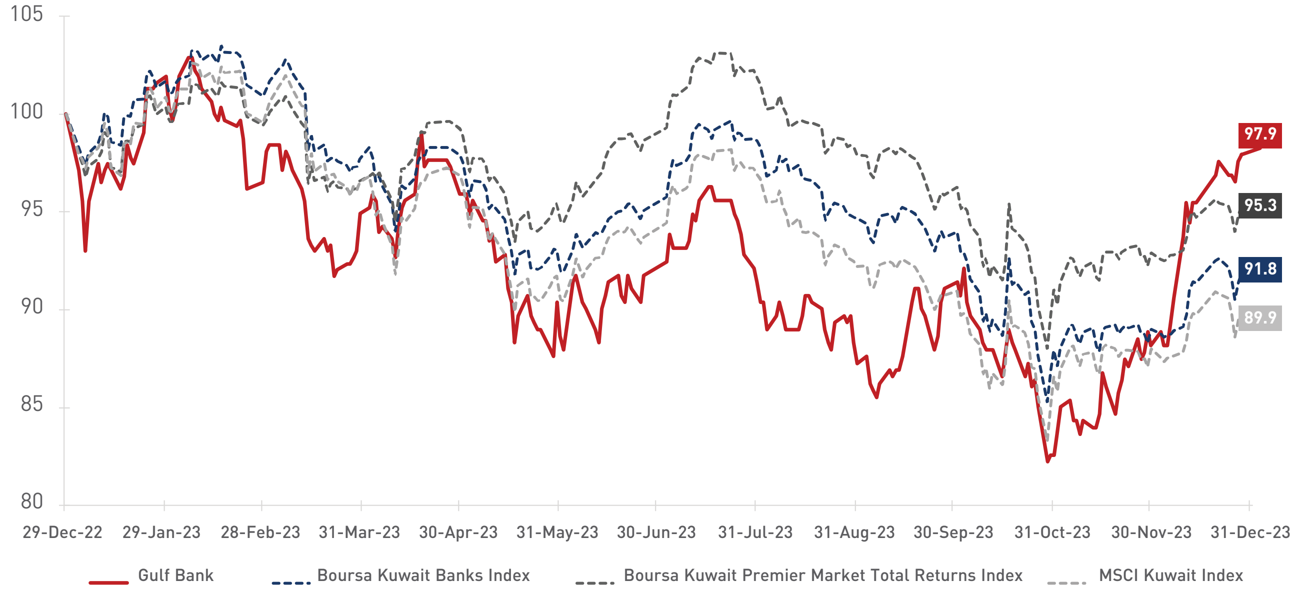
Gulf Bank Weight in Overall Boursa Kuwait Market
2.5%

Gulf Bank Market Trading Activities During 2023

2023	Market Capitalization (KD) (1)	Month Closing Price (KD Fils) (2)	Daily Average Closing Price (KD Fils) (2)	Daily Average Traded Value (KD) (2)	Daily Average Traded Volume (2)	Price to Earnings (3)	Price to Book (3)
January	1,001,767,234	0.313	0.308	1,023,468	3,310,293	16.2	1.4
February	969,761,891	0.303	0.315	906,003	2,887,742	15.7	1.3
March	953,759,219	0.298	0.298	798,251	2,686,788	14.9	1.4
April	930,875,399	0.277	0.286	775,831	2,723,163	14.5	1.3
May	860,303,618	0.256	0.264	1,168,632	4,461,128	13.4	1.2
June	890,548,667	0.265	0.261	2,475,622	9,511,796	13.2	1.2
July	887,188,106	0.264	0.272	1,483,242	5,458,261	13.2	1.2
August	846,861,374	0.252	0.258	1,059,114	4,113,922	12.6	1.2
September	883,827,545	0.263	0.255	1,541,311	6,026,312	12.6	1.2
October	858,279,045	0.237	0.252	1,344,353	5,311,301	12.3	1.2
November	916,221,934	0.253	0.246	1,588,651	6,389,767	13.1	1.2
December	1,017,621,990	0.281	0.270	2,127,516	7,880,218	14.6	1.4
Average for the year	**918,430,736**	**0.273**	**0.273**	**1,331,708**	**4,974,696**	**14.0**	**1.3**

Source: (1) Boursa Kuwait - Market Summary by Company; (2) Boursa Kuwait - Data Services Portal;
(3) Bloomberg - Latest Reported Period (Earnings Trailing 12 Months).

Gulf Bank has outperformed major indices in 2023



Source. Bloomberg – Prices are rebased to 100 and is adjusted for historical corporate actions

2023 Investor Relations Calendar

Date	Earning Calls
6 Feb 2023	YE 2022 Earnings Call
2 May 2023	Q1 2023 Earnings Call
1 Aug 2023	H1 2023 Earnings Call
25 Oct 2023	9M 2023 Earnings Call

Date	Roadshows	Country
28 Feb to 1 Mar 2023	Arqaam Capital MENA Investor Conference	Dubai, UAE
8 Mar 2023	EFG Hermes The 17th Annual One on One Conference	Dubai, UAE
13 Jun 2023	HSBC GCC Exchanges London Conference 2023 in Collaboration with Boursa Kuwait	London, UK
23 Nov 2023	Jefferies Kuwait Corporate Day in Partnership with Boursa Kuwait	Dubai, UAE

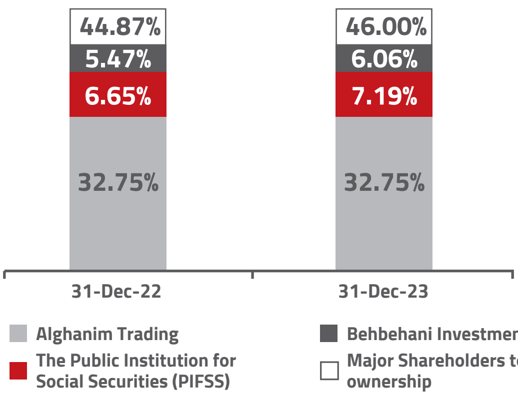
Gulf Bank maintaining at least 50% cash dividends payout over the past couple of years.

Gulf Bank Dividends	Year End 2020	Year End 2021	Year End 2022	Year End 2023
Earnings Per Share Basic and Diluted (KD Fils)	10	13	18	21
Dividends Per Share[1] (KD Fils)	5	7	10	12
Payout Ratio[1]	50.8%	52.5%	54.2%	57.4%
Dividends Yield[2]	2.3%	2.5%	3.2%	4.3%
Bonus Shares	0.0%	5.0%	5.0%	5.0%

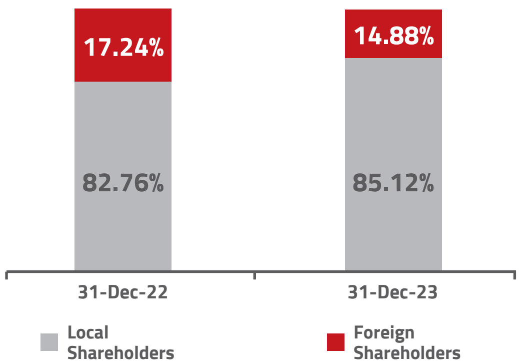
(1) Payout ratio is based on cash dividends per share over basic and diluted earnings per share.
(2) Dividend Yield is based on cash dividends per share as a percentage of closing share price as on 31 December or last traded day of the relevant financial year.
Note: 2023 Dividends and Bonus Shares are subject to Annual General Meeting Approval to be held in March 2024.

Stable Shareholder Structure

Major Shareholders[1] (Above 5%)



Shareholders by Nationality



(1) Major shareholders is defined as owning directly and indirectly greater than 5% of the Bank.
Source: Boursa Kuwait – Company Profile greater than 5%.

GULF BANK **STRATEGY 2025**

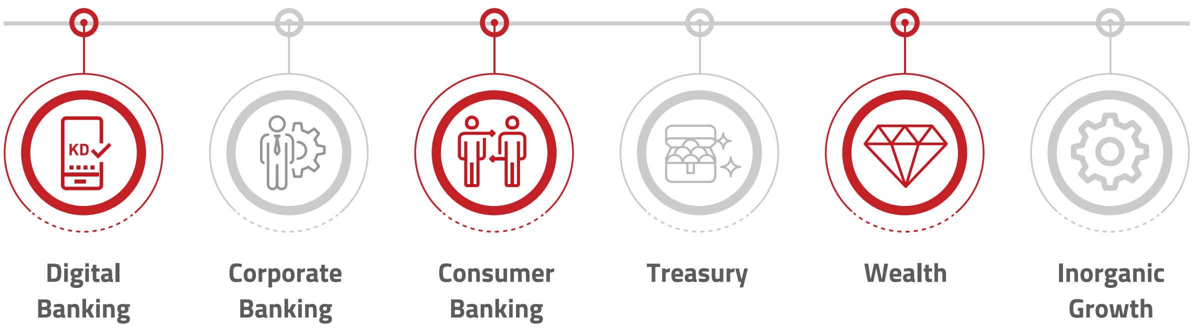
Gulf Bank's strategy is based on simple and innovative services that facilitate customers' lives and achieve sustainable growth, with the aim of cementing the Bank's position as the leading Kuwaiti Bank of the Future. The Bank's new strategy aims to provide customers with an unprecedented banking experience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

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 2025 Strategy is based on Three Strategic Foundations and Six Strategic Pillars:

Foundation

Strategic Pillars



Gulf Bank alignment with Kuwait Vision 2035

The banking sector plays a vital role in implementing Kuwait's 2035 vision. Kuwait's 2035 vision focuses on transforming Kuwait into a regional and international financial and trade hub, making it more attractive to investors. According to the Vision, the private sector leads the economy, creating competition and promoting production efficiency. In this regard, we have aligned our strategy elements with the New Kuwait 2035 Vision.

Sustainability

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.

The business 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.

Developing the Bank's digital banking platforms to improve services and increase competitiveness.

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 ".

2023 Updates:

- Successfully established InvestGB as a newly owned subsidiary, contributing significantly to our inorganic growth initiative.
- Implemented a corporate core banking system, marking a crucial step in our corporate transformation journey.
- Successfully launched a new corporate online banking platform.
- Introduced a new consumer banking app, enhancing our digital offerings.

2024 Updates:

- Plan to implement the next phase of consumer transformation through core banking enhancements, targeting completion by Q2 2024.
- Prepare for the launch of a new corporate app, further expanding our digital capabilities in 2024.
- Initiate the digitization of Human Resources processes, streamlining and modernizing HR operations to enhance efficiency and employee experience.
- Plan to launch an ESG (Environmental, Social, and Governance) strategy, demonstrating our commitment to sustainability.

BUSINESS **MODEL**

Gulf Bank value creation business model leverages on the Banks strength and capabilities to create sustainable value to all stakeholders.

1- Our Strengths

Strong Franchise

Kuwait second largest conventional bank in terms of total loans, and second in terms of branch network.

Aspiring Talent

- Diverse talent pool of +1,800 employees, with Women representing around 42%.

Sound Fundamentals

- KD 5.2 billion in loans and advances
- KD 5.4 billion in total deposits
- KD 71.2 million in net income

Solid Ratings

- Moody's: A3, Positive Outlook
- Fitch: A, Stable Outlook
- Capital Intelligence: A+, Stable Outlook

Stable Shareholders

- 32.75% Group of Kutayba Youssef Ahmad Alghanim
- 7.19% The Public Institution for Social Security
- 6.06% Behbehani investment Co.

2- How we add Value

Leverage on our strength and capabilities

To better support our customers everyday banking needs and create additional value to all our stakeholders. By embracing the Bank vision, mission and core values and striving for execution excellence in our businesses.

Consumer Banking
40%
contribution in total loans

Corporate Banking
60%
contribution in total loans

Treasury and Investment

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

- Be Ambitious
- Empower our People
- Take Ownership
- Strive for Simplicity

3- Our Stakeholders

Customers

Customers centric approach, by providing them with simple and innovative solutions to improve their lives.

Shareholders

Deliver superior and sustainable returns to our investors.

Employees

Attract, retain and develop our people that can take ownership and leverage their strengths and excel in their performance.

Communities

Improve the well being of our communities through encouraging positive change to generate sustainable value for all stakeholders .

Note: All figures are either as of year end 2023 or as on 31 December 2023.

YEAR 2023 **IN REVIEW**

January

- Fitch affirms Gulf Bank LT Issuer Default Rating (IDR) at "A"; Outlook remains Stable.
- Fitch affirms State of Kuwait Sovereign Credit Rating at "AA-"; Outlook remains Stable.
- CBK raised discount rate by 0.50% from 3.5% to 4.0%.

February

- Gulf Bank FY 2022 Financial Results, Net Profit of KD 61.8 million, up 46.8%.
- Gulf Bank signed a Market Maker agreement with Kuwait Investment Company to be the Banks Market Maker.

March

- Gulf Bank held the 64th AGM and 41st EGM.

April

- Gulf Bank distribute FY 2022 cash dividends of 10 fils and bonus shares of 5%.
- Gulf Bank Q1 2023 Financial Results, Net Profit of KD 17.3 million, up 15.0%.

May

- Fitch affirms Gulf Bank LT Issuer Default Rating (IDR) at "A"; Outlook remains Stable. Fitch introduced a new ex-governement support rating "xgs", with LT (IDR) affirmed at "BBB-".
- Gulf Bank held the 42nd EGM, approved the increase of the Bank authorized share capital.
- MSCI increased Gulf Bank Foreign Inclusion Factor; resulted in an increase in Gulf Bank weight in Standard Index.

June

- Capital Intelligence affirms Gulf Bank LT Foreign Currency (LT FCR) at "A+"; Outlook remains Stable.
- Announcement of Gulf Bank & Ahli Bank of Kuwait termination of proposed Business Collaboration.
- Kuwait general election for National Assembly.
- Kuwait 44th Cabinet was formed.
- International Monetary Fund (IMF) concludes 2023 Article IV consultation with the State of Kuwait.

July

- Gulf Bank H1 2023 Financial Results, Net Profit of KD 35.8 million, up 18.3%.

- State of Kuwait Closing Accounts for Year Ending 31 March, 2023, reporting a KD 6.4 billion surplus for the year, represents the first surplus in 8 years.
- Release of the new Kuwait Governement Program for years 2023 to 2027.
- CBK raised discount rate by 0.25% from 4.0% to 4.25%.

August

September

- Fitch affirms State of Kuwait Sovereign Credit Rating at "AA-"; Outlook remains Stable.

October

- Gulf Bank 9M 2023 Financial Results, Net Profit of KD 53.8 million, up 17.7%.
- Opening date of Gulf Bank capital increase subscription period through rights issue, to increase capital base by KD 60 million.

November

- Closing date of Gulf Bank capital increase subscription period through rights issue, with 6.9x oversubscription.
- Gulf Bank obtained CMA's approval on the licensing of Gulf Capital Investment Company K.S.C.C to practice Securities activitites.

December

- Moody's affirms Gulf Bank LT foreign currency deposit rating at "A3"; upgrading the Outlook from to Positive from Stable.

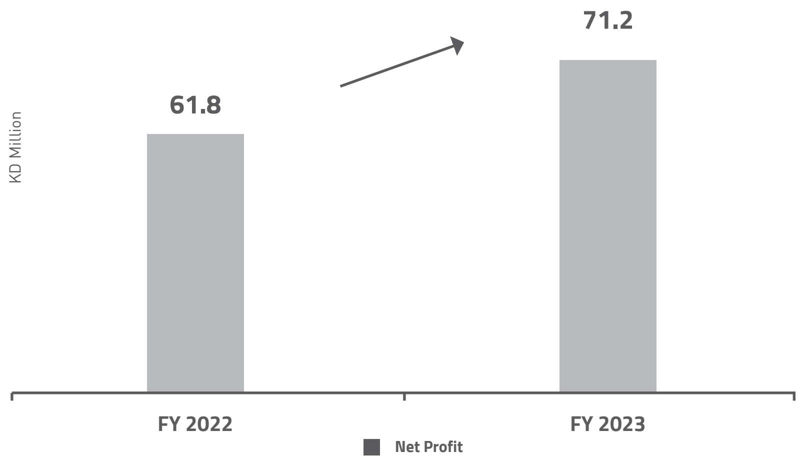
- Kuwait's Crown Prince Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah was named Emir as a successor to the late Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah.
- Kuwait's Emir Sheikh Meshal Al-Ahmad Al-Jaber Al-Sabah accepted the Cabinet's resignation.

GULF BANK - MAJOR EVENTS

KUWAIT - MAJOR EVENTS

KEY FINANCIAL **HIGHLIGHTS 2023**

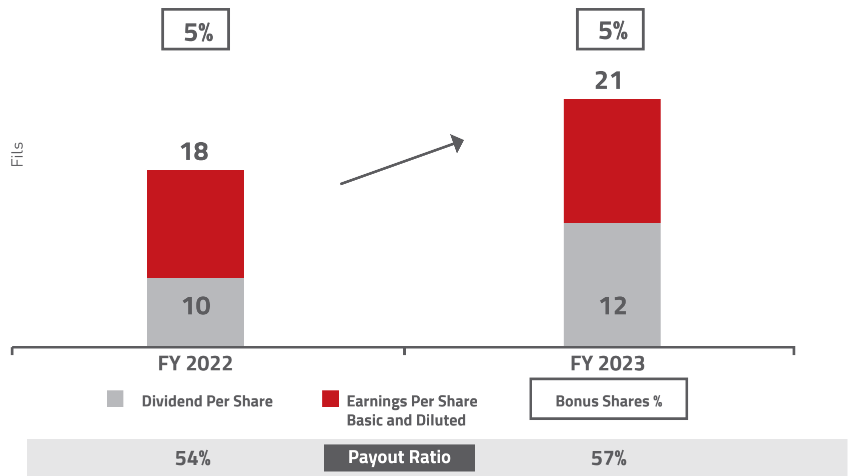
1. Net profit up 15% to KD 71.2 million for full year 2023



Net Profit Growth

+15%

2. Earnings per share up 13% to 21 fils. Recommending a 5% bonus shares and a cash dividend of 12 fils per share, representing 57% payout ratio

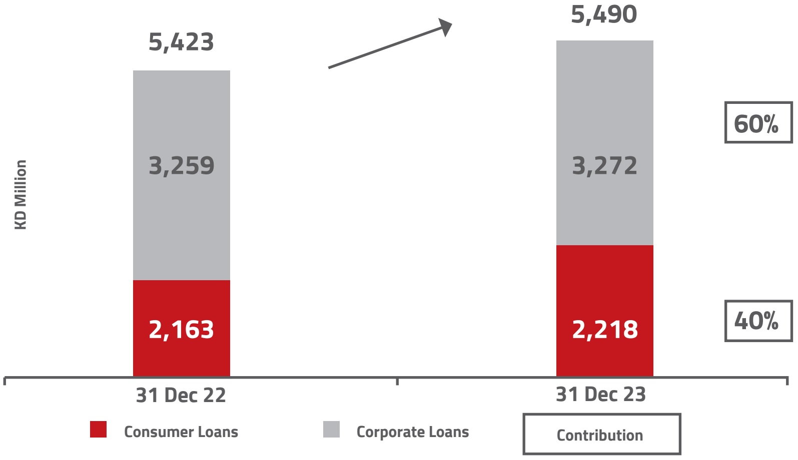


Earnings
Per Share Growth

+13%

Note: 2023 Dividends and Bonus Shares are subject to Annual General Meeting Approval to be held in March 2024.

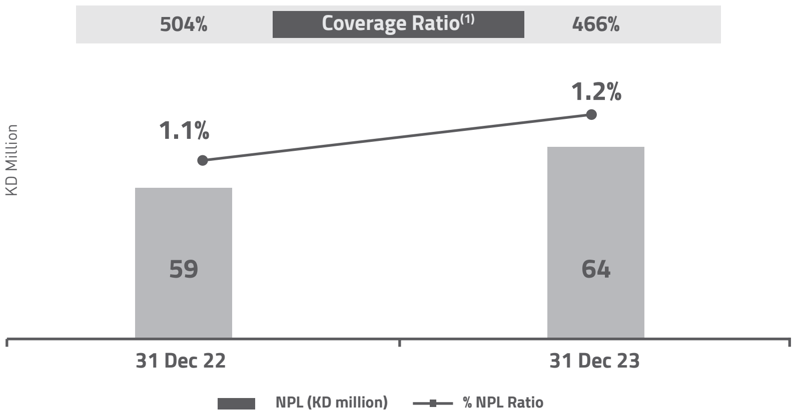
3. Gross loans and advances reached KD 5.5 billion, up KD 68 million or +1% compared to 2022



Gross Loans and
Advances Growth

+1%

4. Asset quality remained resilient, as non-performing loan ratio stood at 1.2% for year-end 2023 with ample coverage



(1) Coverage ratio includes total provisions and collaterals.

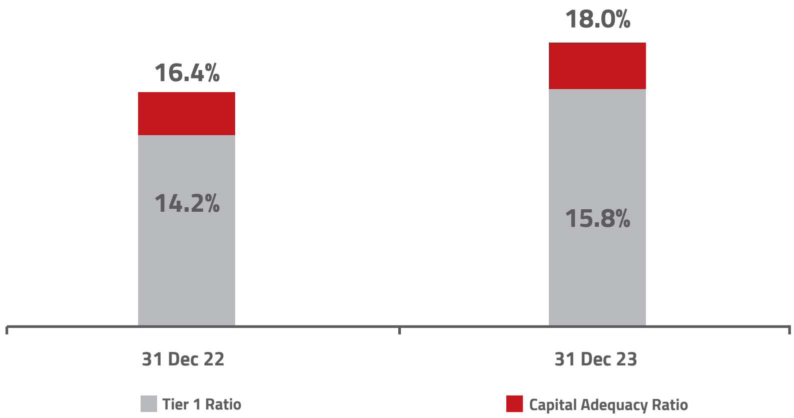
NPL Ratio

1.2%

Coverage Ratio

466%

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



Regulatory Minimums

14.0% CAR Minimums

12.0% Tier 1 Ratio Minimums

CAR Above Regulatory Minimums

402 bps

Tier 1 Ratio Above Regulatory Minimums

384 bps

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 2023

Rating Agency	Criteria	Rating
Moody's	Long Term Deposits	A3
	Outlook	Positive
Fitch Ratings	Long-Term Issuer Default Rating	A
	Outlook	Stable
Capital Intelligence	Long-Term Foreign Currency	A+
	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 Annual Report for the year end 31 December 2023.

Our 2023 performance demonstrates excellent results with Gulf Bank delivering strong and consistent net profit growth momentum. The Bank is reaping the benefits of its Kuwait focused strategy and making tremendous strides towards its key strategic priorities centered around digital transformation and customer centricity. The aim of our strategy is to improve customer experience, accelerate business development and drive operational efficiencies. We remain focused on generating strong and sustainable long-term value to all our stakeholders.

During the year, the Kuwaiti economy continued to show stability supported by financial surpluses in the general budget, good oil prices, and controlled inflation rates, despite challenging global markets. However, we hope to accelerate the pace of government development projects awards and economic reforms, which in turn will drive recovery of local economic activities.

Our **2023** performance demonstrates excellent results on with Gulf Bank delivering strong and consistent net profit growth momentum

The Kuwaiti economy continued to show stability supported by financial surpluses in the general budget

On the local macroeconomic front, the Central Bank of Kuwait has continued to tighten monetary policy, albeit at a relatively slower pace compared to the US Fed. Since the beginning of the year 2023, the Central Bank of Kuwait has raised its key discount rate twice, resulting in a 75 basis points increase, bringing the discount rate to 4.25%, During the year, credit growth slowed down, to 2.2%, compared to an overall credit growth of 8.6% for the prior year according to the latest industry data published by the Central Bank of Kuwait.

Financial Strength

Gulf Bank delivered excellent results during 2023, with net profit reaching KD 71.2 million, up 15% from last year, reflecting the strong underlying performance of our core businesses.

Earnings per share is up 13% to 21 fils and the Board of Directors is recommending a distribution of cash dividend of 12 fils per share, representing a 57% cash payout ratio, in addition to 5% bonus shares, for shareholders' approval at the Annual General Meeting to be held in March 2024.

Loans and advances reached KD 5.2 billion, an increase of 1.3 % vs. the end of 2022. This growth in 2023 came primarily from the Consumer segment.

Non-performing loan ratio for the year end 2023 was 1.2%, with a strong non-performing loans coverage ratio of 466% including total provisions and collaterals. The Bank ended the year 2023 with a total credit provision at KD 312 million whereas IFRS 9 accounting requirements (i.e., ECL or expected credit losses) were KD 187 million, resulting in a very healthy excess provisioning level of KD 125 million.

The Bank's regulatory capital ratios remains strong as the Tier 1 ratio of 15.8% was 3.8% above our regulatory minimum of 12% and the Capital Adequacy Ratio (CAR) of 18.0% was 4.0% above our regulatory minimum of 14%.

Gulf Bank delivered excellent results during **2023,** with net profit reaching KD **71.2** million, up **15%** from last year, reflecting the strong underlying performance of our core businesses

12 fils Proposed Cash Dividends and **5%** Bonus Shares

Non-performing loan ratio for the year end **2023** was **1.2%,** with a strong non-performance loan coverage ratio of **466%**

CHAIRMAN'S **STATEMENT**

Operational Excellence

One of the key milestones during the year 2023 was the implementation of phase I of the new core banking system. This milestone represents a major leap forward in the Bank's digital transformation journey. It empowers the Bank to provide enhanced services, improve efficiency, and deliver seamless customer experiences. The new system's deployment showcases Gulf Bank's commitment to better serve its valued customers using cutting-edge technology.

By going live with the core banking system, Gulf Bank has demonstrated its dedication to adaptability, innovation, and pioneering in an increasingly competitive environment. The implementation of phase I of the new system will enable Gulf Bank to streamline operations and optimize processes to further solidify its position as a trusted financial partner.

Another major achievement for the Bank during the year was the launch of the latest version the Mobile Banking Application, which will incorporate advanced security features to safeguard customer data and financial transactions while providing a seamless user experience.

In addition, the Bank has obtained the final necessary regulatory approvals to license Gulf Capital Investment Company, known as Invest GB to operate officially as a wholly owned investment subsidiary. The activities of Invest GB will be focused on asset management and advisory services, complementing the Bank's core business while enhancing customer offerings predominantly for our private and corporate banking clients. We believe these complementary services will positively enhance the fees and commissions income of the Bank in the future.

> We obtained the final necessary regulatory approvals to license Gulf Capital Investment Company, known as Invest GB to operate officially as a wholly owned investment subsidiary

Strong Capitalization

During the year 2023, Gulf Bank has successfully completed a capital increase totaling KD 60 million which was approximately seven times oversubscribed. The significant oversubscription reflects shareholders' confidence in Gulf Bank's potential capabilities. The proceeds of the capital increase aim to strengthen the Bank's capital base, enhance regulatory capital ratios, and enable the pursuit of future growth opportunities aligned with the Bank's long-term strategy.

> The total capital increase of KD 60 million was approximately seven times oversubscribed

Positive Credit Outlook

Gulf Bank continues to be well recognized in terms of its creditworthiness and financial strength internationally. During the year 2023, Moody's Investor Services has affirmed the 'A3' long-term deposit ratings of Gulf Bank and changed its outlook to "Positive" from "Stable". This upgrade is an acknowledgement of Gulf Bank's sound capitalization, improving profitability and strong asset quality.

In addition, Fitch Ratings affirmed the Bank's Long-Term Issuer Default Rating at 'A' with a 'Stable' Outlook and a Viability Rating of 'bbb-'. The Bank has also an affirmed Long-term Foreign Currency Rating of 'A+' with a 'Stable' Outlook from Capital Intelligence Ratings.

Commitment to Sustainability

Sustainability is an important and a complementary part of our strategy. We believe that integrating sustainability and ESG considerations into our practices and activities will enable us to further strengthen our customer experience, offer sustainable products and services for the market, and position us as a key leader amongst local and regional financial institutions.

We are focusing our ESG initiatives on four strategic pillars: Accountable Governance, Equitable Workplace, Empowered Community Engagement, and Responsible Banking.

One of our key achievements in terms of ESG governance during the year 2023 was the establishment of our ESG Committee, comprised of two layers: A Steering Committee of the Bank's Executive Management and an ESG Sub-Steering Committee at the Board of Directors level. We continue to highlight our ESG and sustainability practices through a dedicated Annual Sustainability Report following international reporting standards, now for the third year.

In 2023, several initiatives were conducted to empower our employees and provide the community with new skillsets and opportunities specifically in the field of data science and cyber solutions. Our aim is to help future generations achieve local development goals, strengthen the economy, and contribute to our community.

Acknowledgment

On behalf of the Board of Directors, I would like to express 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 special thanks to all our customers, partners, and shareholders for their support throughout the year 2023, and to our Board members, management, and employees for their dedication to the Bank's success.

Jassim Mustafa Boodai
Chairman

> Moody's affirmed the LT deposit rating of Gulf Bank at 'A3' and upgraded the outlook to "Positive". This is an acknowledgment of Gulf Bank's sound capitalization, improving profitability and strong asset quality

02
BUSINESS OVERVIEW

CEO **STATEMENT**

Waleed Mandani

Acting Chief Executive Officer

The year **2023** has seen Gulf Bank navigate through a dynamic and challenging financial landscape. As we reflect on the past 12 months, I am delighted to share with you the remarkable performance and achievements of our Bank.

Financial Highlights

Steady Growth: Despite the economic uncertainties, Gulf Bank has demonstrated resilience and achieved steady growth throughout the year. The continuous tightening of the fiscal policy in 2023 had its toll on the overall credit growth. The system loans grew by 2.2% in 2023, that is much lower than the growth levels achieved in 2022 of 8.6%. For Gulf Bank, gross loans and advances reached KD 5.5 billion, an increase of 1.2 % vs. the end of 2022.

Financial Stability: Maintaining financial stability has been a top priority for us. I am pleased to report that our balance sheet remains strong with total assets increasing by 4.7% to KD 7.2 billion. Our capital adequacy ratios exceed regulatory requirements. This solid foundation positions us well to weather potential challenges and capitalize on opportunities in the market.

Profitability: The Bank has delivered solid financial results, with an increase of 15.2% in net profits compared to the prior year to reach KD 71.2 million. This success is a testament to the dedication and hard work of our employees, the loyalty of our customers, and the trust and confidence that our valued shareholders have placed in us.

Despite the economic uncertainties,Gulf Bank has demonstrated resilience and achieved steady growth throughout the year

Operational Achievements

Digital Transformation: Gulf Bank continues to invest in cutting-edge technology, resulting in an enhanced customer experience and operational efficiency. Our digital transformation initiatives have not only modernized our operations but have also positioned us as a leader in the ever-evolving financial services industry. One of the key milestones during the year 2023 was the implementation of phase 1 of the new core banking system. This achievement represents a major leap in the Bank's digital transformation journey and will enable Gulf Bank to streamline operations and optimize processes to further solidifying its position as a trusted financial partner.

Customer-Centric Approach: We remain committed to providing exceptional services to our customers. We believe that a satisfied customer is the best measure of our success. Our Corporate banking segment continues to significantly progress and grow through attracting new customers to the Bank, the ongoing development of the banks digital banking platforms and enhancing and expanding our products and services. On the retail side, we have introduced many products and services that we believe will enhance the overall customer experience at the Bank. These include the new cutting-edge mobile application, self-service banking via Interactive Teller Machines (ITMs) and ATMs, the launch of google pay, the increase in Aldanah grand prize to KD 2 million, and the opening of our first drive-thru Interactive Teller Machine (ITM). In addition, our recently approved wholly owned investment company, known as Invest GB, will be complementing the Bank's core business while enhancing customer offerings predominantly for our private and corporate banking clients.

Data and Innovation: In an era defined by technological disruption, our commitment to leveraging data and fostering innovation has positioned us as a leader in the financial industry. During the year 2023, the Bank has made several internal initiatives in this regard including "Fekrety" Innovation tournament that embraced employee-enabled innovation culture, rolling out data analytics and visualization tools to assist employees making data-driven decisions and finally the launch of Gulf Bank's first digital library. Externally, Gulf Bank continued with its community engagement through the public competition of "Datathon", hosting public data discussions between the youth and academia and holding financial literacy workshops.

Looking Ahead

As we look to the future, we recognize that the financial landscape will continue to evolve. Gulf Bank is well-positioned to adapt and thrive in this changing environment. Our strategic initiatives, ongoing investments in technology, and commitment to innovation will ensure that we remain at the forefront of the industry.

I want to express my sincere gratitude to our shareholders, customers, and employees for their unwavering support. Together, we have achieved remarkable success, and I am confident that the coming years will bring even greater accomplishments.

Gulf Bank continues to invest in cutting-edge technology, resulting in an enhanced customer experience and operational efficiency

Our strategic initiatives, ongoing investments in technology, and commitment to innovation will ensure that we remain at the forefront of the industry

OUR **PEOPLE**

Gulf Bank is cultivating a dynamic and supportive work environment. Throughout the year **2023,** the Bank organized a range of initiatives that go beyond the traditional norms of the banking industry.

Investing in Human Capital

Ajyal 9

Gulf Bank prioritizes the development of Kuwaiti professionals. One of our notable human capital initiatives is the graduate development program called "Ajyal," which is renowned for its comprehensive training that shapes the future of banking in Kuwait. In 2023, Gulf Bank launched the ninth edition of AJYAL, with 20 participants who were chosen after an extensive filtration process and assessments. This program aims to help employees acquire the best global practices, while developing a deeper understanding of the banking sector, in addition to developing their individual and institutional capabilities. The program undergoes many workshops and networking opportunities. Midway through the bootcamp, the participants partake in a weeklong bootcamp for self-development, networking, and leadership skills.

Coach Hub

A renowned coaching platform tailored for upper management and executives, each of our esteemed leaders will be meticulously matched with a distinguished scientist-coach who possesses a deep understanding of their industry and its unique challenges. These personalized coaching sessions are designed to cater to the specific needs, aspirations, and growth areas of our top-tier executives. This collaboration reflects our commitment to investing in the professional development of our leadership team, ultimately fostering a culture of innovation, strategic thinking, and continuous growth.

Coach Hub is a renowned coaching platform tailored for upper management and executives

Coursera

In 2023, The Talent Development Team at Gulf Bank announced the launch of the new e-learning platform - Coursera, which will help provide high-quality training and development opportunities to all employees.

This service falls in line with the bank's dedication towards employee career development and competency framework goals which are fundamental pillars of our strategy. "Learning Agility" is a core competency that we aim to instill in our organization, and we intend to achieve this by providing multiple channels for learning and development.

The Coursera platform will allow Gulf Bank employees to access 10,000+ training and development materials from anywhere, at any time, using any device with an internet connection. Employees will have access to courses and certifications from world renowned education institutions and universities such as Google, Stanford, NYU and many more. This platform offers everything from meditation and wellbeing to MBAs and CPA.

Launch of the new e-learning platform - Coursera, which helps provide high-quality training and development opportunities to all employees

Diversity and Inclusion

Lead The Way Conference

The International Women's Day occasion discusses the challenges faced by women when pursuing leadership positions, Gulf Bank HR Organized 'Lead the Way' Conference on March 20, 2023. The conference consisted of two workshops: The first one being exclusively for women, addressing the daily challenges women face.

The Founding member of KWEEP

Kuwait Women's Economic Empowerment Platform (KWEEP) is dedicated to the economic empowerment of women in Kuwait's private sector, ensuring that every woman has the opportunity to reach her full potential in her professional journey.

In 2022, Salma Al Hajjaj GM HR, signed the UN WEP's along with the other signatory members. As one of the founding signatories, Salma AlHajjaj has initiated the first Kuwaiti women's economic platform – a platform that aims to support Kuwaiti women in the private sector. The platform provides women with useful resources, mentors, and role models to help them progress into leadership positions ultimately leading to success.

Hiring special needs

In 2023, HR hired eleven special needs employees. Gulf Bank HR initiated a project for raising awareness on special needs at the bank. The project aims to create awareness for employees and the community to have a better understanding of learning differences and disabilities.

Gulf Bank hired eleven special needs employees in 2023.

Awareness and Wellbeing

Blood donation

Gulf Bank hosted the Central Blood Bank in Kuwait at the Training Center where employees were encouraged and given an opportunity to donate blood during working hours.

OUR **PEOPLE**

Breast Cancer & wellbeing

In alignment with its commitment to fostering community sustainability principles, and in observance of Breast Cancer Awareness and Mental Health Month, Gulf Bank has initiated its yearly campaign in October, dedicated to promoting women's health and safety.

The bank extended its support by offering complimentary health check-ups to its female employees, including preliminary examinations to stress the importance of early detection over a three-day period. Further examinations, including mammograms, were conducted if recommended.

Additionally, the bank organized a workshop on women's empowerment and self-defense, held in collaboration with the UFC Gym Kuwait. This event included discussions highlighting the significance of early screening and breast cancer awareness, conducted in partnership with DISC Kuwait.

Gulf Bank's Human Resources facilitated a panel discussion featuring Dr. Mohammed Al-Suwaidan, Medical Director, and Consultant Psychiatrist from Mindwell Center Kuwait, shedding light on the importance of mental health amidst life pressures and strategies to navigate them effectively for positive professional outcomes.

Moreover, as part of the WOW (Women of Wisdom) initiative, and in collaboration with the non-profit Safira Organization, the bank designed various workshops, aimed at empowering women in their professional lives. These workshops covered essential topics such as goal setting, critical thinking, seizing opportunities, and achieving work-life balance. Experienced experts such as Dr. Reem Al-Baghli, Engineer Maha Al-Baghli, Dr. Bodour Al-Sumait, and trainer Ahmed Al-Najjar conducted these sessions.

In October **2023**, Gulf Bank initiated its yearly campaign of breast cancer awareness, dedicated to promoting women's health and safety

Movember

In line with our commitment to gender equality, we took the unprecedented step of commemorating "Movember", a campaign aimed at raising awareness about prostate cancer. We will distribute pins featuring the event logo to all employees and collaborated with a private clinic to provide free preliminary examinations for male employees at the workplace.

Gulf Bank took the unprecedented step of commemorating "Movember", a campaign aimed at raising awareness about prostate cancer

Kids Day

This event was hosted in our training center. Employees' kids were invited to spend a full day filled with informative activities such as a financial literacy workshop, which focused on enriching children's knowledge on the financial aspect and fostering the importance of saving.

Career Fairs

To instill the principles of sustainability in society and as part of its continuous endeavors to attract the best talent from the national cadres and the youth Gulf Bank participated in the three-day 'Watheefti' career fair that was organized by Zone Human Resources. This event was considered as Kuwait's largest career fair, the event witnessed the participation of more than eighty private sector companies in Kuwait. The Bank's representatives distributed a quantity of reusable bags – aiming to encourage students to reduce the use of plastic bags, and number of small trees were also distributed as gifts. To establish the principles of economic sustainability and to attract fresh graduates, Gulf bank HR sponsored Kuwait Technical College (KTech) Career Fair from March 6 to 8, 2023.

Social Engagement

Gala event

The HR Gala takes place on annual basis to showcase the bank's achievements in an event with the presence of Gulf Bank's executive management. In this Gala, the commencement graduation ceremony of the previous Ajyal candidates takes place and are awarded by acting CEO Waleed Mandani and Salma AlHajjaj GM HR. The new batch of Ajyal candidates are officially introduced to the management and attendees.

During the Gala, a video was shot by Employee Experience and Branding team which showcased the Bank employees participating in various year-long sustainability initiatives. These included the distribut of Iftar boxes, sports events, women's empowerment, and glimpses of their everyday interactions.

In the 2023 Gala, a panel discussion took place featuring four general managers who took the stage to highlight their accomplishments for the year. Additionally, they engaged in conversations about Gulf Bank's upcoming plans in anticipation of the year 2024.

Ghabga

This event occurs annually during the holy month of Ramadan. The invitation is sent out to all employees to come and enjoy a night that includes contests, giveaways, and networking. Over 800 employees attended the event which was held at the Grand Hyatt Hotel. All Gulf Bank employees enjoy attending this event due to the interactive, competitive games and activities. Exciting giveaways are granted to winning participants at the event.

Football, padel & bowling

Gulf Bank has sports teams in football, padel and bowling that compete with all other banks in Kuwait. For the football team, it consists of 25 employees that practice twice a week. As for the bowling team, it consists of 11 employees. Throughout the year, Gulf Bank conducted padel tournaments including male and female employees who compete against each other in pairs, with prizes for the winners.

Engagement Scores

In line with our commitment to employee wellbeing, Gulf Bank HR conducts annual engagement surveys among all employees. The results, reflective of our workplace culture and engaging initiatives, demonstrate a consistent and commendable improvement in engagement scores year over year.

CFO STATEMENT

Management Discussion & Analysis

David Challinor

Chief Financial Officer

The Bank reported a net profit of KD 71.2 million and earnings per share of 21 fils for the year ending 31 December 2023, compared to a net profit of KD 61.8 million and earnings per share of 18 fils for the year ending 31 December 2022. The Board of Directors is recommending a cash dividend of 12 fils per share and 5% bonus shares for shareholders' approval at the Annual General Meeting for the year 2023.

The increase in net profit of KD 9.4 million compared with the prior year was driven by a higher net interest income of KD 8.2 million as a result of asset growth and the increases in the CBK discount rate, a reduction in total provisions of KD 1.4 million and an increase in non-interest income of KD 1.0 million. In addition, there was a KD 0.6 million increase in operating expenses and KD 0.6 million increase in taxes/others during the year.

Gross loans and advances increased by KD 68 million or 1.2% to reach KD 5.5 billion. The consumer segment continued to see solid growth, up nearly KD 55 million or 2.5%, while the corporate segment growth was up KD 13 million or 0.4%.

The Bank's non-performing loan ratio for the year-end 2023 stood at 1.2%, moving from 1.1% reported for the year-end 2022. Additionally, the Bank continues to have ample provisions, resulting in a strong non-performing loans coverage ratio of 466% including total provisions and collaterals for year-end 2023.

At the end of 2023, total provisions on credit facilities were KD 312 million compared with KD 187 million of provisions required under IFRS 9 accounting. Thus, the Bank held excess provisions of KD 125 million, representing 40% of total provisions. This is the sixth 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 2023 reached 15.84%, 384 basis points above the regulatory minimum of 12.0%. The Bank's Capital Adequacy Ratio (CAR) was 18.02% as of 31 December 2023, 402 basis points above the regulatory minimum of 14.0%.

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

KEY FINANCIAL METRICS

Income Statement	2023	2022	Better/(Worse) in 2023 vs. 2022
Net interest income	**150**	142	6%
Non-interest income	**40**	39	2%
Operating income	**190**	181	5%
Operating expenses	**87**	86	(1%)
Operating profit before provisions and impairment losses	**103**	95	9%
Provisions / Impairment Losses	**29**	30	5%
Net profit	**71**	62	15%
Earnings Per Share (fils) - Basic and Diluted	**21**	18	13%
Dividends per share – Cash (fils)*	**12**	10	20%

*2023 proposed cash dividends are subject to Annual General Meeting shareholders' approval expected to be held in March 2024.

Balance Sheet	2023	2022	Better/(Worse) in 2023 vs. 2022
Gross loans and advances	**5,490**	5,423	1%
Total assets	**7,175**	6,851	5%
Customer deposits	**4,219**	4,247	(1%)
Total stockholders' equity	**817**	720	13%
Average daily share price (fils)*	**273**	327	(16%)

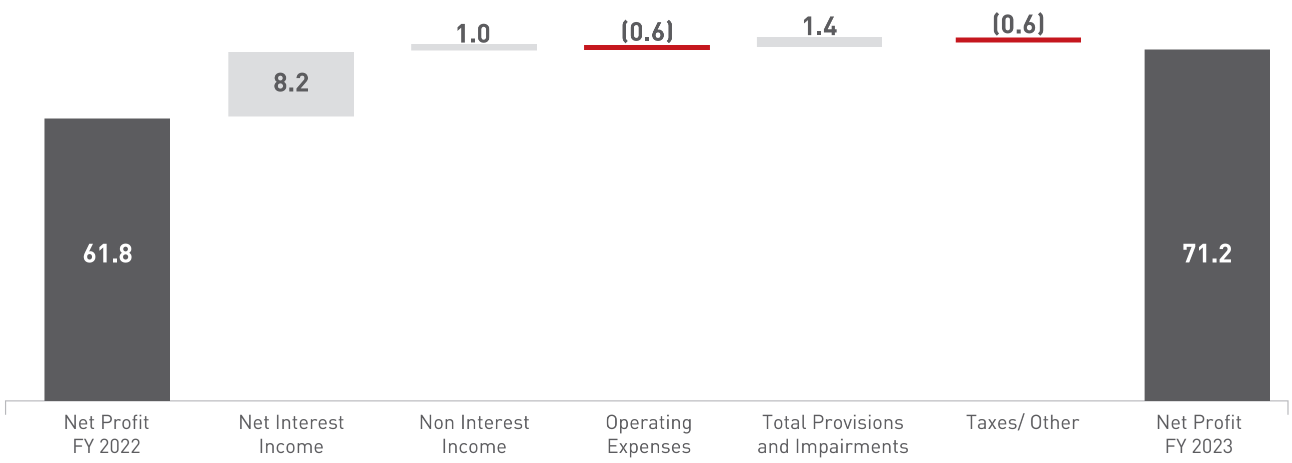
*Source: Boursa Kuwait.

Key Financial Ratios	2023	2022	Better/(Worse) in 2023 vs. 2022
Return on average equity	**9.6%**	9.0%	60 bps
Return on average assets	**1.0%**	0.9%	10 bps
Net interest margin	**2.2%**	2.1%	10 bps
Non-performing loan ratio	**1.2%**	1.1%	(10 bps)
Provisions & Impairments / Average Total Assets	**0.4%**	0.4%	-
Tier 1 capital ratio	**15.84%**	14.21%	163 bps
Capital adequacy ratio	**18.02%**	16.39%	163 bps

CFO **STATEMENT**

Management Discussion & Analysis

Shown below are the major variances in net profit from 2022 to 2023 (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 2023, the Bank's total credit provisions of KD 312 million were greater than the IFRS9 requirements of KD 187 million.

COMPARISON BETWEEN TOTAL PROVISIONS AND IFRS 9 EXPECTED CREDIT LOSSES (ECL) ON CREDIT FACILITIES:	**2023 KD Millions**	2022 KD Millions
Provision on cash facilities	**294**	294
Provision on non-cash facilities	**18**	19
Total provisions on credit facilities (A)	**312**	313
IFRS 9 ECL on credit facilities (B)	**187**	190
Excess of total provisions over IFRS 9 ECL on credit facilities (C = A-B)	**125**	124
Excess provisions as a percentage of total provisions (C/A)	**40%**	39%

ASSET QUALITY

Gross credit costs in 2023, defined as specific provisions plus write-offs, were lower by KD 5.4 million or (12%) than 2022.

Total provisions and impairment losses of KD 29.2 million were incurred in 2023, which represented 0.4% of average total assets.

PROVISIONS / IMPAIRMENT LOSSES (KD Millions)	2023	2022	Change
Specific provisions	**41**	33	8
Write-offs	**0.2**	13	(13)
Gross credit costs	**41**	46	(5)
Recoveries	**(12)**	(21)	(10)
Impairment losses	**-**	0.1	0
Total credit costs and impairment losses	**29**	25	4
Total credit cost and impairment losses (as a % of average total assets)	**0.42%**	0.37%	
General provisions	**(0.6)**	5	(6)
Total provisions and impairment losses	**29**	30	(1)
Provisions and impairment losses (as a % of average total assets)	**0.41%**	0.44%	
Credit costs	**29**	25	4
Credit costs (as a % of average total assets)	**0.54%**	0.47%	

OPERATING **ENVIRONMENT**

2023 – A Year of Continued Monetary Tightening and Curbing Inflation

It would be easy to describe 2023 as the year of continued monetary tightening, with most major economies central banks increased policy rates to peak levels not seen since the 2007 - 2008 financial crisis. This is in response to curb the stubborn high inflation levels in many countries, which started to gradually decline in the second half of the year. However, the peak levels of policy rate is acting as a headwind to economic growth across major economies with the International Monetary Fund's (IMF) expects global real GDP to grow by 3.0% y/y in 2023(October Data), following a growth of 3.5% y/y in 2022.

3.0%

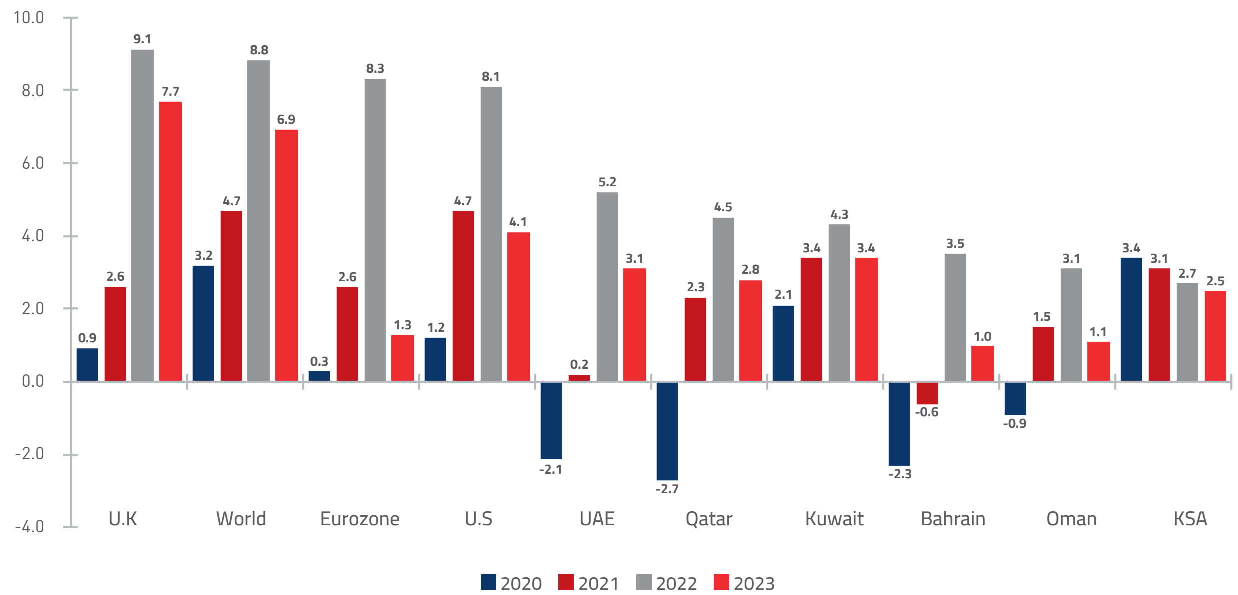
IMF expected global real GDP growth in 2023

Global overview of the year 2023 and its major events

Many economies saw inflation rise to levels unseen for decades, with rising prices are as a result of a confluence of inflationary forces. Generous pandemic relief measures and accommodative monetary policy fuelled a surge in consumer spending. That spending outstripped the capacity of factories and ports to respond, often because of supply problems associated with extreme weather, covid-19 pandemic and other shocks. The soaring prices of oil, gas and grain, caused by the war in Ukraine, poured fuel on the fire. Having said that, inflation started to gradually decline at the second half of the year 2023, that's 18 months lag after the first-rate hike, resulting in most major economies' inflation levels to be lower in 2023 when compared to 2022.

Inflation started to gradually decline at the second half of the year 2023

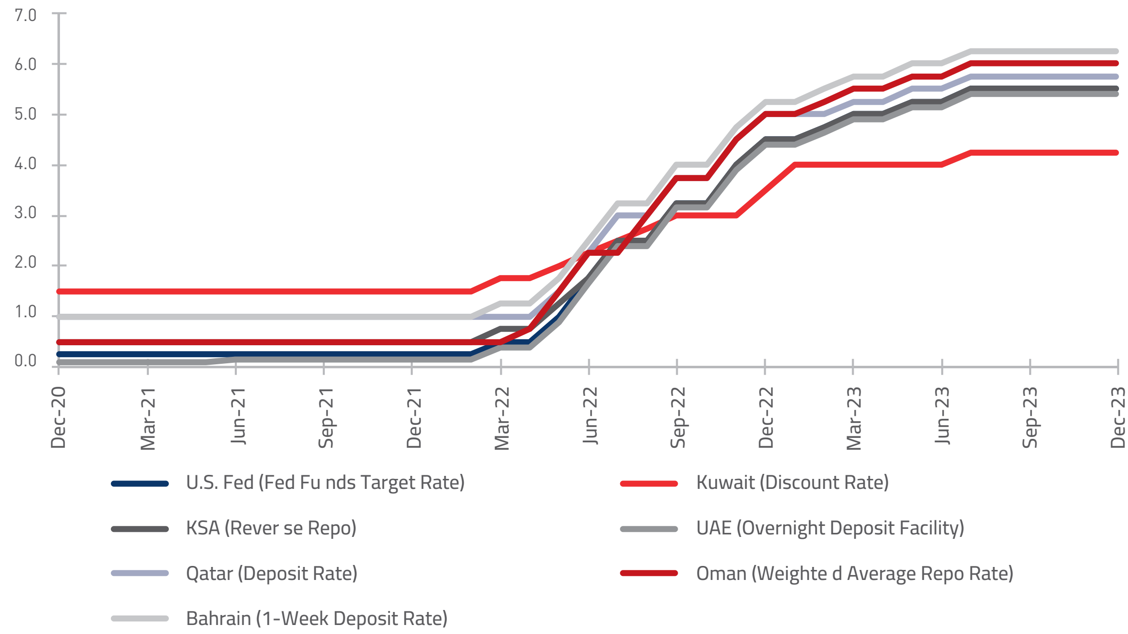
Figure: Annual Average Inflation (% Y/Y)



Source: IMF

This was achieved by tighter for longer monetary policy by most central banks, with U.S Fed raising policy rate by as much as 100 bps in 2023 and 425 bps in 2022. This was followed by major global economies where policy rates have increased in similar levels or slightly lower which is the case for Kuwait. Kuwait discount rate increased by as much as 75 bps in 2023 and 200 bps in 2022.

Figure: Policy Rates' Trajectory (%)



Source: Bloomberg

The lagged impact from monetary tightening is mainly attributed to the accumulation of larger cash reserves and locking in low interest rates on long term borrowings by corporations and households during and following the pandemic. However, these defences are beginning to crumble. Households and corporations are exhausting their excess savings, while significantly higher interest rates – which have become a constraint on new borrowing – is creating a refinancing issue. Additionally, global lending conditions have become more restrictive, weaker economic environment, higher financing cost and expected deterioration of borrower profiles resulted in the dropping demand for credit.

As well, household spending growth pace has slowed in the second half of the year, as a result of diminished excess savings, less pent-up demand and plateauing of wage gains, with the latter being impacted by wane in the momentum of the job market.

Major geopolitical events

Geopolitical risks persist, with the ongoing Russia-Ukraine war and recent conflict in the Middle East all point to continued uncertainties and risks heading into 2024. The larger risk is for a supply shock of the critical commodity or good—energy, food, semiconductors—that triggers significant market disruption and possible risk for global growth and market volatility.

OPERATING **ENVIRONMENT**

Kuwait Economy 2023

Kuwait's strong recovery from the pandemic normalised in 2023, coming from quite an elevated base after printing impressive growth, particularly in consumer spending. The slowdown comes in light of the fading away of the post-pandemic recovery, as substantial savings by nationals during lockdowns were largely drawn down.

Slower consumption growth has already been manifested in a notable deceleration of credit growth; personal credit facilities growth slowed from 9.1% in 2022 to 1.5% in December 2023[1]. In parallel, Kuwait's consumer spending growth, as measured by card transaction data from the Central Bank of Kuwait, eased to 8.6% y/y for the full year 2023, normalizing from the post-pandemic surge of 21.7% in 2022.

Oil prices fell in December 2023 for a third consecutive month, amid weaker sentiment linked to ongoing concerns over global economic growth, geopolitical risk in Middle East and a potential oil market surplus in 2024. Brent futures closed lower in December, dropping -7.0% m/m and -10.3% for 2023 to settle at $77.0/bbl. Kuwait Export Crude (KEC), meanwhile, ended the year at $79.6/bbl (-8.9% m/m; -3% ytd). Additionally, according to the International Energy Agency (IEA)[2] December Oil Market Report, that the World oil demand is on track to rise 2.3 mb/d to 101.7 mb/d in 2023, but this masks the impact of a further weakening of the macroeconomic climate. Global 4Q23 demand growth has been revised down by almost 400 kb/d, with Europe making up more than half the decline. The slowdown is set to continue in 2024, with global gains halving to 1.1 mb/d, as GDP growth stays below trend in major economies due to the impact of the higher interest rates is feeding through to the real economy. Efficiency improvements and a booming electric vehicle fleet also drag on demand.

Sovereign credit ratings update

Fitch Ratings has affirmed Kuwait's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook, stating that Kuwait's fiscal and external balance sheets remain among the strongest of Fitch-rated sovereigns. While the Kuwait's ratings and outlooks were maintained by S&P and Moody's at A+ and A1 respectively, with Stable outlook from both.

Fitch affirmed Kuwait's sovereign credit rating at AA- with a Stable Outlook

Public Finances and Project Awards

The public finances have improved amid higher oil prices and generally effective spending oversight. That said, the FY22/23 surplus of 11.8% of GDP, Kuwait's first since 2014, is expected to revert to a deficit of 6.2% of GDP in FY23/24 based on of budget's forecast[3] given the record spending pencilled in the budget. This included large, non-recurring outlays on fuel subsidies and employee leave payments. However, looking at historical trends, the actual deficit is much lower or turns to surplus due to the undershoot of budget expenditures and conservative official oil revenue assumptions. Next year, Capex should see another year of double-digit gains as development projects are prioritized.

(1) Central Bank of Kuwait.
(2) International Energy Agency.
(3) Ministry of Finance.

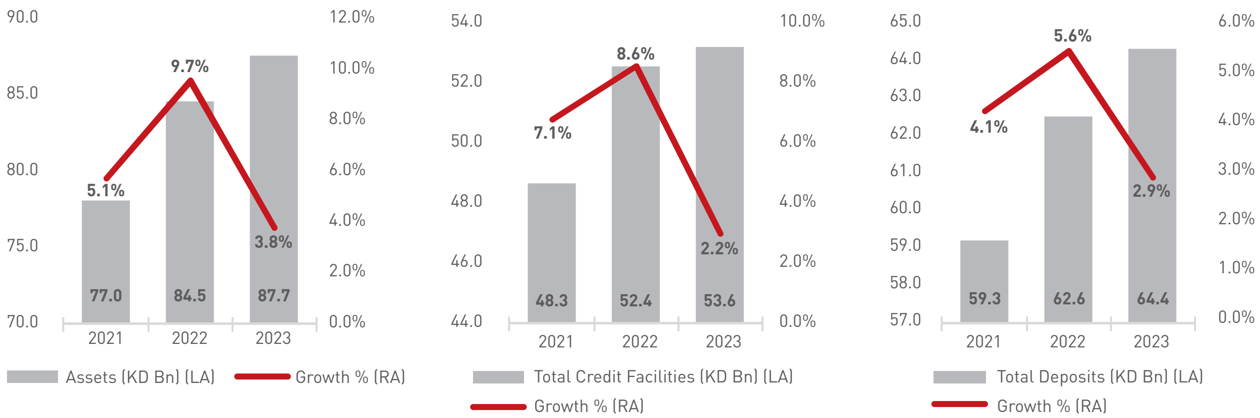
2023 saw a pick-up in project awards, when it nearly tripled to KD 2.5 billion[4] from 2022's highly depressed levels and by some margin the best projects market performance since 2017. The growth was driven primarily by the biggest awards in years in the power and transport sectors, with both accounting for two thirds of total awards during the year. The outlook for awards remains positive, especially with oil prices expected to remain elevated. For 2024, MEED projects has identified KD 6.2 billion worth of projects awards that are up for sign-off, mostly concentrated in the oil and gas, power and water, and transportation sectors.

> Kuwait's macro-outlook is solid, thanks to elevated oil prices, strong fundamentals, and prudent regulatory environment

Banking Industry

Kuwait's macro-outlook is solid, thanks to elevated oil prices, strong fundamentals, and prudent regulatory environment. Having said that, 2023 higher interest rates have dented credit demand that was witnessed in 2022, loan growth was lower in 2023 reaching 2.2% for the system, that's in comparison to a strong increase of 8.6% in 2022.

Figure: Kuwait Banking Overview



Source: Central Bank of Kuwait

The Kuwait banking sector performance in 2023 remained resilient, where the aggregate net income for listed banks increased by 47% y/y in 9M 2023 on the back of lower provisioning and higher fee and interest income. Banks continued to remain well capitalised with a capital adequacy ratio of 18.3% in Q3 2023[5]. Gross NPLs to total loans was at 1.7% as of Q3 2023.

Kuwait monetary policy differs from the neighbouring countries in the Gulf Cooperation Council (GCC), in retrospect it has more flexibility in terms of deviating from the Fed's moves in policy rates as a result of its currency being pegged to a basket of currencies that includes U.S Dollar. Thus, Kuwait's Central Bank had mostly chosen to hike rates by a smaller magnitude or in some instances had kept rates unchanged in comparison to the Fed's rate moves, taking into consideration the health of the economy and domestic inflation levels.

(4) MEED Projects.
(5) Central Bank of Kuwait.

OPERATING **ENVIRONMENT**

Stock Market Performance

Kuwait market performance (All Share Index) in 2023 lagged the strong performance of the year 2022, posting a decline of -6.5% in 2023[6]. As well, the Kuwait market has underperformed the MSCI World Index[7] and MSCI EM Index which gained by 21.8% and 7.0% respectively. Additionally, the Kuwait all share index market capitalization reach KD 40.3 billion at the end of 2023, with the Kuwaiti Banks representing 60% of the market capitalization to reach KD 24.3 billion.

During the year, the market witnessed three rights issues for three major Kuwaiti Banks worth of KD 220 million, in which all were significantly over subscribed. This is a positive indication of the depth and strength of the Kuwaiti Banking sector and the trust of the investors in the Kuwait market.

Looking Ahead To 2024

While oil GDP growth is expected to decline in 2023 due to oil production cuts, non-oil GDP growth would stay robust, driven by domestic demand, and is foreseen to remain steady over the medium term. Kuwait's GDP is expected to grow by 2.6% in 2024[8] according to the IMF, benefiting from elevated oil prices, solid private consumption, lower inflation levels, ample fiscal and external buffers, and extremely low public debt by international standards. Nevertheless, the economy remains exposed to oil price volatility, uncertain OPEC+ oil production policy and disruptive domestic politics.

For banks, there are upside risks to credit growth in 2024e, on stronger mobilisation of projects and the potential approval of Kuwait's first Mortgage Law. The latter is a key priority for both the Cabinet and government, who have recently shown signs of willingness to cooperate and move forward on key pending reforms. There is also upside risk to NIMs from stable rates (further repricing of retail loans) and very low NPL formation, while the cost of risk should remain below the historical average in 2024.

Kuwait's GDP is expected to grow by **2.6%** in **2024** according to IMF

(6) Boursa Kuwait.

(7) Bloomberg.

(8) International Monetary Fund


AlDanah Millionaire Draw
1,000,000
AlDanah Millionaire Draw
1,000,000
AlDanah Millionaire Draw
1,000,000
AlDanah Millionaire Draw
1,000,000

MANAGEMENT **REPORT**

The year **2023** witnessed a continuation of the monetary tightening environment in order to tackle the elevated inflationary pressures which was unseen for decades. During the year the U.S Fed raised policy rate by as much as **100** bps in **2023** to reach **5.5%** while in Kuwait, the Central Bank of Kuwait raised the discount rate by as much as **75** bps in **2023** to reach **4.25%**.

The new policy rates are at peak levels not seen since the **2007 – 2008** financial crisis, this has put a toll on the credit growth potential on system wide and the Bank specifically. The system loans grew by **2.2%** in **2023,** that is much lower than the growth levels achieved in **2022** of **8.6%**.

In this tight monetary environment, the Bank main objectives are to continue to support its client's banking needs, ensuring adequate portfolio credit quality and optimizing risk weighted assets. During the year, the Bank loan book grew by **1.2%** that's much lower than the growth rates achieved in **2022** of **6.0%**. Looking at our corporate loan book that represents **60%** of total loans, grew by **0.4%**, while our consumer loan book that represents **40%** of total loans, grew by **2.5%** resulting in market share gains.

Corporate Banking

Gulf Bank's corporate banking business model is designated to serve a diversified portfolio of clients across various industries and segments which include family conglomerates, multinationals, government entities, specialized commercial, real estate and contracting businesses, and small and medium- sized enterprises (SMEs).

Through corporate banking, we strive to nourish and strengthen our relationship with our customers by offering them support through our dedicated and experienced industry focused relationship teams. With the launch in core-transformation in May 2023, we continue to invest in our full-fledged specialized digital platform to ease and alleviate our customers banking experience in a simplified and efficient manner, allowing them to transact as well as benefit from our products and services.

Corporate banking continues to significantly progress and grow through attracting new to bank customers, the ongoing development of the banks digital banking platforms and enhancing and expanding our products and services. Our focus on these three pillars has contributed to our asset growth and cemented the banks competitive edge and position as the leading Kuwaiti bank of the future, aiming to optimize the risk/return by way of focusing on high quality assets from various sectors. As a result, and despite the highly competitive market conditions, the bank grew most of the corporate banking segments.

Gulf Bank is proud to constantly support the SME segment by offering products and services that cater to their requirements. In addition to

Corporate banking... ongoing development of the banks digital banking platforms and enhancing and expanding our products and services... contributed to our asset growth and cemented the banks competitive edge and position

providing conventional cash and non-cash financing, we continued to support the SME segment by providing non-banking services i.e., collaborating with business advisory firms to provide logistics, business advisory, merchant solutions and concierge services to our SME customers. To accommodate with the changes in market dynamics and trends, the bank continues to develop and enhance its digital banking platform to SME customers to further enable them to benefit from the bank's services and products.

In line with Gulf bank's focus on customer experience and simplicity of services and products, corporate banking has commenced its digital transformation initiatives across all banking channels. Whereby the bank managed to migrate all clients to the new online banking platform. The transformation will allow the bank to provide and perform services under a centralized omni channel structure which will ultimately aid our customers in adapting and coping with the everchanging economic environment arising from technological advancements. The corporate online banking platform currently offers a variety of new services and functions which include trade finance, salary and bulk-transfers and other services, and a mobile application dedicated to our corporate and SME segment. The platform is continuously upgraded to deliver a secure electronic banking experience to our corporate customers.

Corporate banking team is and remains its main asset, it is the foundation of the bank success, and as such the bank continues to invest and support its staff by sponsoring executive courses in best-in-class universities and institutions.

Consumer Banking

Gulf Bank Consumer banking has initiated an Omni-Channel Digital Transformation project in accordance with its strategy, vision, and goal to offer its customers top-notch and secure banking services. The program aims to transition from a fragmented channel strategy to a centralized omni-channel digital banking approach, allowing for seamless coordination of customer interactions across all touch-points. The primary goal of the effort is to equip Gulf Bank with the necessary capabilities to address future client demands, comply with the Central Bank's Cyber Security Framework, and be prepared for the implementation of open banking.

Gulf Bank Consumer banking has initiated an Omni-Channel Digital Transformation project... the program aims to transition from a fragmented channel strategy to a centralized omni-channel digital banking approach, allowing for seamless coordination of customer interactions across all touch-points

Gulf Bank Introduces Its Completely Redesigned Mobile Application

The Bank has introduced a cutting-edge banking experience that surpasses customers' expectations through the all-new version of its mobile application, which is an integral component of the bank's swift ascent to digital leadership and incorporates cutting-edge technology.

The upgraded Gulf Bank mobile application comprises an abundance of features and services accessible via an intelligent user interface, all of which are tailored to the needs and desires of individual clients. As part of the Bank's ambitious digital transformation plans, the development of Gulf Bank's retail banking services has taken quantum and unprecedented leaps, culminating in the release of the updated mobile application. Customers can now open accounts without the need for paper transactions, access their account statements effortlessly, and monitor all their accounts at any time. Furthermore, customers have the capability to promptly transmit a payment link while adeptly overseeing and monitoring expenditures with unparalleled accuracy.

Re-imagined Branch Experience

Physical branch networks worldwide are being impacted by the shift to digital transactions. But customers' expectations for improved in-person branch experiences, influenced by other retail experiences, have also been growing. Several indicators suggest that branches are very much part of the future for banks and their customers. Despite differing needs and expectations, customers regardless of age and demographics share a common desire for greater personalization and the human touch at critical financial moments.

Gulf Bank's branch network has a positive impact on customers' behavior and buying decisions because the physical presence helps provide a 'trust' dimension, even to digital-only customers, as it provides reassurance. In light with this, the Bank opened a new branch in the residential Sabah AlAhmed area and renovated the AlFanar Complex branch in 2023, effectively launching its new architectural models.

Gulf Bank's Call Center – The Fastest And Most Advanced Amongst All Banks In Kuwait

As part of its continuous efforts to improve the customer experience, Gulf Bank's Call Center has witnessed major developments with its diverse, fast, and secure services – in parallel with the launch of the new mobile application. This aligns with Gulf Bank's 2025 strategy, and the Bank's adoption of the latest IVR technology, which created a flexible work environment for employees, and a greater ability to deal with various banking systems. The IVR technology also aids in maintaining the highest standards of privacy and security and improves the response rates to customer calls. Gulf Bank's Call Center has set a record for its response rates to social media messages, which is currently less than three minutes, in comparison to the minimum average of about an hour globally.

Gulf Bank Is The First Bank In Kuwait To Offer Drive-Through Interactive Teller Machine (ITM) Services

At its Sharq branch on Ahmed Al Jaber Street, Gulf Bank has announced the opening of its first drive-thru Interactive Teller Machine (ITM). Gulf Bank is the first bank in Kuwait to provide its clients this service, which allows them to quickly access their accounts and conveniently access banking services without having to look for parking or even step out of their cars. Gulf Bank offers cutting-edge technology solutions, embraces the strictest international guidelines for risk management procedures, and encourages exceptional work from its staff members through active engagement and interaction.

Gulf Bank is the first bank in Kuwait to provide... drive-thru Interactive Teller Machine (ITM)

Gulf Bank Provides Instant Sign Language Interpreting Services

As part of the Bank's efforts to mainstream sustainability principles in society and in compliance with the directives of Kuwait's Central Bank, Gulf Bank announced its partnership with SignCom, which offers instantaneous sign language translation services for individuals with special needs and Video Relay Services (VRS), a communication tool for the deaf that is currently available at six branches.

Aldanah Millionaire Grand Prize Increased To KD 2,000,000

Gulf Bank increased the annual grand prize value of the AlDanah Millionaire account from KD 1.5 million to KD 2 million in celebration of the account's 25th anniversary. This makes the AlDanah Millionaire account the largest cash prize linked to a bank account in the world.

Gulf Bank increased the annual grand prize value of the AlDanah Millionaire account from KD 1.5 million to KD 2 million... its now the largest cash prize linked to a bank account in the world

Gulf Bank Launches Google Pay To Its Customers

Gulf Bank has introduced the Google Pay service, which enables clients to conduct secure and convenient contactless transactions using Android and Wear OS devices, utilizing the most recent digital payment innovations. Face ID, Touch ID, or a device passcode authentication is applied to each Google Pay transaction, and the payment method is interoperable with all retail locations that accept 'contactless' card payments via smart devices.

Gulf Bank Provides Wealth Management Clients With An Array Of Unique Services

Gulf Bank has emerged as a trailblazer in the provision of dinar-based investment alternatives with returns surpassing those of deposits. In furtherance of its ongoing commitment to delivering customized services and distinctive products to its diverse customer base, Gulf Bank is offering its Wealth Management clients a variety of one-of-a-kind products. The new products are designed with the specifications of affluent individuals in mind and are customized to the needs and lifestyles of the customers.

Gulf Bank Introduces Self-Service Banking On ITM And ATM Machines

As part of its 2025 strategy and digital transformation plans, Gulf Bank has signed a strategic partnership agreement with NCR, to offer self-service banking via Interactive Teller Machines (ITMs) and ATMs. These services will enable customers to conduct various transactions that are usually done at the branches, providing them with a wonderful interactive experience.

This partnership will transform Gulf Bank's network of more than 300 ATM and ITM machines, to become self-managed by the Bank – through implementing an in-house ATM Driving Payment Switch, using the CX Banking and NCR ATM Marketing solutions from NCR.

NCR will help provide Gulf Bank ATM users with a range of digital services throughout the day, which will simplify the customers' access to banking services and save time. The digital services include updating civil ID data, paying bills, depositing bank cheques, PIN changes, and activating debit cards. Customers will also be able to transfer within Gulf Bank accounts and to other banks locally and internationally, as well as paying outstanding amounts on credit cards. Customers using cards issued by other banks will be able to perform certain transactions such cash withdrawals and balance inquiries.

In addition, the NCR ATM Marketing solution enables the bank to advertise on a larger scale, target marketing, and personalize the self-service machines. This solution provides the Bank with wide capabilities to identify user segments and address them through promotional advertisements on the ATM and ITM screens; all whilst providing customers with the services and solutions they need.

Gulf Bank signed a strategic partnership agreement with NCR, to offer self-service banking via Interactive Teller Machines (ITMs) and ATMs

Treasury

The Treasury department plays a pivotal role in managing financial resources, focusing on overseeing cash flows, liquidity, and efficiently allocating funds at optimal prices. A primary objective is ensuring the Bank is well-funded for its loan growth while adhering to Central Bank of Kuwait (CBK) regulatory ratios and internal limits. To achieve this, the Treasury has diversified its funding sources through active engagement in local and regional client visits, resulting in onboarding of new customers specifically for Gulf Bank. Additionally, it has entered into medium-term bilateral borrowing agreements with major financial institutions, enhancing the bank's regulatory ratios, liquidity profile, and overall creditworthiness.

To further enhance the Bank's profitability and the bank's balance sheet, the Treasury operates through three different desks. The Assets and Liabilities desk (ALM) focuses on assessing market trends and strategically managing the bank's borrowing and Money Market lending activities to optimize financial performance while managing risks. The Sales desk is crucial in engaging with clients and generating revenue through the sale of various Treasury products and services, aiming to build and maintain strong client relationships while driving business growth. The Foreign Exchange trading desk, meanwhile, ensures the provision of competitive market prices, covering clients' transactions and acts as a market maker in USD/KWD trading.

The digital transformation initiative have upgraded the Treasury front office system to a state of the art system by improving efficiency, streamlining processes, and increasing productivity

A significant milestone for the Treasury was its digital transformation initiative, which upgraded the Treasury Front Office System to a state-of-the-art system, thereby improving efficiency, streamlining processes, and increasing productivity. The Treasury management system will facilitate the launch of new products and incorporate sophisticated risk management tools by next year.

Additionally, the Treasury has placed considerable emphasis on staff training and development, including rotations within the department and intensive training programs. This is aimed at equipping staff with the necessary knowledge and skills for excellence in their roles. Furthermore, the Treasury has conducted several presentations across various Bank departments to spread Treasury awareness and enhance overall efficiency.

Investments

Overall, 2023 has been a challenging year in the capital markets space, particularly impacting both the fixed income and equities markets. This is largely due to factors such as high funding costs, and geopolitical uncertainty. Despite these challenges, the year has also presented some opportunities, albeit sporadic, highlighting the need for strategic and adaptable investment approaches in such a fluctuating market environment.

At the investment department, we successfully completed the Gulf Bank capital increase through a rights issue which resulted in 6.9 oversubscription. The year 2023 was active in bond issuance where we placed with our clients' bonds and sukuks issued by URC and KIPCO respectively worth in excess of KD 50 m, the department also worked with Investcorp to offer the bank clients a US Real estate Fund.

At Gulf Bank in 2023, our approach to investments has been cautious yet responsive. For our proprietary fixed income portfolio, we've seen a gradual run-off throughout the year. In response, we've been on the lookout for suitable moments to reinvest funds when promising opportunities present themselves.

As for our equities investment, our strategy has been to closely watch our current portfolio and consider exit opportunities as they arise. This approach is aimed at ensuring steady management of our investments in a fluctuating market.

The investment department successfully completed the Gulf Bank capital increase through a rights issue which resulted in 6.9 over-subscription

MANAGEMENT **REPORT**

Invest GB

During the year the investment department worked on securing all required regulatory authorizations for the establishment of Gulf Capital Investment Company (InvestGB), including building a team of 30 experienced investments professionals with 70% national talent and 40% representation of women, and located the team at its new premises at the prestigious Hamra Tower.

In November 2023 the CMA granted InvestGB seven investment licenses, approved the board of directors and key positions including the CEO.

InvestGB will start operating in 2024 with KD 1 billion of asset under-management and will be focused on asset management and wealth management services, both will be complementary activities to the Bank, where it will enhance customer offerings predominantly for our private and corporate banking clients and have a positive impact on our fees and commission income over the long run.

Invest GB will start operating in 2024... and will be focused on asset management and wealth management services, both will be complementary activities to the Bank

Financial Institutions and Sovereigns

The Financial Institutions and Sovereigns division facilitates solutions for both Consumer and Corporate clients, allowing for efficient trade finance services as well as global payments. With access to global correspondent banks and long standing international banking relationships, the division also provides various funding solutions to support the diversity of the Bank's funding sources. FIs and Sovereigns also provides financing to financial institutions and sovereigns, diversifying the Bank's lending book and growing its assets. The division continues to accelerate its business activity through lending, borrowing, correspondent banking, and trade related transactions.

In line with the Bank's ESG initiatives, the division participated in multiple ESG linked transactions in 2023 providing incentivized pricing based on ESG performance and KPIs.

On the digital transformation front, the FIs and Sovereigns division has been preparing for the core banking system by aligning all its product offering with the new and enhanced capabilities which will lay the foundation for further growth and enhanced customer experiences.

The Financial Institutions and Sovereigns division participated in multiple ESG linked transactions in 2023 providing incentived pricing based on ESG performance and KPIs

Data and Digital Transformation

2023 was a year of continued data-driven transformation along with the spread of Innovation in Gulf Bank, with the establishment of the Innovation unit within the Data and Innovation Office. After taking the initiative to build and capitalize on the banks' data assets by rolling out the tools necessary for insight automation and self-serve analytics, it was time to create a culture of innovation with customer-centricity at the forefront. As part of its keenness to motivate and encourage innovative ideas, Gulf Bank has concluded the first edition of the 'Fekrety' Innovation Tournament, which aims to foster innovation amongst all bank employees, empowering them by giving them the opportunity to be heard, bringing forth positive, valuable changes to the bank, the industry, and the wider community.

Data and Innovation Office... build and capitalize on the banks' data assets by rolling out the tools necessary for insight automation and self-serve analytics... to create a culture of innovation with customer-centricity

Initiatives

Embrace a culture of employee enabled innovation

A major milestone in 2023, was the development of the Gulf Bank Innovation framework as well as the publishing of Gulf Bank's Innovation playbook, leading to the "Fekrety" Innovation tournament. These initiatives play an important role in achieving Gulf Bank's vision to provide our customers with innovative services and a strategic foundation to develop its workforce to build innovation mindsets, foster idea generation, and enable continuous employee-led improvements.

The tournament focused on empowering everyone, especially the frontline, customer-facing employees to play an active role in the innovation process, offering employees a platform to express their ideas, implement innovations, and bring about positive and meaningful change, aligning with the bank's 2025 strategy and Kuwait Vision 2035. The Innovation Office supported employees in developing and refining their concepts, aligning them with customer expectations, and facilitating the creation of easily accessible innovative services that bring value to Gulf Bank customers.

The tournament witnessed active employee participation with over 200 ideas, 60% coming from customer-facing employees and 40% from the head office. The ideas were broken down into 64% Services, 14% Process optimization and 22% Products. The tournament led to a continuous flow of ideas creating a pipeline with multiple ideas under development & prototyping and others implemented throughout 2023.

Implement data democratization tools to propel digital transformation

Gulf Bank rolled out Tableau, a data analytics and visualization tool, to all employees making it possible for them to make data-driven decisions. By upskilling employees with Tableau, Gulf Bank pushes forward with its investment in its people, ensuring every business unit is data-savvy, and creating value with good data in line with Gulf Bank's Data Analytics Framework.

With Tableau we can better the organization's data science and innovation capabilities, providing employees the opportunity to be more innovative with data analytics at the forefront, through interactive dashboards and reports allowing quicker and better decision-making.

Along with Tableau training sessions, Gulf Bank held "Tableau Days" where employees were able to join workshops led by Tableau executives and industry experts, answering all questions, instilling best practices, and encouraging Gulf Bank employees to continue embracing their data culture.

Gulf Bank rolled out Tableau, a data analytics and visualization tool, to all employees making it possible for them to make data-driven decisions

Digital Library

In its ongoing commitment to digital leadership within the banking industry and the delivery of top-notch services to its customers, Gulf Bank launched the digital library. This library was a winning idea in the Fekrety Innovation Tournament, developed jointly by a diverse team across the bank, collaborating to bring it to life. The new library, designed to replace the bank's products and services documents, adopts a digital and dynamic format with enhanced features providing a unified experience across channels.

It serves as the primary repository for information about the bank's products and services, representing a key component of the extensive digital transformation the bank is actively pursuing.

The Digital Library is developed to streamline the access to information for employees in branches, customer care center, and sales teams, empowering them to deliver superior customer service.

Public Datathon Competition 2023

Gulf Bank held its second annual Datathon, a public competition that enables participants to learn more about data science, data visualizations, and digital analytics tools and techniques, incorporating AI & chatGPT for the first time this year.

As part of the competition, the audience attended free educational workshops hosted by industry leaders from Gulf Bank teams. The workshops were centered around data science, digital and app analytics, and the latest data visualization techniques.

Thought Leadership and bringing digital fintech technology to the community

Gulf Bank continued its "Data Talk" series bringing local academic experts in data to help the youth who are new to tech. This year's discussions centered around the best academic routes to a career in data science.

Furthermore, Gulf Bank data and innovation team members chaired Kuwait's first Fintech Conference which was aimed at bringing together Kuwait›s startup and incumbent financial industry players to develop and enable the growth of the local fintech scene.

Kuwait University Financial Literacy Workshops

Gulf Bank successfully conducted financial literacy workshops at one of the biggest career fairs at Kuwait University. The workshop, presented by Gulf Bank, focused on enhancing students' financial literacy through scenario-based budgeting exercises and practical examples relevant to their lives in Kuwait. Employing a hands-on approach, the workshop presented various financial scenarios with individuals having different goals and income levels. By addressing practical and relatable situations, the workshop provided students with a comprehensive understanding of financial management tailored to their lives in Kuwait, fostering valuable skills and insights.

Gulf Bank held its second annual Datathon, a public competition that enables participants to learn more about data science, data visualizations, and digital analytics tools and techniques, incorporating AI & chatGPT for the first time

SUSTAINABILITY

Gulf Bank's ESG 2030 Strategy

As we navigate the complex and ever-evolving financial landscape, we recognize that ESG considerations are integral, and that sustainable development is essential to the community's prosperity. We are dedicated to driving positive change by aligning our business objectives with the principles of Environmental, Social, and Governance (ESG) excellence. At Gulf Bank, we consider our ESG 2030 Strategy as a proactive mechanism to uphold the values that guide our directions. Through our strategy, we outline our vision for a sustainable future—one where responsible banking practices not only drive our success but also contribute to the well-being of our stakeholders and the broader community.

To this end we are committed to:

- Becoming the leader in providing our stakeholders with innovative services and financing solutions that foster sustainable growth,
- Operating responsibly, while upholding the highest ethical values,
- Harnessing technology and innovation, to enhance the experience of our customers and become more accessible,
- Fostering an equitable work environment that supports the welfare and development of our people,
- Minimizing our environmental stewardship by adopting and promoting environmentally friendly practices, and
- Giving back to and empowering the community we operate in.

The ESG 2030 serves as an enabler to Gulf Bank in being a responsible corporate citizen, creating impactful initiatives, and sustaining stakeholders' value. It underlines the Bank's belief that business success and growth are interdependent of integrating ESG considerations governed with an overarching strategy with clearly defined attainable targets.

The ESG 2030 serves as an enabler to Gulf Bank in being a responsible corporate citizen, creating impactful initiatives, and sustaining stakeholders' value

Key achievements aimed through the ESG 2030 strategy implementation cover:

- Regulatory Compliance
- Sustainable Value
- Demonstrate Accountability
- Manage Risks
- Engage Stakeholders

Strategy Attributes

The strategy is built on 4 pillars: Accountable Governance, Equitable Workplace, Empowered Community Engagement, and Responsible Banking. From the pillars, specific topics were identified for which certain objectives and KPIs were developed to be monitored and evaluated as necessary.

Strategic ESG Topics

Gulf Bank prioritized the following strategic ESG topics regarding its efforts to promote sustainability, responsible business practices, and ethical governance:

Strategic Topics

P1 Accountable Governance

- Board Disclosures and Oversight
- Compliance and Conduct
- ESG Risk Management

P2 Equitable Workplace

- Diversity and Inclusion
- Women Empowerment
- Training and Development
- Employee Engagement and Retention

P3 Empowered Community Engagement

- Youth Empowerment
- Community Well-being
- Social Engagement and Interactions
- Local Procurement

P4 Responsible Banking

- Sustainable Finance
- SME Support
- Customer Experience
- Digital Transformation
- GHG Emissions
- Utilities Management
- Waste Management

SUSTAINABILITY

Material Topics Alignment

Our annual sustainability reporting practice follows the standards and guidelines set by the Global Reporting Initiative (GRI). In line with this, certain topics were identified as material to the Bank in terms of ESG. Such topics were aligned with international and national frameworks, namely: United Nations Sustainable Development Goals (SDGs), New Kuwait Vision 2035, Boursa Kuwait and the Central Bank of Kuwait (CBK) Principles on Sustainable Finance, as shown in the following figure.

Alignment of Material Topics to Relevant National and International Frameworks

Gulf Bank Material Topics list	SUSTAINABLE DEVELOPMENT GOALS	كويت جديدة NEWKUWAIT	بورصة الكويت BOURSA KUWAIT	بنك الكويت المركزي CENTRAL BANK OF KUWAIT
Governance and Oversight	Goal 16: Peace, Justice and Strong Institutions Targets: 16.3,16.7	Effective Public Administration	Board Diversity, Board Independence	13. Ensure Board oversight and approval on the Bank's sustainable finance related practices and concerns
ESG Inclusion	Goal 16: Peace, Justice and Strong Institutions Targets: 16.b Goal 12: Responsible Consumption and Production Targets: 12.6	Sustainable diversified economy. Sustainable living environment.	All Standards	All principles
Responsible products and services	Goal 12: Responsible Consumption and Production Targets: 12.7	Sustainable diversified economy	Ethics and Anti-Corruption, Supplier Code of Conduct, Child and Forced Labor, Human Rights	Enhance ESG performance in the bank by offering new and innovative financial and banking solutions; support the concept of Sustainability in all the bank's activities.
Business Conduct and Compliance	Goal 10: Reduced Inequalities Targets: 10.5 Goal 16: Peace, Justice and Strong Institutions Targets:16.4,16.5, 16.6,16.a Goal 12: Responsible Consumption and Production Targets: 12.6	Effective Public Administration	Ethics and Anti-Corruption, Supplier Code of Conduct	

Gulf Bank Material Topics list	SUSTAINABLE DEVELOPMENT GOALS	NEWKUWAIT	BOURSA KUWAIT	CENTRAL BANK OF KUWAIT
Digital Transformation	Goal 9: Industry Innovation and Infrastructure Targets: 9.c	Developed Infrastructure Global Positioning	N/A	N/A
Talent management, development and retention	Goal 4: Quality Education Targets: 4.4	Creative Human Capital	Employee Turnover	7. Developing the capabilities of the Bank's employees and raising their awareness on ESG and sustainable finance through the offering of training courses
Community Engagement	Goal 10: Reduced Inequalities Targets: 10.2 Goal 12: Responsible Consumption and Production Targets: 12.8	Global Positioning	N/A	N/A
Customer Satisfaction	Goal 12: Responsible Consumption and Production Targets: 12.6,8	Developed Infrastructure	N/A	N/A
Environmental Aspects	Goal 13: Climate Action Targets: 13.1, 13.3 Goal 11: Sustainable Cities and Communities Targets: 11.6	Sustainable Living Environment	GHG Emissions, Emissions Intensity, Energy Usage, Energy Intensity, Energy Mix, Water Usage, Environmental Operations, Environmental Oversight	8. Measuring and monitoring the Bank's environmental performance including GHG emissions, waste management, adopting water and energy efficient practices
Business Continuity Plan	Goal 16: Peace, Justice and Strong Institutions Targets: 16.7	Effective Public Administration	N/A	11. Communicate with stakeholders transparently and issue annual sustainability reports on sustainability
Risk Assessment	Goal 16: Peace, Justice and Strong Institutions Targets: 16.4, 16.5	Effective Public Administration	Climate Risk Mitigation	6. Defining criteria for assessing climate change related risks and encouraging the financing of projects that address and have a positive impact on climate change

SUSTAINABILITY

Gulf Bank Material Topics list	SUSTAINABLE DEVELOPMENT GOALS	كويت جديدة NEWKUWAIT	بورصة الكويت BOURSA KUWAIT	بنك الكويت المركزي CENTRAL BANK OF KUWAIT
Carbon Emissions	Goal 13: Climate Action Targets: 13.1	Sustainable Living Environment	GHG Emissions, Emissions Intensity,	8. Measuring and monitoring the Bank's environmental performance including GHG emissions, waste management, adopting water and energy efficient practices
Innovation	Goal 8: Decent Work and Economic Growth Targets: 8.2 Goal 9: Industry, Innovation and Infrastructure Targets: 9.4, 9.b	Global Positioning	N/A	5. Enhance ESG performance in the bank by offering new and innovative financial and banking solutions; support the concept of Sustainability in all the bank's activities.
Empowering Women	Goal 8:Decent Work and Economic Growth Targets: 8.5 Goal 5: Gender Equality	Creative Human Capital	Gender Diversity, Gender Pay Ratio, Non-Discrimination	4. Support Financial Inclusion in general and facilitate access to financial services.
Privacy and Security	Goal 16: Peace, Justice and Strong Institutions Targets: 16.6	Effective Public Administration	Data Privacy	N/A
Responsible Procurement	Goal 12: Responsible Consumption and Production Targets: 12.7	Sustainable diversified economy	Ethics and Anti-Corruption, Supplier Code of Conduct, Child and Forced Labor, Human Rights	N/A
Employee Wellbeing	Goal 16: Peace, Justice and Strong Institutions Goal 3: Good Health and Safety Goal 8:Decent Work and Economic Growth Targets: 8.8	High Quality Healthcare Global Positioning	Inquiry Rate, Non-Discrimination, Human Rights, Global Health and Safety	N/A

Gulf Bank Material Topics list	SUSTAINABLE DEVELOPMENT GOALS	NEWKUWAIT	BOURSA KUWAIT	CENTRAL BANK OF KUWAIT
Youth Empowerment	Goal 1: No Poverty Targets: 1.4 Goal 8: Decent Work and Economic Growth Targets: 8.6, 8.b Goal 10: Reduced Inequalities Targets: 10.2	Creative Human Capital Global Positioning	Non-Discrimination	4.Support Financial Inclusion in general and facilitate access to financial services.
Sustainable finance	Goal 10: Reduced inequalities Targets: 10.5,10.6, 10.b Goal 11: Sustainable Cities and Communities Targets:11.c	Sustainable diversified economy	N/A	1. Integrate ESG factors in the Bank's governance strategy, so that it includes elements of sustainable financing, taking into consideration setting clear objectives for the bank under the umbrella of sustainable financing
SME Support	Goal 8: Decent Work and Economic Growth Targets: 8.3 Goal 9: Industry, Innovation and Infrastructure Targets: 9.3	Sustainable diversified economy	N/A	4.Support Financial Inclusion in general and facilitate access to financial services.


في
التغيير
دوم بداية جديدة

03 GOVERNANCE

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 – March 3, 2024
- Board Member; March 17, 2012 – March 3, 2020

Experience:

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

*Resignation of Mr. Jassim Mustafa Boodai from Board membership and position as Chairman of Board effective end of March 3, 2024.

Ali Morad Behbehani

Deputy Chairman of Board of Directors

Date of Appointment:

- Deputy Chairman: March 16, 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.).
- Former Board Member of Kuwait National Cinema Company (S.A.K.).
- Former 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:

- Owner of The Law Office of Al-Essa & Partners.
- Former Chairman of the Kuwait Bar Association
- Former President of the Admission Committee of the Kuwait Bar Association.
- Former President of the Arbitration Center of the Kuwait Bar Association.
- Former President of the Development and Training Committee of the Kuwait Bar Association.
- Former Head of the Kuwaitization Group at the Manpower and Government Restructuring Program.
- Former Chairman of Kuwaiti Touristic Enterprises Company, Egypt.
- Former Appointed adviser to the Public Authority compensation for Iraqi invasion.
- Former Member of the board of Kuwaiti Association for Learning Differences (from 2015 to 2021).
- 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 3 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.
- Vice 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.
- Chairman of National Investments Company (NIC), Kuwait.
- Vice Chairman of Heavy Engineering Industries & Shipbuilding Co. (HEISCO), Kuwait.
- Board Member at Mentor Arabia, Lebanon.
- 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 and in 2022 BNK Automotive acquired the franchise rights for Polestar.
- In 2020, BNK Motion, owned by Mr. Bader Al-Kharafi acquired the franchise rights for Piaggio Group and Vanderhall Motor Works.

*Appointment of Mr. Bader Nasser AlKharafi as the new Chairman of Gulf Bank, effective March 4, 2024.

Abdullah Sayer Al-Sayer

Board Member

Deputy Chairman of Board Audit Committee

Date of Appointment:

- March 27, 2021

Academic Qualifications:

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

Experience:

- Board Member in AlSayer Group (2022 to date)
- Board Member in Bayan Dental (2019 to date)
- Board Member in Credit One (2018 to date)
- Former Senior Manager, Al Sayer Group – Al Dhow Holding Co., Kuwait (2015 to the end of 2022)
- Former Financial Analyst in Injazzat Real Estate Dev. Co (2013 – 2015)
- Former, Analyst in Bader Al Abduljader & Partners (Russell Bedford International), Kuwait (2012 – 2013)
- Former Associate in Qunsult International Ltd, Kuwait (2012)
- With over 10 years of experience, largely in finance and investment sectors, Mr. Abdullah has played a vital role in diversification of AlSayer Group into Education, Health care and Banking sectors. He has been significant in introducing new technologies as part of the digitization process at AlSayer Group.

BOARD OF **DIRECTORS**

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:

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

Experience:

- Chief Legal Officer – Alghanim Industries Group (July 2020 – Present).
- Legal Affairs Director in The Public Authority for Applied Education and Training (August 2023 – 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 Alamana Industries Co. SAK(C), (Jan 2021- Present)
- Vice- Chairman in the Board of Members of Alghanim Industries Group Holding Co. SAK(C) (Former/ Alamana Kuwait Holding Co. SAK(C)) (Jan 2021- Present)
- Vice- Chairman in the Board of Members of X-cite General Trading Co. SPC (March 2022 – 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 Development Co. LLC, Saudi Arabia (November 2021- Present).
- Manager in the Board of Managers of Atara Investment Co. LLC – UAE (2020 – Present).
- Secretary General of the 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)

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.

BOARD OF **DIRECTORS**

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:

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

Dr. Abdulrahman Mohammad Al-Taweel

Independent Board Member

Chairman, Board Risk Committee

Deputy Chairman, 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 professions for over ten years, conducting a variety of 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.
- Former an advisor to the Director General of the State Bureau of Financial Controllers (2019 -2022).

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:

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

Reem Abdullah Al-Saleh

Independent Board Member

Member of Board Audit Committee

Member of Board Compliance and Governance Committee

Date of Appointment:

- June 25, 2022

Academic Qualifications:

- Bachelor of Accounting in Faculty of Commerce, Economics and Political sciences, Kuwait University, Kuwait

Experience:

- Eissa Al Saleh Trading Group Company in 1996 as Assistant General Manager
- Al Fath Real Estate since 1997 as Board Member.
- Chief Executive Officer and Board Member, Gulf Inspection International Co., K.S.C. Kuwait
- Joined Gulf Inspection International Company K.S.C. in 2003 as Director of Business Development. Re-established and developed the Company's various activities and departments with main responsibility. In 2015, prompted as Chief Executive Officer of Gulf Inspection International Company K.S.C. In 2022 Board Member of Gulf Inspection International Company K.S.C.
- A Consultant to Musaed Al-Saleh Group since 2015.
- Kuwait Computer Services Company as Vice Chairman and recently Board Member.
- In 2022 - Independent Board Member of Injazzat Real Estate Development Company K.S.C.
- General Manager – In Royal Service Co. for General Trading & Contracting W.L.L
- Former Chairman of Kayan International Construction Company.
- Member of Kuwait Accountants and Auditors Association, Kuwaiti Economics Society, GCC Accounting & Auditing Organization, Member of ACI Kuwait Chapter (Membership No. OR 014), Arbitrator & Expert for Kuwait Capital Markets Authority.

EXECUTIVE **MANAGEMENT**

Waleed Mandani

Acting 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.
- Board Member in KNET, and chairman of Board Audit Committee 2022.
- Vice Chairman of TurkCapital Holding and Board Member 2015 until 2021.

Sami Mahfouz

Deputy Chief Executive Officer - Customer Service Delivery

Date of Joining Gulf Bank:

- March 6, 2018

Academic Qualifications:

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

Experience:

- More than 30 years of banking experience in the region at leading international banks.
- Previously worked at Standard Chartered Bank for 18 years, with his last role as Head of MENA Public Sector Coverage Group, and earlier undertook a variety of Financial Markets roles in UAE, Bahrain and Lebanon. Started his career at HSBC Lebanon.

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.

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.

Abdulrahman Alsaddah

Acting Chief Risk Officer

Date of Joining Gulf Bank:

- September 21, 2003

Academic Qualification:

- BSc in Accounting, Kuwait University.
- Program for Leadership Development, Harvard Business School.

Experience:

- More than 20 years of experience in Banking and Financial Services.
- Previously Deputy Chief Risk Officer at Gulf Bank.
- Previously Deputy GM of Structured Workout and Remedial in Corporate Banking at Gulf Bank.
- Presently Board Member in Gulf Capital Investment Company, Chair of BRC, and a member of BAC.
- Served as Board Member in Kuwait Finance and Investment Company (KFIC), a member in both BRC and BAC.
- Led and Co-Led several debt restructuring and M&A transactions.

EXECUTIVE **MANAGEMENT**

Ali Al Faras

Chief Internal Auditor

Date of Joining Gulf Bank:

- September 20, 2003

Academic Qualifications:

- Bachelor's degree in English, from Kuwait University, Kuwait.
- Certified Risk Based Auditor (CRBA).
- Certified Compliance Officer (CCO).
- General Management Program (GMP27), from Harvard Business School at Boston, USA.
- Emerging Leaders Program at London Business School, UK.

Experience:

- Over 20 years of experience in the Banking sector mainly at Gulf Bank. Well versed with Internal Controls, Compliance, Policies & Procedures with strong knowledge of risk management aspects. Moreover, managing the Internal Audit function in accordance with the Internal Audit methodology, risk-based approach to assess the risks, effectiveness of internal controls, and to recommend measures to improve efficiency of the controls and to align with Board Audit Committee direction as well as Internal Audit Standards.

Faisal AlAdsani

General Manager – Corporate Banking

Date of Joining Gulf Bank:

- April 18, 2004

Academic Qualification:

- Bachelor's degree in finance from University of Denver, USA
- Executive management courses from Harvard Business School, INSEAD and University of Berkeley California

Experience:

- Family Conglomerates Division which caters to trading/commercial/industrial and services
- Previously Deputy General Manager overlooking Multinational Corporations and Oil & Gas Department
- Previously Assistant General Manager heading Shares & Real Estate Unit part of the Specialized Lending Division
- Previously Assistant Relationship Manager of the Financial Markets Division

Mohammad Al Qattan

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

Lamia Karam

General Manager - Treasury

Date of Joining Gulf Bank:

- July 2, 2017

Academic Qualifications:

- Bachelor's Degree in Economics from Kuwait University in 1987
- Completed many courses with certification in Management and Leadership from MIT Sloan school of Management -USA

Experience:

- Over 30 years of experience in the Treasury department, with extensive experience in Money Market, Foreign Exchange, and Sales
- Previously worked at Al Ahli bank in 1987 for four years
- Spent twenty-three years at Burgan Bank, where she held many positions, with her last position as Treasurer for Kuwait office. During this time, Lamia gained expertise in trading deposits and FX swaps and was a market maker in the KWD market. Also, she was among the pioneers in dealing Islamic transactions with Sharia compliant Islamic institutions. Furthermore, she chaired the Treasurers Meetings of the KBA committee for two consecutive years
- Joined Gulf bank in 2017 as a deputy manager for Treasury. Throughout her experience she succeeded in building a reputation within Kuwait and the GCC markets, with a solid network of clients and banks

EXECUTIVE **MANAGEMENT**

Mona Mansour

General Manager - Customer Service Delivery

Date of Joining Gulf Bank:

- August 15, 2004

Academic Qualifications:

- BSc in Business Administration, Kuwait University, Kuwait.
- 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.
- Joined Gulf Bank in 2004 Managed (Branch Operations, Complaints unit, Retail Credit , Trade Finance, Treasury Operations , Corporate & Retail Loans, Consumer Operations And Central Operations).

Salma Al Hajjaj

General Manager - Human Resources

Date of Joining Gulf Bank:

- February 1, 2013

Academic Qualifications:

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

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 a Member of the Arabian Society for Human Resources (ASHRM) board of trustees.
- Member of the Board of INJAZ: a nonprofit organization for the development of the youth.
- Lifetime member of the International Society of Female Professionals.
- A Senior Certified Professional Coach from both the International Coaching Federation and the Coach Transformation Academy.

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.
- Member of the Board of INJAZ a non-profit organization for the development of the youth.

Shahzad Anjum

General Manager - Information Technology

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, UK.

Experience:

- More than 23 years of Information Technology experience.
- 16+ years of providing IT solutions to leading financial service companies such as GulfBank, Alamana Finance Co. SAK, a leading auto finance company in Kuwait; Enaya Insurance, a leading insurance company and Alghanim Easy-Credit.
- Held various senior positions and worked as Group CIO at Alghanim industries.

CORPORATE **GOVERNANCE**

A strong and efficient Corporate Governance framework is a key instrument for enhancing the economy's performance in general and the Banking industry in particular. Gulf Bank (referred to as "the Bank"), one of the largest Banks in Kuwait, and its fully owned subsidiary, Gulf Capital Investment Company KSC(C) (known as "InvestGB") are committed to achieving best practices in corporate governance, business integrity and professionalism. InvestGB was established in 2023 with KD10 million authorized, issued, and fully paid-up capital. It has obtained the initial approval of the Capital Markets Authority ("CMA") to practice investment activities, and is currently working to meet CMA requirements. The Bank and its subsidiary are collectively referred to as (the "Group"). The Group has Board-Approved Corporate Governance Framework that is based on Central Bank of Kuwait ("CBK") and CMA rules and regulations for Governance and other regulators in alignment with Basel Framework.

The Group's upholding of Corporate Governance principles and imperatives goes hand in hand with the business activity and is implemented at all levels. In its endeavor towards offering a leading example of a comprehensive Corporate Governance culture, the Bank observes a strict compliance with the laws in place and CBK instructions governing this area.

The Group's Corporate Governance structure stresses the dynamic engagement of the Board of Directors in monitoring the performance of the Executive Management and the activity of the Group as a whole. Emphasis is put on the Board's responsibility in promoting general confidence in the Group's management, taking into consideration, in the context of maximizing the Group's revenues and profits, the impact of risk on the interests of customers, stakeholders and financial soundness of the Group. The same structure underlines the segregation between the Board and Executive Management's prerogatives and upholds strict checks and balances in that respect.

Gulf Bank shall continuously strive to best serve the interests of its stakeholders including shareholders, customers, employees, and the public at large. through transparent and accurate disclosures. In addition, the Bank conducts business in full compliance with all regulatory requirements and engages positively and dynamically with the community in which it operates.

Furthermore, as the Bank accelerates its digital transformation, the Bank has evaluated and improved data privacy and cyber security management as part of a focus on operational resilience and increased consumer protection. The Bank also recognizes its pivotal and distinct role in society, as well as the positive impact that a systemically important institution such as ours can have on society and our living environment. The Board of Directors has supported the development of a strong ESG framework, which is now part of the Bank's strategy.

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 Group'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 Group operates.

Corporate Governance - Policies and Procedures

The Group 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. Whistleblowing Policy and Procedure Manual
5. Conflict of Interest Policy
6. Related Party Transactions Policy
7. Customer Complaints 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
15. HR Non – Discrimination and Harassment Policy

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 Board of Directors, the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Manager Corporate Affairs/Board Secretary, 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.

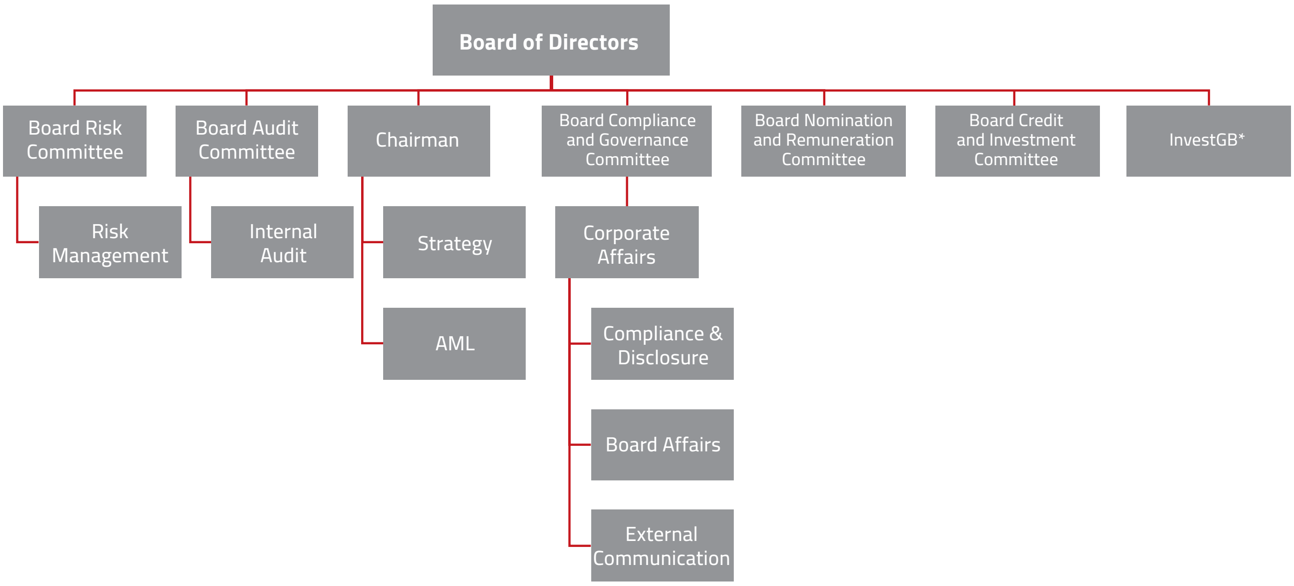
Governance Structure

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.

CORPORATE **GOVERNANCE**

The Board - Governance Organization



* In 2023, InvestGB, a 100% owned subsidiary, was established and has received CMA initial permission and is working to meet CMA standards.

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, four members are independent. There are five Board Committees.

The Board of Directors is intended to accomplish the Group'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 face the Bank. Directors also receive comprehensive guidance from the Board Secretary on the Bank's governance framework and associated policies.

Performance Evaluation

In 2023, an external company evaluated the Board's overall and individual performance. The evaluation is carried out in accordance with professional standards. This evaluation covers a wide range of topics, including assessing board members' performance, skills, and experience, succession planning, developing the bank's strategy, and the performance of the Chief Executive Officer and Board Secretary. "Outstanding" was the final result.

In addition, the Board of Directors received professional development in a variety of areas, including corporate governance, fraud, information technology trends, cybersecurity and threats, Environmental, Social and Governance (ESG), and Anti-Money Laundering (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:

- Set out the Group's strategic objectives and oversee the performance of the Executive Management;
- Monitor the Group's business, financial soundness, and compliance with regulatory and legal requirements;
- 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.
- In 2023, the Board closely monitored the establishment of Gulf Capital Investment Company K.S.C (C) (known as "InvestGB") as Gulf Bank's investment arm, which represents a leading investment company offering asset management solutions as well as advisory services. InvestGB has obtained the necessary licenses after meeting the requirements of the Capital Markets Authority (CMA).
- In 2023, the Extraordinary General Assembly approved an increase in authorized capital and delegated authority to the Board of Directors to make decisions on increased issued and paid-up capital as needed. As a result, the Board of Directors decided to increase the bank's issued and paid-up capital in the fourth quarter of 2023, with the proceeds supporting the bank's capital base and capital adequacy ratios while also providing growth opportunities by financing critical projects and improving the bank's ability to achieve the best returns for shareholders.

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;
- Build a constructive relationship between the Board and Executive Management;
- Ensure a high level of corporate governance in the Group 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/ Board Committees meetings, enabling them to make enlightened decisions in respect of the matters to be discussed. Also, the Board Secretariat maintains a conflict of interest and related parties register, which is updated on a regular basis.

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.

CORPORATE **GOVERNANCE**

Board Meetings and Attendance

During 2023, there were no changes in the Board composition. The Board consists of seven non-independent members and four independent members.

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 2023, 8 Board meetings and 38 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 2023	**8**	**5**	**4**	**2**	**3**	**24**
Jassim Mustafa Boodai	8	*	*	2	*	24
Ali Morad Behbehani	5	*	*	*	*	*
Bader Nasser AlKharafi	6	*	3	*	*	*
Omar Hamad Al Essa	7	*	*	*	3	23
Fawaz Mohammad AlAwadhi	7	*	*	*	3	22
Barrak Abdulmohsen AlAsfour	7	*	4	*	*	*
Abdullah Sayer Al Sayer	6	4	*	*	*	*
Ahmad Mohammad AlBahar	8	*	*	*	3	*
Abdulrahman M. Al Taweel	7	*	4	2	*	*
Talal Ali Al Sayegh	7	5	*	*	*	*
Reem Abdullah Al Saleh	8	5	*	2	*	*

* Not a member of the committee.

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 2023 be equal to **KD 295,000** (2022: KD 181,250).

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 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. Abdulrahman Al Taweel,	Committee Deputy Chairman
▪ Mrs. Reem Al Saleh,	Committee Member
▪ Mr. Dari Al Bader,	Committee Secretary

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 2023

- Reviewed and assessed the adequacy of the Bank's Corporate Governance policies and Board practices.
- Reviewed and approved the Annual Compliance Testing Plan for year 2023.
- Reviewed the approved the Annual Corporate Governance Report and other Corporate Governance documents.
- Reviewed the monitoring and reporting process under the Whistleblowing policy.
- Reviewed and approved the GM-Corporate Affairs Balanced Scorecard for year 2024 & evaluated his annual performance for year 2023.
- The committee followed up on the Central Bank of Kuwait's instructions and directives regarding Sustainable Financing, ensuring that the bank complied. It also directed the formation of a taskforce that would work under the committee's full supervision to focus on the three pillars of sustainability: environmental, social and governance (ESG) and to keep members updated on a regular basis..

e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2023.

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
- Mr. Abdullah Al Sayer, Committee Deputy Chairman
- Mrs. Reem AlSaleh, 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 2023

- Monitored the activities of the Internal Audit Division, including review and approval of its plans, strategies, department key performance indicators, follow-up action points, organizational structure, Internal Audit manual and procedure, General Manager of Internal Audit Balanced Scorecard and staffing budgets.
- Approved the Internal Audit updated three-year risk-based plan and related update as well as reviewed the observations, 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 plan.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed observations, action plan and recommendations set forth in the CBK mandated Internal Control Report.

e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2023.

f. Auditors' Fees

The Ordinary General Assembly Meeting held on March 18, 2023 approved the appointment of the Bank's external auditors for 2023. Below are the total fees paid to the Auditors:

	2023 (KD'000)	2022 (KD'000)
Audit of Group financials statments	**166**	166
Other assurance and non-assurance services to the Group	**488**	216
Total	**654**	382

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, a summary of the Top-20 credit clients and Top-20 credit risks rated 6 or worse. 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 initiatives, activities and events, receives updates on the current threats the bank is facing and the mitigants, 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

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 2023

- 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.
- Approved updates to the Information & Cyber Security Strategy Roadmap.
- Reviewed and approved enhanced quarterly BRC reporting framework.
- Reviewed and recommended the new Risk Management Bank organization structure for approval by the Board.
- Reviewed summary of all credit approvals given by Credit Committees.
- Held meetings with the Chief Risk Officer without the presence of the Bank's Executive Management.
- Periodically reviewed the status and provided guidance on significant projects including the ones related to enhancement of Cyber security of the Bank.

e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2023.

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 enhancing the effectiveness and management of the Group's risk management. BNRC also submits recommendations to the 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 Group's approved policies and standards; this takes place in adherence with the CBK instructions. BNRC 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 Group. Furthermore, BNRC 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.

BNRC, with the Board Risk Committee, reviews 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 BNRC annually prepares and reviews the Remuneration Granting Policy to the BOD.

b. Composition of the Committee

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

c. Committee Meetings

BNRC convenes at least twice a year. Chaired by an Independent Director – selected by BOD. The presence of two members is required to achieve quorum and hold a meeting.

d. Key Achievements in 2023

- 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.
- Recommended and approved executive compensation payouts and submitted recommendations to the Board for a resolution.
- Introduced Long Term Incentive Plan for senior executives in line with regulatory requirements.
- 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

No changes in the composition of the Committee and its scope of activity took place in 2023.

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 2023

- 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 large remedial credits.
- 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 and amended the delegation authority matrix.

e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2023.

CORPORATE **GOVERNANCE**

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:

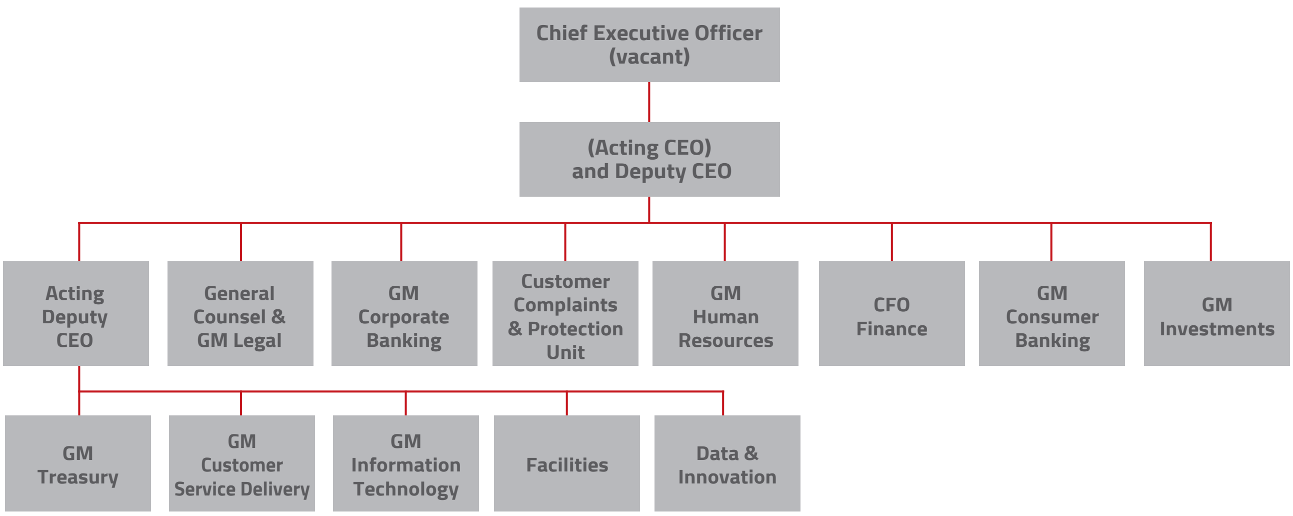
Credit Committees

- Executive Credit Committee
- Management Credit Committee
- Remedial Credit Committee
- Classification & Provisions Committee
- Consumer 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 Group's Executive Remuneration is designed to attract, motivate and retain leadership responsible for strategic growth of the Group 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 Group'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 Group 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 Group's strategy and risk posture.

Salary Structure

The Group seeks to recruit and retain employees in a manner that is externally competitive and internally adequate. The Group'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 Group 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 Group utilizes the Korn Ferry Hay Group Job Evaluation system which helps establish the relative value of jobs in the Group 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 Group 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 Group 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 Group 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 Group products/services at preferential terms, and non-banking benefits in line with business needs and market practices. The Group introduced equal benefits pay for all employees eliminating any gender bias in its policies.

Total Remuneration paid to senior management, material risk takers, risk management and financial & control functions: (2023/2022)

Total value of remuneration awards for the current fiscal year	2023 (Remuneration Amount KD Thousand)		2022 (Remuneration Amount KD Thousand)	
	Unrestricted	Deferred	Unrestricted	Deferred
Fixed remuneration				
- Cash – based	**3,292**	-	3,637	-
- Shares and share-linked instruments	-	-	-	-
-Other	-	-	-	-
Variable remuneration				
- Cash – based	**1,679**	-	2,063	-
- Shares and share-linked instruments	-	-	-	
- Other	**1,011**	-	1,328	-

	2023 (Remuneration Amount KD Thousand)		2022 (Remuneration Amount KD Thousand)	
Employee Categories	**Number of employees in the category**	**Total remuneration paid**	Number of employees in the category	Total remuneration paid
Senior Management*	**18**	**4,313**	20	5,246
Material risk takers	**4**	**474**	5	677
Financial & Control functions	**10**	**1,195**	8	1,105

* The compensation of the senior management has been disclosed in note 23 to the consolidated financial statements.

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 category include Chief Executive Officer, Acting Chief Executive Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Acting Chief Risk Officer and other business heads. Material risk takers are those 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 **KD1,783 thousand** (2022: KD 2,341 thousand).

The total remuneration paid to the Chief Executive Officer, Acting Chief Executive Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Acting Chief Risk Officer and Chief Internal Auditor was **KD1,739 thousand** (2022: KD 2,536 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 Group'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 Group, 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 Notification Manual 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. 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.

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

The 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, the 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.

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

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

Customer Complaints & Protection 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 the 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 (https://www.boursakuwait.com.kw/en/stock/profile#102) for the list of major shareholder(s) who own or have control over 5% of the Bank's share capital.

Annual General Meetings:

Gulf Bank held its 64th Annual General Assembly Meeting (AGM) and 41st Extraordinary Meeting (EGM) in March 2023. Shareholders exercised all their rights in attending and participating in the meetings, representing 76.793% of the total free shares.

In May 2023, the 42nd Extraordinary General Assembly (EGM) was held, and the shareholders represented 75.976% of the total free shares.

These decisions of these meetings, as well as the ratified minutes, are disclosed to Boursa Kuwait and sent to the Central Bank of Kuwait and the Capital Markets Authority. The outcomes and decision of the meetings are published on the Bank's website. For more information, please visit: https://www.e-gulfbank.com/en/investors/announcements/disclosures

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 Bank, 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 risk based 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 2023 (Annexure-A). A summary of ICR report for the year ended 31st December 2022 was presented to the Board Audit Committee and Board of Directors during 2023 and was reviewed and approved by the latter. The external audit firm has conducted a follow-up review as at 30/09/2023 and 31/12/2023 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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W: www.rsm.global/kuwait

June 15, 2023
Board of Directors
Gulf Bank K.S.C.P
State of Kuwait

Report on Internal Controls Review for the year ended 31 December 2022

Purpose of this Report

In accordance with our letter of engagement dated 3 April 2023, we have examined and evaluated the internal control systems of Gulf Bank Kuwait K.S.C.P, referred to as "the Bank", which were applied during the year ended December 31, 2022.

We covered the following departments / areas of the Bank:

- Corporate Governance
- Information Technology
- Compliance
- Internal Audit
- Treasury
- Legal Affairs
- Investment
- Anti-money Laundering
- Consumer Banking
- Facilities Management
- Corporate Banking
- Strategic Planning and Follow-up
- Customer Service Delivery (Operations)
- Digital Transformation and Innovation
- Risk Management
- Preservation of Confidentiality of Customer Information and Data
- Finance
- Fraud Prevention and Control
- Customer Complaints
- Human Resources

Our approach and procedures carried out in accordance with the requirements of the letter issued by the Central Bank of Kuwait (CBK) to the bank dated 10 January 2023 and CBK requirements contained in the manual of General Directives concerning Internal Controls Review (ICR) issued by the CBK dated 15 June 2003 and Pillar 4 of the regulations related to corporate governance and risk management and internal controls issued by the CBK on 20 June 2012, and updated on 10 September 2019, instructions dated 14 May 2019 concerning anti money laundering and combating financing of terrorism related and other relevant instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank.

Responsibilities of Bank

We would like to point out that among the responsibilities of the Board of Directors and the Bank management is to establish appropriate internal control systems at the level of the Bank, and in order to undertake these responsibilities, judgments and estimates will be made to assess the expected benefits and costs related to management information and control procedures.

Our Responsibilities

The aim is to provide a reasonable, but not absolute, assurance for example that the assets are protected from any losses arising from the unauthorized use or disposal of those assets, and that risks are adequately monitored and evaluated, and that the transactions are carried out in accordance with the approved policies and procedures, and that they are appropriately recorded, and the work is carried out properly.

Because of inherent limitations in internal control system, and despite the levels of controls identified, there are still instances where these may not always be effective, and errors or irregularities may nevertheless occur and not be detected or traced. This may be due to human error, incorrect management judgment, management override, controls being by-passed or a reduction in compliance.

Our report is based on the findings and conclusion from the work undertaken, the scope of which has been agreed with the management, Also, projection of any evaluation of the systems to future periods is subject to the risk that information from management and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

The factors considered which may influence our report are:

- Inherent risk in the area being examined/evaluated;
- Limitations in the individual areas being examined, evaluated;
- The adequacy and effectiveness of the risk management and governance control framework;
- The impact of weakness identified;
- The level of risk exposure; and
- The response to management actions raised and timeliness of actions taken.

Procedures and Findings

In regard to the nature and scale of its business, during the year ended December 31, 2022, the internal control systems in the areas examined by us were evaluated and maintained in proportion to the size of the risks and business in Bank, except for the matters specified in the report presented to the Board of Directors.

The findings raised in internal control review do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31st December 2022, and the actions taken by the Bank to address the findings referred in the report are considered satisfactory.

Yours faithfully,

Dr. Shuaib Abdullah Shuaib

License No. 33 "A"

RSM Albazie and Co.

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 (CAR) 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.

For Gulf Bank K.S.C.P. (the "Bank") and its subsidiary (collectively the "Group"), CET1 comprises of paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares. The Group'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% (2022: 1%).

Support measures on Covid-19

During the Covid-19 period, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by releasing the Capital Conservation Buffer of 2.5%. Effective from 1 January 2023, CAR is restored back to pre-covid period.

The table below details the regulatory capital for the Group as at 31 December 2023 and 31 December 2022:

(KD Million)

Composition of Capital	31-Dec-23	31-Dec-22	Variance
Common Equity Tier 1 Capital: instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**567.2**	489.0	78.2
Retained earnings	**182.3**	179.3	3.0
Accumulated other comprehensive income (and other reserves)	**77.8**	72.8	5.0
Common Equity Tier 1 capital before regulatory adjustments	**827.3**	741.1	86.2
Common Equity Tier 1 Capital: regulatory adjustments	**-**	0.0	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**0.0**	0.0	-
Total regulatory adjustments to Common equity Tier 1	**0.0**	0.0	-
Common Equity Tier 1 capital (CET1)	**827.3**	741.1	86.2
Additional Tier 1 capital: instruments	**-**	-	-
Additional Tier 1 capital: regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**827.3**	741.1	86.2

(KD Million)

Composition of Capital	31-Dec-23	31-Dec-22	Variance
Tier 2 capital : instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	**50.0**	50.0	-
General provisions included in Tier 2 capital	**63.8**	64.0	(0.2)
Tier 2 capital before regulatory adjustments	**113.8**	114.0	(0.2)
Tier 2 capital: regulatory adjustments	**-**	-	-
Tier 2 capital	**113.8**	114.0	(0.2)
Total capital (TC= T1+T2)	**941.1**	855.1	85.9
Total risk weighted assets	**5,223.8**	5,216.5	7.3

Capital ratios and buffers	31-Dec-23	31-Dec-22	Variance
Common Equity Tier 1 (as a percentage of risk weighted assets)	**15.8%**	14.2%	1.6%
Tier 1 (as a percentage of risk weighted assets)	**15.8%**	14.2%	1.6%
Total capital (as a percentage of risk weighted assets)	**18.0%**	16.4%	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)	**10.5%**	9%	1.5%
of which : capital conservation buffer requirement	**2.5%**	0.0%	2.5%
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)	**8.8%**	7.2%	1.6%
National minima (Excluding D-SIB buffer)	**-**	-	-
National Common Equity Tier 1 minimum ratio	**9.5%**	8.0%	1.5%
National Tier 1 minimum ratio	**11.0%**	9.5%	1.5%
National total capital minimum ratio excluding CCY and DSIB buffers	**13.0%**	11.5%	1.5%
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**266.9**	267.5	(0.6)
Cap on inclusion of provisions in Tier 2 under standardized approach	**63.8**	64.0	(0.2)

(KD Million)

Reconciliation requirements	31-Dec-23	31-Dec-22
Total equity in published consolidated financial statements	**816.8**	720.0
Common Equity Tier 1 capital	**827.4**	741.1
Reconcilation item*	**(10.6)**	(21.1)

*Reconciliation items 2020-Consumer and instalment loans deferral

CAPITAL MANAGEMENT **AND ALLOCATION**

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 42.2 million 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. Accordingly the Group has excluded the modification day 1 loss of **KD 10.6 million** (2022: KD 21.1 million) arising from loan deferral scheme from retained earnings.

Capital Management

The Group'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 Group's future dividend policy. The Group 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 Group as at 31 December 2023 and 31 December 2022:

(KD Million)

Credit Risk Exposures	31-Dec-23	31-Dec-22	Variance
Credit risk weighted assets	**5,103.1**	5,120.2	(17.1)
Less: Excess general provision	**(203.1)**	(203.5)	0.4
Net credit risk weighted exposures	**4,900.0**	4,916.7	(16.7)
Market risk weighted assets	**1.7**	1.3	0.4
Operational risk weighted exposures	**322.1**	298.4	23.7
Total Risk Weighted exposures	**5,223.8**	5,216.5	7.3

Regulatory Capital requirement at 13.00% (2022 11.50%)

(KD Million)

Credit Risk	**31-Dec-23**	31-Dec-22	Variance
Cash items	**-**	-	-
Claims on sovereigns	**5.3**	9.6	(4.3)
Claims on public sector entities (PSEs)	**16.2**	10.7	5.6
Claims on Multi Development Banks (MDBs)	**5.9**	-	5.9
Claims on banks	**38.9**	31.2	7.7
Claims on corporates	**303.8**	289.2	14.6
Regulatory retail exposures	**242.3**	205.0	37.3
Past due exposures	**5.7**	3.7	2.0
Other exposures	**45.3**	39.5	5.8
Capital requirement for credit risk	**663.4**	588.8	74.5
Less: Excess general provision	**(26.4)**	(23.4)	(3.0)
Capital requirement for net Credit Risk	**637.0**	565.4	71.5

(KD Million)

Market Risk	**31-Dec-23**	31-Dec-22	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	**41.9**	34.3	7.6
Additional capital requirement (DSIB @ 1%)	**52.2**	52.2	0.1
TOTAL CAPITAL REQUIREMENT	**731.3**	652.1	79.2

Capital adequacy ratios (per cent)	**31-Dec-23**	31-Dec-22	Variance
Tier 1 ratio	**15.8%**	14.2%	1.6%
Total capital adequacy ratio	**18.0%**	16.4%	1.6%

The total risk-weighted exposure as at 31 December 2023 is **KD 5,223.8 million** (2022: KD 5,216.5 million), requiring a total capital at **14.0%** (2022: 12.5%) including 1% DSIB, of **KD 731.3 million** (2022: KD 652.1 million).

The Group's regulatory capital as at 31 December 2023 is **KD 941.1 million** (2022: KD 855.1 million), translating to a capital adequacy ratio of **18.02%** (2022: 16.39%).

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 Group has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Group and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Group's Risk Management on a holistic basis and ensures the autonomy and independence of the Risk function of the Group. 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 Group has also constituted an Executive Risk Committee (ERC), chaired by the Chief Risk Officer CRO, which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Group provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Group.

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

Corporate Governance

Gulf Bank Group 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 Group also endeavors to adopt global best practices which are vital to its financial and communal well-being. The Group 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 Group.

Risk Appetite and Portfolio Strategy

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

The Group 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 Group 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 Group 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 Group to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any. The Group uses a credit rating model to rate corporate credit facilities to facilitate credit decisions and credit monitoring. In addition, the Group 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.

RAROC (Risk Adjusted Return on Capital) Model is in use in the Group 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 Group's risks and enables the Group to maintain an appropriate level of internal capital in relation to the Group's overall risk profile and business plan. The Group 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 Group 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 are 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.

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 Group 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 consolidated financial statements explains credit risk in detail and also outlines Group's policy and framework to manage it.

Market Risk

Market risk is the potential losses to the group's income or to the value of the Group's portfolio because of change in market determined variables such as currency rates, interest rates,investment prices, credit spreads and so on.

The Group 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 Group'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 Group's market risk is managed within the overall CBK regulatory guidelines and internal limits set by the Group's Risk Appetite . Interest rate, currency and liquidity mismatches are monitored constantly by the Treasury group and regularly reviewed by ALCO.

The Group'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, compared to the bank's balance sheet size. Further, such positions are managed with internal limits and the group's risk appetite as well as within the regulatory limits set by CBK. The Group does not trade in fixed income or equity securities.

Money Market activities are restricted to meeting the funding requirements of the Group'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.

Group'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 & OECD denominated in USD to manage surplus liquidity.

The Kuwaiti Dinar is the Group's functional currency and almost all of the Group'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 consolidated financial statements explains currency risk in detail.

Interest Rate Risk (Banking Book)

Interest rate risk for the Group arises from the possibility that changes in the interest rates will affect the fair value or future cash flows of the financial instruments. The Group 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 consolidated financial statements outlines the sensitivity of the Group'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 Group 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 consolidated financial statements. The types and accounting classifications of investments are disclosed in Note 13 of the consolidated financial statements.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Group to meet its financial obligations on time without incurring significant costs. Liquidity risk arises in the general funding of a group's activities. The Group has maintained a balance in liquid assets over and above the CBK's minimum requirements. Note 24 (D) to the consolidated financial statements explains liquidity risk in detail and also outlines Group'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 Group's Operational Risk Management framework is intended to identify, assess, monitor, mitigate and control operational risk effectively in the Group in a consistent manner.

The Group's Operational Risk Management framework encompasses Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRI›s). The Group 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 Group collates internal operational loss information and the data facilitates the Group to put in place appropriate controls to prevent incidence of such losses in future. Note 24 (E) to the consolidated financial statements provides additional information on the Group's operational risk management framework.

Credit Risk Exposure

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

Gross Credit Risk Exposure

The summary of the Group's gross credit risk exposure (before credit risk mitigation) as of 31 December 2023 and 31 December 2022 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 Group's ultimate credit risk in the event of default by the counterparties.

RISK MANAGEMENT

(KD Million)

Gross Credit Risk Exposure	31-Dec-23	31-Dec-22	Variance
Funded Gross Credit Exposure	**7,435.1**	7,113.4	321.8
Unfunded Gross Credit Exposure	**1,727.1**	1,532.3	194.8
Total Gross Credit Risk Exposure	**9,162.2**	8,645.6	516.6

Funded gross credit risk exposure as of 31 December 2023 is **81%** (2022: 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 2023 and 31 December 2022 are detailed below:

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

(KD Thousands)

	2023			2022		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**65,982**	**-**	**65,982**	55,713	-	55,713
Claims on sovereigns	**1,257,731**	**27,514**	**1,285,245**	1,148,557	49	1,148,606
Claims on PSEs	**348,984**	**22,312**	**371,297**	365,400	24,192	389,592
Claims on MDBs	**29,563**	**-**	**29,563**	-	-	-
Claims on banks	**642,404**	**246,679**	**889,083**	788,910	272,004	1,060,914
Claims on corporates	**2,409,993**	**1,263,278**	**3,673,271**	2,428,760	1,239,926	3,668,686
Retail exposures	**1,989,243**	**1,249**	**1,990,492**	1,858,841	543	1,859,384
Past due exposures	**37,913**	**5,259**	**43,172**	38,961	5,415	44,376
Other exposures	**378,549**	**262**	**378,811**	355,760	235	355,995
Total	**7,160,361**	**1,566,553**	**8,726,915**	7,040,902	1,542,364	8,583,266

Average funded gross credit risk exposure for 2023 is **82.05%** (2022: 82.03%) 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 2022 to 31 December 2023 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 2023 and 31 December 2022 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 2023 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pa-cific	Rest of World	Total
Cash items	**74,539**	**-**	**-**	**-**	**-**	**-**	**74,539**
Claims on sovereigns	**1,162,926**	**105,329**	**-**	**79,825**	**-**	**-**	**1,348,080**
Claims on PSEs	**166,428**	**338,294**	**-**	**-**	**-**	**-**	**504,722**
Claims on MDBs	**-**	**31,202**	**-**	**-**	**-**	**39,842**	**71,044**
Claims on banks	**230,662**	**297,771**	**230,716**	**18,600**	**160,285**	**61,354**	**999,389**
Claims on corporates	**3,117,120**	**389,624**	**91,874**	**9,752**	**119,007**	**1,604**	**3,728,982**
Retail exposures	**2,005,354**	**-**	**-**	**-**	**-**	**-**	**2,005,354**
Past due exposures	**50,677**	**-**	**-**	**-**	**-**	**-**	**50,677**
Other exposures	**368,448**	**9,215**	**668**	**68**	**-**	**1,057**	**379,456**
Total	**7,176,154**	**1,171,435**	**323,259**	**108,246**	**279,292**	**103,857**	**9,162,243**
Percentage of gross credit risk exposure by geographical region	**78.4%**	**12.8%**	**3.5%**	**1.2%**	**3.0%**	**1.1%**	**100.0%**

Total gross credit risk exposures as at 31 December 2022 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	58,392	-	-	-	-	-	58,392
Claims on sovereigns	1,170,425	160,549	-	40,845	-	-	1,371,819
Claims on PSEs	189,297	134,079	-	-	-	-	323,376
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	63,955	382,706	80,774	32,988	162,295	39,820	762,538
Claims on corporates	3,299,794	262,421	94,856	9,818	90,574	1,812	3,759,274
Retail exposures	1,967,682	164	139	1	-	-	1,967,986
Past due exposures	41,535	-	-	-	-	-	41,535
Other exposures	349,932	9,509	397	35	343	478	360,694
Total	7,141,012	949,428	176,165	83,687	253,212	42,110	8,645,613
Percentage of gross credit risk exposure by geographical region	82.6%	11.0%	2.0%	1.0%	2.9%	0.5%	100.0%

The majority of the Group's credit exposure is in Kuwait which comprises **KD 7.18 billion** (78.5% of total gross credit exposure) at 31 December 2023, compared with KD 7.14 billion (82.6% of total gross credit exposure) at 31 December 2022.

RISK MANAGEMENT

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 2023 and 31 December 2022 are shown below:

Total gross credit risk exposures as at 31 December 2023- Industry wise

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Construction	Manufacturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	74,539	74,539
Claims on sovereigns	-	513,160	-	-	-	-	-	834,920	1,348,080
Claims on PSEs	-	239,783	-	214,236	-	-	-	50,703	504,722
Claims on MDBs	-	71,044	-	-	-	-	-	-	71,044
Claims on banks	-	980,937	6	-	2,478	-	8,495	7,473	999,389
Claims on corporate	226,129	266,542	814,553	216,948	664,416	306,312	732,399	501,682	3,728,982
Regulatory retail exposures	2,002,159	-	-	-	-	-	-	3,195	2,005,354
Past due exposures	29,767	40	17	49	10,984	5	9,572	243	50,677
Other exposures	47,380	-	-	-	-	-	143,382	188,694	379,456
Total	2,305,435	2,071,506	814,576	431,233	677,878	306,317	893,848	1,661,450	9,162,243
Percentage of gross credit risk exposure by industry segment	25.1%	22.6%	8.9%	4.7%	7.4%	3.3%	9.8%	18.1%	100.0%

Total gross credit risk exposures as at 31 December 2022- Industry wise

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Construction	Manufacturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	58,392	58,392
Claims on sovereigns	-	401,106	-	-	-	-	-	970,713	1,371,819
Claims on PSEs	-	53,907	-	233,188	-	-	-	36,282	323,376
Claims on MDBs	-	-	-	-	-	-	-	-	-
Claims on banks	-	762,538	-	-	-	-	-	-	762,538
Claims on corporate	219,850	212,634	754,288	199,726	649,048	323,363	888,194	512,171	3,759,274
Regulatory retail exposures	1,966,507	-	-	-	-	-	-	1,479	1,967,986
Past due exposures	20,770	41	411	49	11,062	-	8,035	1,167	41,535
Other exposures	39,070	204	-	-	-	-	142,532	178,887	360,694
Total	2,246,197	1,430,429	754,699	432,963	660,110	323,363	1,038,761	1,759,091	8,645,613
Percentage of gross credit risk exposure by industry segment	26.0%	16.5%	8.7%	5.0%	7.6%	3.7%	12.0%	20.5%	100.0%

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 2023 and 31 December 2022 are shown below:

Total gross credit risk exposures as at 31 December 2023

(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	74,539	-	-	-	-	-	74,539
Claims on sovereigns	654,208	348,609	250,437	87,982	3,109	3,735	1,348,080
Claims on PSEs	5,427	392	1,894	102,345	110,913	283,751	504,722
Claims on MDBs	-	-	-	23,466	46,901	677	71,044
Claims on banks	422,533	51,024	90,831	127,422	228,071	79,508	999,389
Claims on corporates	492,359	407,469	445,467	604,095	660,569	1,119,023	3,728,982
Regulatory retail exposures	73,870	-	1,970	9,704	137,538	1,782,272	2,005,354
Past due exposures	14,013	155	171	5,406	2,039	28,893	50,677
Other exposures	171,954	132,443	9,806	27,915	2,001	35,337	379,456
Total	1,908,903	940,092	800,576	988,335	1,191,141	3,333,196	9,162,243
Percentage of gross credit risk exposure by residual maturity	20.8%	10.3%	8.7%	10.8%	13.0%	36.4%	100.0%

Total gross credit risk exposures as at 31 December 2022

(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	58,392	-	-	-	-	-	58,392
Claims on sovereigns	714,230	215,478	227,182	66,576	121,648	26,705	1,371,819
Claims on PSEs	29,509	35	-	77	58,444	235,311	323,376
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	204,228	63,921	74,500	102,232	298,459	19,198	762,538
Claims on corporates	650,222	410,140	422,063	526,510	787,082	963,257	3,759,274
Regulatory retail exposures	70,050	9,347	9,389	36,283	136,775	1,706,142	1,967,986
Past due exposures	13,256	45	132	5,549	2,510	20,043	41,535
Other exposures	153,698	100,300	13,787	64,097	-	28,812	360,694
Total	1,893,585	799,266	747,053	801,324	1,404,918	2,999,468	8,645,613
Percentage of gross credit risk exposure by residual maturity	21.9%	9.2%	8.6%	9.3%	16.3%	34.7%	100.0%

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 and Note 24 to the consolidated 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 2023 and 31 December 2022 are shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2023

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	**29,767**	**46,732**	**16,965**	**36.3%**
Financial	**-**	**-**	**-**	**0.0%**
Trade and commerce	**-**	**102**	**102**	**99.7%**
Crude oil and gas	**49**	**49**	**-**	**0.0%**
Construction	**5,804**	**5,804**	**-**	**0.0%**
Manufacturing	**-**	**-**	**-**	**0.0%**
Real estate	**9,572**	**11,192**	**1,620**	**14.5%**
Others	**232**	**238**	**6**	**2.7%**
Total	**45,424**	**64,117**	**18,693**	**29.2%**

Impaired loans and provisions (by industry segment) as at 31 December 2022

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	20,770	32,284	11,513	35.7%
Financial	-	-	-	0.0%
Trade and commerce	383	867	485	55.9%
Crude oil and gas	49	49	-	0.0%
Construction	5,882	6,033	151	2.5%
Manufacturing	-	114	114	100.0%
Real estate	8,035	9,655	1,620	16.8%
Others	1,149	10,459	9,311	89.0%
Total	36,268	59,461	23,194	39.0%

Provision Charge by Industry Segments

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

Provision Charges during 2023 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	**General Charge**	**Total Charge**
Personal	**35,689**	**617**	**36,306**
Financial	**0**	**691**	**691**
Trade and commerce	**302**	**83**	**385**
Crude oil and gas	**0**	**(83)**	**(83)**
Construction	**(864)**	**21**	**(843)**
Manufacturing	**35**	**4,573**	**4,608**
Real estate	**0**	**(1,457)**	**(1,457)**
Others	**1,094**	**(508)**	**586**
Total	**36,256**	**3,937**	**40,193**

Provision Charges during 2022 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	General Charge	Total Charge
Personal	27,977	1,698	29,675
Financial	0	469	469
Trade and commerce	391	91	482
Crude oil and gas	0	145	145
Construction	(112)	118	6
Manufacturing	118	4,078	4,196
Real estate	(1,966)	2,558	592
Others	9,616	(7,308)	2,308
Total	36,024	1,849	37,873

Specific charge mentioned above excludes **KD 41.7 million** (2022: KD 24.8 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 2023 and 31 December 2022 are shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2023

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Kuwait	**45,423**	**64,117**	**18,693**	**29.2%**
Other Middle East	**-**	**-**	**-**	**0.0%**
Western Europe	**-**	**-**	**-**	**0.0%**
USA & Canada	**-**	**-**	**-**	**0.0%**
Asia Pacific	**-**	**-**	**-**	**0.0%**
Rest of World	**-**	**-**	**-**	**0.0%**
Total	**45,423**	**64,117**	**18,693**	**29.2%**

Impaired loans and provisions (by Geographical Region) as at 31 December 2022

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Kuwait	36,268	59,461	23,194	39.0%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	36,268	59,461	23,194	39.0%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2023 and 31 December 2022, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2023

(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	**74,539**	**-**	**74,539**	**74,539**	**-**	**-**	**74,539**
Claims on sovereigns	**1,348,080**	**-**	**1,348,080**	**1,348,080**	**-**	**94**	**1,348,174**
Claims on PSEs	**387,488**	**117,234**	**504,722**	**387,488**	**58,617**	**-**	**446,105**
Claims on MDBs	**71,044**	**-**	**71,044**	**71,044**	**-**	**-**	**71,044**
Claims on banks	**709,594**	**289,795**	**999,389**	**709,594**	**144,518**	**454**	**854,566**
Claims on corporates	**2,417,038**	**1,311,944**	**3,728,982**	**2,417,038**	**559,665**	**111**	**2,976,814**
Retail exposures	**2,002,736**	**2,618**	**2,005,354**	**2,002,736**	**1,309**	**-**	**2,004,045**
Past due exposures	**45,423**	**5,254**	**50,677**	**45,423**	**2,627**	**-**	**48,050**
Other exposures	**379,190**	**266**	**379,456**	**379,190**	**133**	**-**	**379,323**
Total	**7,435,132**	**1,727,111**	**9,162,243**	**7,435,132**	**766,869**	**659**	**8,202,660**

Gross credit risk exposure before CRM as at 31December 2022

(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	58,392	-	58,392	58,392	-	-	58,392
Claims on sovereigns	1,371,819	-	1,371,819	1,371,819	-	28	1,371,847
Claims on PSEs	313,280	10,096	323,376	313,280	5,048	-	318,328
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	530,637	231,900	762,537	530,637	113,111	233	643,981
Claims on corporates	2,475,017	1,284,257	3,759,274	2,475,017	557,436	184	3,032,637
Retail exposures	1,967,490	496	1,967,986	1,967,490	223	-	1,967,713
Past due exposures	36,268	5,267	41,535	36,266	2,634	-	38,900
Other exposures	360,447	247	360,694	360,448	123	-	360,571
Total	7,113,350	1,532,263	8,645,613	7,113,349	678,575	445	7,792,369

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 consolidated financial statements explains credit risk in detail and also outlines Group'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 Group, 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 Group account. Collateral or security, normally in the form of a blocked customer deposit with the Group, 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 2023 and 31 December 2022 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 2023

(KD Thousands)

	Credit exposure before CRM	CRM		Credit exposure after CRM	Risk - Weighted Assets		
		Eligible Financial Collateral	Eligible Guara-ntees		Rated	Unrated	Total
Cash items	74,539	-	-	74,539	-	-	-
Claims on sovereigns	1,348,174	306,233	-	1,041,941	40,448	-	40,448
Claims on PSEs	446,105	2,388	-	443,717	124,854	-	124,854
Claims on MDBs	71,044	-	-	71,044	45,270	-	45,270
Claims on banks	854,566	20,492	-	834,074	299,026	2	299,028
Claims on corporates	2,976,814	591,441	-	2,385,373	97,902	2,239,652	2,337,554
Retail exposures	2,004,045	139,232	-	1,864,813	-	1,863,583	1,863,583
Past due exposures	48,050	663	-	47,387	-	43,867	43,867
Other exposures	379,323	84,070	-	295,253	-	348,532	348,532
Total	8,202,660	1,144,519	-	7,058,141	607,500	4,495,636	5,103,136

Credit Risk Exposure after CRM; risk-weighted assets (RWAs) as at 31 December 2022

(KD Thousands)

	Credit exposure before CRM	CRM		Credit exposure after CRM	Risk - Weighted Assets		
		Eligible Financial Collateral	Eligible Guara-ntees		Rated	Unrated	Total
Cash items	58,392	-	-	58,392	-	-	-
Claims on sovereigns	1,371,847	-	-	1,371,847	83,512	-	83,512
Claims on PSEs	318,328	21,230	-	297,098	92,793	-	92,793
Claims on MDBs	-	-	-	-	-	-	-
Claims on banks	643,981	2,071	-	641,910	271,092	-	271,092
Claims on corporates	3,032,637	503,425	-	2,529,212	26,607	2,488,214	2,514,821
Retail exposures	1,967,713	184,948	-	1,782,765	-	1,782,385	1,782,385
Past due exposures	38,900	4,267	-	34,633	-	31,922	31,922
Other exposures	360,571	71,808	-	288,763	-	343,675	343,675
Total	7,792,369	787,749	-	7,004,620	474,004	4,646,196	5,120,200

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 Group's Balance Sheet management.

The Group uses standardised approach for determining the capital required for market risk. The trading book is marked to market on a daily basis and the Group uses a structure of limits to manage and control the market risk exposures from trading activities. The Group 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 Group as at 31 December 2023 and 31 December 2022 are shown in the following table:

(KD thousands)

Market Risk	**31-Dec-23**	31-Dec-22	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**134**	106	28
Total market risk capital charge	**134**	106	28
Market risk - weighted assets	**1,675**	1,325	350
Total market risk capital requirement at 13.0% (2022: 11.5%)	**218**	152	65

On 31 December 2023, total market risk weighted assets were **KD 1.68 million** (2022: KD 1.33 million) and total capital requirement was **KD 218 thousand** (2022: KD 152 thousand).

Operational Risk

The Group's business activities are mapped into the following three business lines: trading and sales, commercial Banking and retail Banking. The Group'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 Group as at 31 December 2023 and 31 December 2022 are shown in the following table:

Operational Risk as at 31 December 2023

(KD Thousands)

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	**37,608**	**18%**	**6,769**
Commercial banking	**61,969**	**15%**	**9,295**
Retail banking	**80,882**	**12%**	**9,706**
Total	**180,460**		**25,770**
Total operational risk weighted exposure			**322,125**
Total operational risk capital requirement (at 13.0%)			**41,876**

Operational Risk as at 31 December 2022

(KD Thousands)

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	27,273	18%	4,909
Commercial banking	62,122	15%	9,318
Retail banking	80,400	12%	9,648
Total	169,795		23,875
Total operational risk weighted exposure			298,438
Total operational risk capital requirement (at 11.5%)			34,320

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 2023 operational risk-weighted exposure was **KD 322.1 million** (2022: KD 298.4 million) and total operational risk capital requirement at **13.0%** was **KD 42 million** (2022 at 11.50%: KD 34 million).

Equity Risk in the Banking Book

The Group 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 Other comprehensive income (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. 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 Group uses external valuation services when necessary.

The fair value of the investment securities-equity held at 31 December 2023 and 31 December 2022 are shown below, along with the cumulative unrealised gains in the fair valuation reserve in equity and the regulatory capital implications.

Information related to Group›s equity position in the Banking book as at 31 December 2023

(KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	**11,013**	**21,412**	**32,425**
Unrealised gains in equity securities (part of CET1)	**860**	**(1,576)**	**(716)**
Regulatory capital details			
Regulatory capital requirement	**1,542**	**2,998**	**4,540**
Disposal details			
Realised gain on equity securities at FVOCI			**274**

Information related to Group›s equity position in the Banking book as at 31 December 2022

(KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	10,268	23,068	33,336
Unrealised gains in equity securities (part of CET1)	810	739	1,549
Regulatory capital details			
Regulatory capital requirement	1,284	2,884	4,168
Disposal details			
Realised gain on equity securities at FVOCI			(215)

Interest Rate Risk in the Banking Book

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

Counter Party Credit Risk

The Group 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 to 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 to the Annual Report - 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-23	31-Dec-22	Variance
On-balance sheet exposures				
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**7,174,632**	6,851,480	323,152
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)**	**7,174,632**	6,851,480	323,152
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)	**2,975,881**	2,676,511	299,370
18.	(Adjustments for conversion to credit equivalent amounts)	**(2,035,495)**	(1,868,124)	(167,371)
19.	**Off-balance sheet items (sum of lines 17 and 18)**	**940,386**	808,387	131,999
Capital and total exposures				
20.	Tier 1 capital	**827,353**	741,129	86,224
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**8,115,018**	7,659,867	455,151
Leverage ratio				
22.	**Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))**	**10.20%**	9.68%	0.52%

Following is the reconciliation of on balance sheet assets as per the published consolidated 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-23	31-Dec-22	Variance
1.	Total consolidated assets as per published financial statements	**7,174,632**	6,851,480	323,152
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)	**940,386**	808,387	131,999
7.	Other adjustments	**-**	-	-
8.	**Leverage ratio exposure**	**8,115,018**	7,659,867	455,151

04

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' **REPORT**

TO THE SHAREHOLDERS OF GULF BANK K.S.C.P.

Building a better working world

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Report on the Audit of Financial Statements

Opinion

We have audited the consolidated financial statements of Gulf Bank K.S.C.P. (the ''Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Kuwait ("CBK") 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the 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") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with the CBK guidelines, and the provision required by the CBK rules 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 consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of 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.

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, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the current inflationary pressure and high interest rate environment.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

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 Group'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 Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") and the overlays considered by management in view of the ongoing economic impacts, in order to determine ECL taking into consideration the CBK guidelines. For a sample of credit facilities, we have evaluated the Group's staging criteria and computation of ECL including the eligibility and value of collateral considered in the ECL models used by the Group. We have also evaluated the various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Group'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 Group's 2023 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Group's 2023 Annual Report, other than the consolidated 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 for the year ended 31 December 2023 after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during 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 other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' **REPORT**

TO THE SHAREHOLDERS OF GULF BANK K.S.C.P.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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 consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the 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, or 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 2023 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2023 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

12 February 2024

Kuwait

TALAL YOUSEF AL-MUZAINI

LICENCE NO. 209 A

DELOITTE & TOUCHE

AL-WAZZAN & CO.

CONSOLIDATED INCOME **STATEMENT**

Year Ended 31 December 2023

	NOTES	**2023 KD 000's**	2022 KD 000's
Interest income	4	**369,967**	244,463
Interest expense	5	**(219,530)**	(102,272)
Net interest income		**150,437**	142,191
Net fees and commissions	6	**26,268**	26,498
Net gains from dealing in foreign currencies and derivatives		**10,332**	10,292
Dividend income		**1,010**	799
Other income		**2,214**	1,277
Operating income		**190,261**	181,057
Staff expenses		**53,871**	55,550
Occupancy costs		**2,989**	2,718
Depreciation		**7,169**	6,833
Other expenses		**22,818**	21,105
Operating expenses		**86,847**	86,206
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**103,414**	94,851
Charge (release) of provisions:			
- Specific	7	**40,777**	32,937
- General	12,18	**(584)**	4,936
Loan recoveries, net of write-off	12	**(11,601)**	(8,008)
Net provision on other financial assets	9,13	**(103)**	(42)
Impairment loss on other assets	14	**68**	131
		28,557	29,954
OPERATING PROFIT		**74,857**	64,897
Directors' remuneration	22	**295**	188
Contribution to Kuwait Foundation for the Advancement of Sciences		**749**	648
National Labour Support Tax		**1,853**	1,609
Zakat		**749**	648
PROFIT FOR THE YEAR		**71,211**	61,804
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	**21**	18

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

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

Year Ended 31 December 2023

	2023 KD 000's	2022 KD 000's
Profit for the year	**71,211**	61,804
Other comprehensive income		
Items that will not to be reclassified subsequently to the consolidated income statement:		
Net changes in fair value of investment securities-equity	**(1,991)**	(1,040)
Revaluation of premises and equipment	**(180)**	(40)
Other comprehensive loss for the year	**(2,171)**	(1,080)
Total comprehensive income for the year	**69,040**	60,724

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

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

As at 31 December 2023

	NOTES	2023 KD 000's	2022 KD 000's
ASSETS			
Cash and cash equivalents	9	**1,093,757**	929,888
Kuwait Government treasury bonds	10	**16,500**	22,000
Central Bank of Kuwait bonds	11	**337,715**	337,703
Deposits with banks and other financial institutions	9	**180,981**	131,222
Loans and advances	12	**5,196,622**	5,128,680
Investment securities	13	**191,420**	128,935
Other assets	14	**118,154**	134,392
Premises and equipment		**39,483**	38,660
TOTAL ASSETS		**7,174,632**	6,851,480
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**256,354**	489,651
Deposits from financial institutions	15	**1,148,583**	774,611
Customer deposits	16	**4,219,259**	4,246,837
Other borrowed funds	17	**570,062**	493,926
Other liabilities	18	**163,574**	126,432
TOTAL LIABILITIES		**6,357,832**	6,131,457
EQUITY			
Share capital	19	**362,143**	320,053
Proposed bonus shares	22	**18,107**	16,003
Statutory reserve	20	**60,538**	53,052
Share premium	20	**186,937**	153,024
Property revaluation reserve	20	**17,974**	18,154
Fair valuation reserve		**(716)**	1,549
Retained earnings		**171,817**	158,188
TOTAL EQUITY		**816,800**	720,023
TOTAL LIABILITIES AND EQUITY		**7,174,632**	6,851,480

Jassim Mustafa Boodai
(Chairman)

Waleed Mandani
(Acting Chief Executive Officer)

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

Year Ended 31 December 2023

	NOTES	2023 KD 000's	2022 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**71,211**	61,804
Adjustments:			
Dividend income		**(1,010)**	(799)
Depreciation		**7,169**	6,833
Loan loss provisions	7,12,18	**40,193**	37,873
Net provision on other financial assets	9,13	**(103)**	(42)
Impairment loss on other assets	14	**68**	131
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**117,528**	105,800
Decrease/(increase) in operating assets:			
Kuwait Government treasury bonds		**5,500**	52,000
Central Bank of Kuwait bonds		**(12)**	(56,506)
Deposits with banks and other financial institutions		**(49,724)**	(6,614)
Loans and advances		**(109,434)**	(329,199)
Other assets		**14,708**	(13,022)
(Decrease)/increase in operating liabilities:			
Due to banks		**(233,297)**	(105,850)
Deposits from financial institutions		**373,972**	101,442
Customer deposits		**(27,578)**	(57,158)
Other liabilities		**38,441**	23,862
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		**130,104**	(285,245)
INVESTING ACTIVITIES			
Purchase of investment securities		**(191,626)**	(54,262)
Proceeds from sale/maturity of investment securities		**128,680**	65,508
Purchase of premises and equipment		**(8,172)**	(11,140)
Dividend income received		**1,010**	799
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**(70,108)**	905
FINANCING ACTIVITIES			
Proceeds from issuance of rights shares	19	**60,000**	-
Rights shares issuance cost		**(264)**	-
Net proceeds from other borrowed funds	17	**76,136**	278,926
Dividend paid	22	**(32,005)**	(21,078)
Proceeds from sale of treasury shares		**6**	13,885
NET CASH FLOWS FROM FINANCING ACTIVITIES		**103,873**	271,733
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**163,869**	(12,607)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**929,888**	942,495
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**1,093,757**	929,888
Additional cash flows information			
Interest received		**362,934**	234,629
Interest paid		**192,070**	82,111

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

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

Year Ended 31 December 2023

			RESERVES								
	Share capital KD 000›s	Proposed bonus shares KD 000›s	Statutory reserve KD 000›s	Share premiumw KD 000›s	Property revaluation reserve KD 000›s	Fair valuation reserve KD 000›s	Retained earnings KD 000›s	Sub-total reserves KD 000›s	Treasury shares KD 000›s	Total KD 000›s
At 1 January 2022	304,813	15,240	46,562	153,024	18,194	2,374	144,442	364,596	(18,157)	666,492
Profit for the year	-	-	-	-	-	-	61,804	61,804	-	61,804
Other comprehensive loss for the year	-	-	-	-	(40)	(1,040)	-	(1,080)	-	(1,080)
Total comprehensive (loss) income for the year	-	-	-	-	(40)	(1,040)	61,804	60,724	-	60,724
Dividend paid (Note 22)	-	-	-	-	-	-	(21,078)	(21,078)	-	(21,078)
Issue of bonus shares (Note 22)	15,240	(15,240)	-	-	-	-	-	-	-	-
Realised loss on equity securities at FVOCI	-	-	-	-	-	215	(215)	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	18,157	18,157
Loss on sale of treasury shares	-	-	-	-	-	-	(4,272)	(4,272)	-	(4,272)
Transfer to reserve	-	-	6,490	-	-	-	(6,490)	-	-	-
Proposed bonus shares (Note 22)	-	16,003	-	-	-	-	(16,003)	(16,003)	-	-
At 31 December 2022	320,053	16,003	53,052	153,024	18,154	1,549	158,188	383,967	-	720,023
At 1 January 2023	**320,053**	**16,003**	**53,052**	**153,024**	**18,154**	**1,549**	**158,188**	**383,967**	**-**	**720,023**
Profit for the year	-	-	-	-	-	-	71,211	71,211	-	71,211
Other comprehensive loss for the year	-	-	-	-	(180)	(1,991)	-	(2,171)	-	(2,171)
Total comprehensive (loss) income for the year	-	-	-	-	(180)	(1,991)	71,211	69,040	-	69,040
Rights shares issued (Note19)	26,087	-	-	33,913	-	-	-	33,913	-	60,000
Rights shares issuance cost	-	-	-	-	-	-	(264)	(264)	-	(264)
Dividend paid (Note 22)	-	-	-	-	-	-	(32,005)	(32,005)	-	(32,005)
Issue of bonus shares (Note 22)	16,003	(16,003)	-	-	-	-	-	-	-	-
Realised gain on equity securities at FVOCI	-	-	-	-	-	(274)	274	-	-	-
Profit on sale of treasury shares	-	-	-	-	-	-	6	6	-	6
Transfer to reserve	-	-	7,486	-	-	-	(7,486)	-	-	-
bonus shares (Note 22)	-	18,107	-	-	-	-	(18,107)	(18,107)	-	-
At 31 December 2023	**362,143**	**18,107**	**60,538**	**186,937**	**17,974**	**(716)**	**171,817**	**436,550**	**-**	**816,800**

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

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

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.

During the year, a 100% owned subsidiary, Gulf Capital Investment Company KSCC was incorporated with an authorized, issued and fully paid up capital of **KD 10,000 thousand** for engaging in investment activities. Initial approval from the Capital Markets Authority ("CMA") has been obtained and the subsidiary is in progress to fulfill CMA requirements.

The Bank and its subsidiary are together referred to as (the "Group") in this consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 14 January 2024. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.2 Statement of compliance

The consolidated 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 amendment:

- 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.

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

2.3 Presentation of consolidated financial statements

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

2.4 Changes in accounting policies and disclosures

The accounting policies applied are consistent with those used in previous year except as noted below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2. ACCOUNTING POLICIES (continued)

2.4 Changes in accounting policies and disclosures (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

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

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2023 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December each year.

Subsidiaries are those entities controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The financial statements of subsidiaries are included in these consolidated financial statements on a line-by-line basis, from the date on which the control is transferred to the Group until the date that such control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on the financial information of the subsidiaries. Intra-group balances, transactions, income and expenses are eliminated in full. Profits and losses resulting from intra-group transactions are also eliminated in full.

2.6 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

The Group 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 Group 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 Group manages the financial assets in order to generate cash flows. That is, whether the Group'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 Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- 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 Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

SPPI Test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group 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).

In making this assessment, the Group 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 Group 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 Group 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 consolidated income statement.

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Group receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement, or in consolidated 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 Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group has transferred its 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.

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Recognition/de-recognition (continued)

When the Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 consolidated 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 Group 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, 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

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 consolidated income statement. When the debt instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated 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 consolidated income statement and presented in the consolidated 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 Group subsequently measures all equity instruments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group'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 subsequently reclassified to consolidated 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 consolidated statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in consolidated income statement as 'Dividend income' when the Group's right to receive payments is established.

Financial asset at FVTPL

The Group 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 consolidated statement of financial position at fair value. In addition, on initial recognition, the Group 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'.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Financial liabilities carried at amortised cost

Due to banks, deposits from financial institutions, customer deposits, Subordinated Tier 2 bonds and medium term borrowings are classified as financial liabilities. These financial liabilities 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.

Impairment on financial assets

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

- loans and advances 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 Group considers impairment on financial assets mainly in two following catagories:

Impairment on credit facilities

Credit facilities include loans and advances, guarantees, letter of credit and acceptances and undrawn commitments. Impairment on credit facilities shall be recognised in the consolidated 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 Group 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 Group 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 that are determined to have low credit risk at the initial recognition date.

Expected Credit Losses

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").

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 Group 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets (continued)

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 Group 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 Group considers quantitative, qualitative information and back stop indicators and analysis based on the Group'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 Group assesses whether a financial asset or group of financial assets is credit impaired. The Group 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 Group on terms that the Group 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 Stage 1.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

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 Group 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 Group 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 Group 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 Group's procedures for recovery of amounts due.

Commitments

When estimating LT ECLs for undrawn commitments, the Group 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Modification of loans and advances

Where possible, the Group 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 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 Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest/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 Group 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 provision. Provision on cash facilities are presented as a deduction from the gross carrying amount of the financial assets carried at amortised cost. Provision on non-cash facilities are recognised in other liabilities.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Fair value 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 consolidated 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.

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 Group 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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

b. Derivative financial instruments and hedging

In the ordinary course of business the Group 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 consolidated 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 consolidated income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated 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 consolidated 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 Group actually hedges and the quantity of the hedging instrument that the Group 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 Group 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 consolidated 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 consolidated 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 consolidated statement of comprehensive income and the ineffective portion is recognised in the consolidated 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 consolidated statement of comprehensive income are re-classified into the consolidated income statement in the same period or periods during which the financial asset or financial liability affects the consolidated 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 consolidated income statement.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

b. Derivative financial instruments and hedging (continued)

Hedge effectiveness requirements (continued)

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 consolidated 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 Group 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 consolidated income statement.

The Group 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 consolidated income statement net of any reimbursement.

e. End of service indemnity

The Group 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 Group's own issued shares that have been reacquired by the Group 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

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 consolidated 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 consolidated income statement. To the extent that a revaluation surplus reverses a revaluation loss previously recognised in the consolidated income statement, the increase is recognised in the consolidated 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 Group 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 Group 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 Group 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 consolidated 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 Group 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

j. Interest income and expenses

Interest income and expense are recognised in the consolidated 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. When a financial asset becomes credit-impaired, the Group calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit- impaired, the Group reverts to calculating interest income on a gross basis.

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 Group 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 Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group 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 consolidated income statement on a straight line basis over the lease term.

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 Group recognises right-of-use assets in 'property and equipment' in the consolidated 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 Group'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 Group recognises lease liabilities in 'other liabilities' in the consolidated statement of financial position.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of significant accounting policies (continued)

m. Fiduciary assets

Assets held or managed in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated 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 consolidated 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 consolidated income statement, foreign exchange differences are recognised in the consolidated 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 Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group 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 Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the consolidated 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 consolidated 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.

2. ACCOUNTING POLICIES (continued)

2.7 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 2024 have not been early adopted in the preparation of the Group's consolidated financial statements. The Group intends to adopt those standards, if applicable, when they become effective.

General requirements for disclosure of sustainability-related financial information (IFRS S1) and Climate-related disclosures (IFRS S2) – 1 January 2024

In June 2023 the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate- related Disclosures. IFRS S1 includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across a Group's value chain. IFRS S2 is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities. The standard requires an entity to separately disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the consolidated 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 Group 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 Group 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 Group'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 consolidated income statement or consolidated statement of comprehensive income. Refer Note 2.6.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
- Establishing the number and relative weightings of forward-looking scenarios.

The Group estimates expected credit loss for debt instruments at amortised cost and FVOCI excluding loans and advances for which the Group apply impairment requirements under CBK regulations. The determination of expected credit loss involves significant use of external and internal data and assumptions. Refer Note 2.6.a impairment of financial instruments for more information.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Valuation of unquoted financial instruments

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

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

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

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.

4. INTEREST INCOME

	2023 KD 000's	2022 KD 000's
Kuwait Government treasury bonds and CBK Bonds	15,182	7,364
Debt investment securities	3,344	2,251
Placements with banks	43,070	14,736
Loans and advances	308,371	220,112
	369,967	244,463

5. INTEREST EXPENSE

	2023 KD 000's	2022 KD 000's
Sight and savings accounts	5,149	3,985
Time deposits	172,025	77,677
Bank borrowings	13,512	10,115
Other borrowed funds	28,844	10,495
	219,530	102,272

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

6. NET FEES AND COMMISSIONS

	2023 KD 000's	2022 KD 000's
Total fees and commission income	**40,825**	39,289
Total fees and commission expense	**(14,557)**	(12,791)
	26,268	26,498

Total fees and commission income includes **KD 664 thousand** (2022: KD 637 thousand) from fiduciary activities (Note 30).

7. SPECIFIC PROVISIONS

	2023 KD 000's	2022 KD 000's
Loans and advances		
– Cash (Note 12)	**41,746**	32,305
– Non-cash (Note 18)	**(969)**	632
	40,777	32,937

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 2023.

	2023 KD 000's	2022 KD 000's
Profit for the year	**71,211**	61,804
	Shares	Shares
Weighted average number of shares outstanding during the year, net of treasury shares	**3,406,011,489**	3,347,404,280
	Fils	Fils
Basic and diluted earnings per share	**21**	18

Earnings per share calculations for the year ended 31 December 2023 and 31 December 2022 have been adjusted to account for the bonus shares and rights shares issued during the year 2023. Earnings per share for the year ended 31 December 2022 was 19 fils per share before retroactive adjustment to account for the bonus shares and rights shares.

9. CASH AND CASH EQUIVALENTS

	2023 KD 000's	2022 KD 000's
Balances with the Central Bank of Kuwait	**289,853**	378,319
Cash in hand and in current accounts with other banks and other financial institutions	**106,794**	88,108
Deposits with banks and other financial institutions maturing with in 30 days	**697,118**	463,466
	1,093,765	929,893
Less: Provision for ECL	**(8)**	(5)
	1,093,757	929,888

At 31 December 2023, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 180,983 thousand** (2022: KD 131,259 thousand) adjusted by ECL provision amount of **KD 2 thousand** (2022: KD 37 thousand).

At 31 December 2023 and 2022, 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.

	2023 KD 000's	2022 KD 000's
Maturing within one year	**14,000**	5,500
Maturing after one year	**2,500**	16,500
	16,500	22,000

At 31 December 2023 and 2022, 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.

	2023 KD 000's	2022 KD 000's
Central Bank of Kuwait Bonds	**337,715**	337,703

At 31 December 2023 and 2022, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

12. LOANS AND ADVANCES

Loan and advances represent amount advanced to corporate, institutional customers, banks, SMEs and retail customers. The Group's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2023:

	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	**2,322,764**	**-**	**-**	**-**	**1,587**	**2,324,351**
Financial	**185,129**	**394,055**	**19,297**	**5,828**	**101,191**	**705,500**
Trade and commerce	**426,064**	**12,270**	**15,648**	**-**	**-**	**453,982**
Crude oil and gas	**236,272**	**118,583**	**-**	**-**	**-**	**354,855**
Construction	**151,299**	**9,863**	**-**	**-**	**-**	**161,162**
Manufacturing	**283,816**	**-**	**-**	**-**	**-**	**283,816**
Real estate	**823,366**	**34,828**	**-**	**-**	**-**	**858,194**
Others	**151,831**	**196,738**	**-**	**-**	**-**	**348,569**
Gross loans and advances	**4,580,541**	**766,337**	**34,945**	**5,828**	**102,778**	**5,490,429**
Less: Provision for impairment						**(293,807)**
						5,196,622

At 31 December 2022:

	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	2,259,720	-	-	-	1,812	2,261,532
Financial	171,485	259,757	9,189	4,595	39,819	484,845
Trade and commerce	392,568	12,252	15,089	-	-	419,909
Crude oil and gas	296,532	65,855	-	-	-	362,387
Construction	148,706	10,129	-	-	-	158,835
Manufacturing	266,524	11,351	-	-	-	277,875
Real estate	971,021	39,195	-	-	-	1,010,216
Others	207,215	239,907	-	-	-	447,122
Gross loans and advances	4,713,771	638,446	24,278	4,595	41,631	5,422,721
Less: Provision for impairment						(294,041)
						5,128,680

12. LOANS AND ADVANCES (continued)

Movement in provision for impairment

	2023 KD 000's			2022 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**31,835**	**262,206**	**294,041**	24,323	257,455	281,778
Amounts written-off	**(41,726)**	**-**	**(41,726)**	(24,793)	-	(24,793)
Charge to consolidated statement	**41,746**	**(254)**	**41,492**	32,305	4,751	37,056
At 31 December	**31,855**	**261,952**	**293,807**	31,835	262,206	294,041

The specific and general provisions are based on the requirements of the CBK instructions and IFRS 9 according to CBK guidelines. Refer Note 2.6.a impairment of financial instruments for more information.

Loan recoveries, net of write-off amounting to **KD 11,601 thousand** (2022: KD 8,008 thousand) represent the net difference between loans written off during the year of **KD 217 thousand** (2022: KD 13,472 thousand) and recoveries of **KD 11,818 thousand** (2022: KD 21,480 thousand).

	2023 KD 000's			2022 KD 000's		
Movement in provisions for impairment of loans and advances by class is as follows:	**Corporate and bank lending**	**Consumer lending**	**Total**	Corporate and bank lending	Consumer lending	Total
At 1 January	**261,510**	**32,531**	**294,041**	254,805	26,973	281,778
Amounts written-off	**(11,489)**	**(30,237)**	**(41,726)**	-	(24,793)	(24,793)
Charge to consolidated statement	**5,211**	**36,281**	**41,492**	6,705	30,351	37,056
At 31 December	**255,232**	**38,575**	**293,807**	261,510	32,531	294,041

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

Provision for non-cash facilities of **KD 18,081 thousand** (2022: KD 19,380 thousand) is included under other liabilities (Note 18).

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

	2023 KD 000's	2022 KD 000's
Provision on cash facilities	**293,807**	294,041
Provision on non-cash facilities	**18,081**	19,380
Total provisions on credit facilities	**311,888**	313,421
IFRS 9 ECL on credit facilities	**186,682**	189,748
Excess of total provisions over IFRS 9 ECL on credit facilities	**125,206**	123,673
Excess provisions as a percentage of total provisions	**40%**	39%

13. INVESTMENT SECURITIES

	2023			2022		
	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	**158,095**	**-**	**158,095**	85,547	-	85,547
Other bonds	**984**	**-**	**984**	10,005	.	10,005
Equity securities	**-**	**11,014**	**11,014**	-	10,268	10,268
	159,079	**11,014**	**170,093**	95,552	10,268	105,820
Unquoted investments						
Other bonds	**-**	**-**	**-**	-	203	203
Equity securities/others	**-**	**21,412**	**21,412**	-	23,068	23,068
	-	**21,412**	**21,412**	-	23,271	23,271
Less: Provision for ECL	**(85)**	**-**	**(85)**	(156)	-	(156)
At 31 December	**158,994**	**32,426**	**191,420**	95,396	33,539	128,935

At 31 December 2023 and 2022, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

14. OTHER ASSETS

	2023 KD 000's	2022 KD 000's
Accrued interest receivable	**33,022**	25,989
Sundry debtors and others	**17,287**	14,406
Less: impairment loss on other receivables	**(819)**	(751)
Government Grant receivable	**-**	26,084
Repossessed collaterals (refer movement below)	**68,664**	68,664
	118,154	134,392

Movement in repossessed collaterals:

	2023 KD 000's	2022 KD 000's
At 1 January	**68,664**	59,432
Additions	**-**	9,232
At 31 December	**68,664**	68,664

The fair value of the real estate properties was determined by approved valuers based on the market comparable approach (Level 3); and not materially different from their carrying values.

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2023 KD 000's	2022 KD 000's
Due to banks		
Current accounts and demand deposits	**14,209**	10,991
Time deposits	**242,145**	478,660
	256,354	489,651
Deposits from financial institutions		
Current accounts and demand deposits	**49,821**	86,752
Time deposits	**1,098,762**	687,859
	1,148,583	774,611

16. CUSTOMER DEPOSITS

	2023 KD 000's	2022 KD 000's
Current accounts	**1,205,945**	1,298,371
Savings accounts	**339,456**	380,079
Time deposits	**2,673,858**	2,568,387
	4,219,259	4,246,837

Customer deposits include **KD 14,555 thousand** (2022: KD 13,589 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

17. OTHER BORROWED FUNDS

	Effective interest rate	2023 KD 000's	2022 KD 000's
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	**4.00%**	**25,000**	25,000
Subordinated Tier 2 bonds-KWD 2031 (Floating tranche capped at 5%)	**CBK+2.25%**	**25,000**	25,000
Medium term borrowings-Floating- (2024-2027)	**5.25% to 6.71%**	**520,062**	443,926
		570,062	493,926

18. OTHER LIABILITIES

	2023 KD 000's	2022 KD 000's
Accrued interest payable	**59,520**	32,060
Deferred income	**8,904**	4,115
Provisions for non-cash facilities (refer movement below)	**18,081**	19,380
Staff related provisions	**28,731**	30,364
Lease liabilities	**3,385**	4,182
Others	**44,953**	36,331
	163,574	126,432

Movement in provisions for non-cash facilities:

	2023 KD 000's	2022 KD 000's
At 1 January	**19,380**	18,563
(Release)/charge to the consolidated income statement	**(1,299)**	817
At 31 December	**18,081**	19,380

19. SHARE CAPITAL

	2023 KD 000's	2022 KD 000's
Issued and fully paid shares	**362,143**	320,053

The authorised share capital of the Bank comprises **4,860,561,006 shares** (31 December 2022: 3,200,534,292 shares) of 100 fils each. The Extraordinary General Assembly meeting of the Bank's shareholders held on 13 May 2023 approved to increase the Bank's authorised share capital from **KD 336,056 thousand** to **KD 486,056 thousand** and authorised the Board of Directors to decide on the amount and methods of issued share capital increase. Accordingly, after obtaining necessary approvals, the Bank increased its issued share capital through a rights issue of 260,869,565 shares, each with a nominal value of 100 fils per share and a share premium of 130 fils per share.

The rights issue has been fully subscribed resulting in an increase in issued and fully paid share capital by **KD 26,087 thousand** to **KD 362,143 thousand** comprising of **3,621,430,571 shares** (31 December 2022: 3,200,534,293 shares) and an increase in share premium by **KD 33,913 thousand** to **KD 186,937 thousand** (31 December 2022: KD 153,024 thousand).

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 Group. 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

During the previous year, all treasury shares were disposed. Movement in treasury shares was as follows:

	No. of shares	
	2023	2022
Balance as at 1 January	-	37,000,000
Bonus shares	-	1,850,000
Sales	-	(38,850,000)
Balance as at 31 December	-	-

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **12 fils** per share (2022: 10 fils per share) and bonus shares of **5%** amounting to **KD 18,107 thousand** (2022: KD 16,003 thousand) on the outstanding issued share capital as at 31 December 2023 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 18 March 2023 approved a cash dividend of 10 fils per share (2021: 7 fils per share) and bonus shares of 5% amounting to KD 16,003 thousand (2021: KD 15,240 thousand) for the year ended 31 December 2022. The cash dividend was recorded and paid subsequently. The bonus shares was distributed on 13 April 2023.

Directors' remuneration of **KD 295 thousand** (2022: KD 188 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

23. RELATED PARTY TRANSACTIONS

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

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

	Number of Board Members or executive management		Number of related parties			
	2023	2022	**2023**	2022	**2023 KD 000's**	2022 KD 000's
Board members:						
Balances						
Loans and advances	**1**	1	**19**	10	**195,690**	166,370
Credit cards	**3**	3	**6**	5	**8**	18
Deposits	**8**	8	**93**	77	**863,223**	42,389
Commitments						
Guarantees /letters of credit	**-**	-	**24**	13	**68,824**	32,742
Transactions						
Interest income	**1**	1	**29**	18	**8,914**	5,582
Interest expense	**4**	4	**21**	16	**13,589**	564
Net fees and commissions	**-**	-	**24**	17	**267**	138
Other expenses	**-**	-	**10**	12	**1,719**	1,764
Purchase of equipment	**-**	-	**2**	2	**317**	276
Executive management:						
Balances						
Loans and advances	**7**	7	**-**	-	**883**	1,158
Credit cards	**11**	11	**-**	-	**19**	22
Deposits	**14**	17	**-**	-	**2,612**	4,229
Transactions						
Interest income	**9**	7	**-**	-	**48**	41
Interest expense	**19**	18	**-**	-	**138**	74

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **5%** to **6.75%** (2022: 4.5% to 6.25%) 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 2023 was **KD 71,076 thousand** (2022: KD 66,821 thousand).

23. RELATED PARTY TRANSACTIONS (continued)

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

	2023 KD 000's	2022 KD 000's
Salaries and other short-term benefits	**3,789**	4,845
End of service/termination benefits	**524**	401
	4,313	5,246

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Group'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 Group 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 Group's strategic objectives.

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

The Group has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Group and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Group's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Group. 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 Group has also constituted an Executive Risk Committee (ERC), chaired by the Chief Risk Officer (CRO), which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Group provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Group.

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

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK

Credit risk is the potential for financial loss due to failure of debtors or counterparties to meet obligations to pay the Group 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 Group's performance to developments affecting a particular industry, geographic location or ownership.

The Group 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.

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 Group's obligor 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 Group 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 Group. 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 Group 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 Group in compliance with the credit policies of the Group. 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 Group. 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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 Group'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 Group and provisioning decisions. The CPC is responsible for making provisions as per IFRS 9 models and methodologies adopted by the Group 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 Group 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 Group 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 Group's Financial Institutions division and recommended by the MCC and ECC.

The Financial Institutions division regularly reviews the Group'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 Group. The risk appetite set by the Group 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

ECL methodology

The Group 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 2.6.a impairment of financial instruments for more information related to stage classification.

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying 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 Group 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 Group 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 Group records an allowance for the LT ECLs. The mechanics are 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 Group 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 Group 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 Group applies consistent quantitative criteria for internally rated portfolio to assess significant increase in credit risk. In the absence of ratings at inception, the Group 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 Group considers all restructured credit facilities which are not credit impaired as stage 2.

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

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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.

The Group 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 Group for consideration for classifying the facility in Stage 2/Stage 1. The Group 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 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group'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 Group 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 Group 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Loss given default

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

Exposure at default

EAD represents the amount which the obligor will owe to the Group at the time of default. The Group 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 Group 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 Group 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.

Collateral and other credit enhancements

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

The Group'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 Group that are blocked and legally pledged in its favor; and direct, explicit, irrevocable and unconditional bank guarantees.

As of 31 December 2023, **24%** (2022: 27%) of the total outstanding loans and advances were partially or fully secured by collaterals.

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

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the consolidated 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 Group's comprehensive capital as determined by the regulatory guidelines.

BY CLASS OF FINANCIAL ASSETS	**Maximum exposure 2023 KD 000's**	Maximum exposure 2022 KD 000's
Cash and cash equivalents (excluding cash in hand)	**1,019,218**	871,496
Kuwait Government treasury bonds	**16,500**	22,000
Central Bank of Kuwait bonds	**337,715**	337,703
Deposits with banks and other financial institutions	**180,981**	131,222
Loans and advances:		
- Corporate and bank lending	**3,017,012**	2,997,847
- Consumer lending	**2,179,610**	2,130,833
Debt investment securities (Note 13)	**158,994**	95,599
Other assets	**49,490**	65,728
Total	**6,959,520**	6,652,428
Contingent liabilities and commitments	**2,934,941**	2,673,488
Foreign exchange contracts (including spot contracts)	**54,045**	17,098
Total	**2,988,986**	2,690,586
Total credit risk exposure	**9,948,506**	9,343,014

Credit risk can also arise due to a significant concentration of Group'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 2023 is **12.3%** (2022: 12.6%).

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

Geographic region:	2023		2022	
	Assets KD 000's	Off balance sheet items KD 000's	Assets KD 000's	Off balance sheet items KD 000's
Domestic (Kuwait)	**5,623,301**	**2,151,684**	5,623,556	2,192,686
Other Middle East	**962,028**	**342,765**	829,490	140,520
Europe	**141,017**	**219,415**	74,072	103,873
USA and Canada	**104,000**	**21,421**	59,154	24,498
Asia Pacific	**25,550**	**253,683**	24,156	229,009
Rest of world	**103,624**	**18**	42,000	-
	6,959,520	**2,988,986**	6,652,428	2,690,586

Industry sector:	2023		2022	
	Assets KD 000's	Off balance sheet items KD 000's	Assets KD 000's	Off balance sheet items KD 000's
Personal	**2,288,179**	**47,289**	2,228,055	82,473
Financial	**1,618,847**	**576,959**	1,115,694	404,543
Trade and Commerce	**450,416**	**686,599**	415,268	694,871
Crude Oil and Gas	**154,875**	**149,065**	135,037	110,354
Construction	**160,408**	**672,707**	156,973	651,437
Government	**1,071,271**	**58,369**	1,197,966	50,001
Manufacturing	**270,801**	**167,490**	267,104	179,686
Real Estate	**856,199**	**249,096**	998,705	204,811
Others	**88,524**	**381,412**	137,626	312,410
	6,959,520	**2,988,986**	6,652,428	2,690,586

A. CREDIT RISK (continued)

Internal credit quality rating

The Group'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 Group 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 Group 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 Group classifies the Group's exposure as per NAICS Code. Such classifications are in addition to the classification based on purpose codes as defined by the CBK.

The Group classifies its loans and advances mainly into two catagories; corporate and bank lending and consumer lending. Corporate and bank lending includes credit facilities, trade finance products to its corporate, institutional customers and banks. Consumer lending includes consumer and instalment facilities, credit cards and other credit facilities to high net worth individuals and SMEs. This allows the Group to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any.

Portfolio Risk Rating

The Group 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.

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

RAROC Model

RAROC (Risk Adjusted Return on Capital) model is in use in the Group 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:

The Group 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 Group. The Group 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 Group's credit rating system.

2023	Neither past due nor impaired			Past due but not impaired	
	High KD 000's	Standard KD 000's	Acceptable KD 000's	KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	1,018,898	328	-	-	1,019,226
Kuwait Government treasury bonds	16,500	-	-	-	16,500
Central Bank of Kuwait bonds	337,715	-	-	-	337,715
Deposits with banks and other financial institutions	180,983	-	-	-	180,983
Loans and advances:					
- Corporate and bank lending	2,645,335	501,699	81,138	30,354	3,258,526
- Consumer lending	2,097,110	26,246	290	44,140	2,167,786
Debt investment securities (Note 13)	146,714	12,365	-	-	159,079
Other assets	49,490	-	-	-	49,490
	6,492,745	540,638	81,428	74,494	7,189,305

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Credit Infrastructure: (continued)

2022	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)	871,047	450	4	-	871,501
Kuwait Government treasury bonds	22,000	-	-	-	22,000
Central Bank of Kuwait bonds	337,703	-	-	-	337,703
Deposits with banks and other financial institutions	108,942	22,317	-	-	131,259
Loans and advances:					
- Corporate and bank lending	2,536,337	636,376	53,625	11,923	3,238,261
- Consumer lending	2,043,681	39,816	300	41,202	2,124,999
Debt investment securities (Note 13)	66,135	29,620	-	-	95,755
Other assets	65,728	-	-	-	65,728
	6,051,573	728,579	53,929	53,125	6,887,206

79% (2022: 80%) of the past due but not impaired category is below 60 days and **21%** (2022: 20%) is between 60-90 days.

Financial assets by class individually impaired

2023	**Gross exposure KD 000's**	**Impairment provision KD 000's**	**Fair value of collateral KD 000's**
Loans and advances:			
- Corporate and bank lending	**13,718**	**1,626**	**12,067**
- Consumer lending	**50,399**	**17,067**	**6,069**
	64,117	**18,693**	**18,136**

2022	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
Loans and advances:			
- Corporate and bank lending	21,096	11,578	8,197
- Consumer lending	38,365	11,616	6,020
	59,461	23,194	14,217

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

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

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

These derivative financial instruments comprise of foreign exchange contracts. Foreign exchange contracts allow the Group 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 Group, 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, 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 2023:	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
Loans and advances				
- High	**4,715,662**	**26,783**	**-**	**4,742,445**
- Standard	**433,710**	**94,235**	**-**	**527,945**
- Acceptable	**290**	**81,138**	**-**	**81,428**
- Past due but not impaired	**18,075**	**52,627**	**-**	**70,702**
- Impaired	**-**	**-**	**67,909**	**67,909**
	5,167,737	**254,783**	**67,909**	**5,490,429**

At 31 December 2022:	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Loans and advances				
- High	4,531,325	47,014	-	4,578,339
- Standard	544,542	131,650	-	676,192
- Acceptable	298	53,627	-	53,925
- Past due but not impaired	9,429	42,065	-	51,494
- Impaired	-	-	62,771	62,771
	5,085,594	274,356	62,771	5,422,721

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

At 31 December 2023:	**Stage 1 KD 000's**	**Stage 2 KD 000's**	**Stage 3 KD 000's**	**Total KD 000's**
Contingent liabilities and commitments				
- High	**2,420,715**	**24,490**	**-**	**2,445,205**
- Standard	**359,272**	**88,172**	**-**	**447,444**
- Acceptable	**46**	**22,720**	**-**	**22,766**
- Impaired	**-**	**-**	**19,526**	**19,526**
	2,780,033	**135,382**	**19,526**	**2,934,941**

At 31 December 2022:	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Contingent liabilities and commitments				
- High	2,100,153	34,955	-	2,135,108
- Standard	311,712	187,485	-	499,197
- Acceptable	46	19,748	-	19,794
- Impaired	-	-	19,389	19,389
	2,411,911	242,188	19,389	2,673,488

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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 2023:	**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 2023	**38,179**	**78,970**	**72,599**	**189,748**
Impact due to transfer between stages:				
- Transfer to Stage 1	**14,760**	**(2,785)**	**(11,975)**	**-**
- Transfer to Stage 2	**(3,244)**	**9,376**	**(6,132)**	**-**
- Transfer to Stage 3	**(221)**	**(1,214)**	**1,435**	**-**
ECL (release)/charge for the year	**(12,839)**	**(9,131)**	**60,630**	**38,660**
ECL release on written off facilities	**-**	**-**	**(41,726)**	**(41,726)**
ECL balance as at 31 December 2023	**36,635**	**75,216**	**74,831**	**186,682**

At 31 December 2022:	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 2022	41,724	96,272	50,635	188,631
Impact due to transfer between stages:				
- Transfer to Stage 1	11,757	(1,641)	(10,116)	-
- Transfer to Stage 2	(1,379)	5,563	(4,184)	-
- Transfer to Stage 3	(176)	(1,787)	1,963	-
ECL (release)/charge for the year	(13,747)	(19,437)	59,094	25,910
ECL release on written off facilities	-	-	(24,793)	(24,793)
ECL balance as at 31 December 2022	38,179	78,970	72,599	189,748

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Further, the Group carries an excess of 40% 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 Group 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.

24. FINANCIAL INSTRUMENTS (continued)

B. INTEREST RATE RISK (continued)

The interest rate sensitivity of the consolidated 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 consolidated income statement and consolidated statement of comprehensive income, with all other variables held constant:

	2023			2022		
Currency	**Change in basis points**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Change in basis points	Effect on profit KD 000's	Effect on equity KD 000's
KWD	(+) 25	**1,405**	**-**	(+) 25	1,511	-
USD	(+) 25	**696**	**-**	(+) 25	505	-
SAR	(+) 25	**107**	**-**	(+) 25	88	-

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 Group views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. Open currency positions are monitored daily against the regulatory limits and Board approved internal limits to ensure compliance.

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

	2023			2022		
Currency	**Change in currency rate in %**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Change in currency rate in %	Effect on profit KD 000's	Effect on equity KD 000's
USD	+5	**(100)**	**80**	+5	(145)	116

The Group'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.

D. LIQUIDITY RISK

Liquidity risk is the risk arising from potential inability of the Group to meet its payment obligations on time when they due or being able to meet such obligations at excessive 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 Group's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manages the liquidity and funding of the Group to ensure that sufficient funds are available to meet the Bank's current and prospective funding requirements. At all times, the Group holds what it considers to be adequate levels of liquidity to meet lending and repayment requirements, even under stressed conditions.

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

The Group 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 Group by ensuring that the Group 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 Group has stable funding sources to cover funding requirements over the short and long term period. In addition, Liquidity risk is further monitored by adhering to the CBK maturity ladder mismatch limits and the Loan to Deposit Ratio.

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 Group 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 liquidity stress that may arise from local or regional markets or geopolitical events.

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 2023:	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	1,093,757	-	-	-	-	-	1,093,757
Kuwait Government treasury bonds	-	-	7,000	7,000	-	2,500	16,500
Central Bank of Kuwait bonds	31,441	160,167	144,182	1,925	-	-	337,715
Deposits with banks and other financial institutions	-	141,103	39,878	-	-	-	180,981
Loans and advances	247,131	396,703	419,350	584,085	863,477	2,685,876	5,196,622
Investment securities	-	65,902	57,059	31,109	3,023	34,327	191,420
Other assets	37,834	5,589	1,860	2,896	69,574	401	118,154
Premises and equipment	-	-	-	-	-	39,483	39,483
Total assets	1,410,163	769,464	669,329	627,015	936,074	2,762,587	7,174,632
Liabilities:							
Due to banks	63,995	53,667	25,000	113,692	-	-	256,354
Deposits from financial institutions	439,115	283,005	367,637	58,826	-	-	1,148,583
Customer deposits	2,206,264	655,808	831,201	515,412	10,574	-	4,219,259
Other borrowed funds	-	-	-	115,000	405,062	50,000	570,062
Other liabilities	65,579	43,608	7,818	22,099	24,470	-	163,574
Total liabilities	2,774,953	1,036,088	1,231,656	825,029	440,106	50,000	6,357,832

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2022:	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	929,888	-	-	-	-	-	929,888
Kuwait Government treasury bonds	-	-	-	5,500	14,000	2,500	22,000
Central Bank of Kuwait bonds	29,975	163,819	141,983	1,926	-	-	337,703
Deposits with banks and other financial institutions	-	35,147	79,787	16,288	-	-	131,222
Loans and advances	255,913	591,391	306,150	594,686	854,033	2,526,507	5,128,680
Investment securities	1,531	35,048	18,079	15,710	24,010	34,557	128,935
Other assets	28,425	29,381	4,309	1,879	70,012	386	134,392
Premises and equipment	-	-	-	-	-	38,660	38,660
Total assets	1,245,732	854,786	550,308	635,989	962,055	2,602,610	6,851,480
Liabilities:							
Due to banks	201,353	123,426	93,611	71,261	-	-	489,651
Deposits from financial institutions	241,734	227,801	190,394	114,682	-	-	774,611
Customer deposits	2,416,165	885,406	341,848	593,672	9,746	-	4,246,837
Other borrowed funds	-	-	-	-	421,260	72,666	493,926
Other liabilities	52,798	33,568	7,310	8,045	24,711	-	126,432
Total liabilities	2,912,050	1,270,201	633,163	787,660	455,717	72,666	6,131,457

The tables below summarize the maturity profile of the Group'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.

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2023: **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	**19,211**	**634**	**118,683**	**130,350**	**-**	**268,878**
Deposits from financial institutions	**91,865**	**453,904**	**591,666**	**35,790**	**-**	**1,173,225**
Customer deposits	**1,634,621**	**312,343**	**2,014,635**	**341,830**	**-**	**4,303,429**
Other borrowed funds	**2,635**	**5,156**	**21,564**	**599,320**	**-**	**628,675**
Other liabilities	**65,579**	**43,608**	**29,917**	**24,470**	**-**	**163,574**
Total undiscounted liabilities	**1,813,911**	**815,645**	**2,776,465**	**1,131,760**	**-**	**6,537,781**

At 31 December 2022: 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	121,039	33,749	329,004	15,550	-	499,342
Deposits from financial institutions	93,456	134,469	493,734	66,742	-	788,401
Customer deposits	1,705,818	377,749	2,161,245	58,441	-	4,303,253
Other borrowed funds	1,851	3,574	16,488	526,553	-	548,466
Other liabilities	52,798	33,568	15,355	24,711	-	126,432
Total undiscounted liabilities	1,974,962	583,109	3,015,826	691,997	-	6,265,894

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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

At 31 December 2023:	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	**20,873**	**51,068**	**379,150**	**527,722**	**606,425**	**1,585,238**
Commitments	**6,495**	**8,144**	**108,254**	**593,025**	**633,785**	**1,349,703**
	27,368	**59,212**	**487,404**	**1,120,747**	**1,240,210**	**2,934,941**

At 31 December 2022:	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	28,640	63,379	331,387	433,080	656,529	1,513,015
Commitments	5,499	24,019	139,364	400,522	591,069	1,160,473
	34,139	87,398	470,751	833,602	1,247,598	2,673,488

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

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
At 31 December 2023:				
Forward foreign exchange	**34,074**	**126**	**280**	**34,480**
At 31 December 2022:				
Forward foreign exchange	992	6,842	-	7,834

24. FINANCIAL INSTRUMENTS (continued)

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 Group 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 Group.

The operational risks are primarily monitored through the Operational & Technology 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 & Technology Risk Management Unit 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 Group manages this risk through diversification of investments.

A portion of the Group'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	**2023 Effect on equity KD 000's**	2022 Effect on equity KD 000's
Kuwait Stock Exchange	+5%	**551**	513

G. PREPAYMENT RISK

Prepayment risk is the risk that the Group 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.

Majority of the Group'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 Group, have a maturity of less than one year and accordingly, the Group is not exposed to significant prepayment risk.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materiall 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.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

At 31 December 2023:	**Level 1 KD 000's**	**Level 2 KD 000's**	**Level 3 KD 000's**	**Total KD 000's**
Financial assets at FVOCI:				
Equity securities	**11,014**	**118**	**21,294**	**32,426**

At 31 December 2022:	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets at FVOCI:				
Equity securities	10,268	836	22,232	33,336
Debt securities	-	203	-	203
	10,268	1,039	22,232	33,539

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

Financial assets at FVOCI:	**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**
Equity securities					
2023	**22,232**	**151**	**(1,099)**	**10**	**21,294**
2022	23,146	(363)	(555)	4	22,232

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 2023 were **KD 158,994 thousand** (2022: KD 95,396 thousand) and **KD 158,831 thousand** (Level 1) (2022: KD 94,737 thousand) respectively.

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

The total outstanding contingent liabilities and commitments are as follows:

	2023 KD 000's	2022 KD 000's
Guarantees	**1,192,776**	1,146,960
Letters of credit and acceptances	**392,462**	366,055
Undrawn irrevocable commitments	**154,978**	33,323
Undrawn revocable commitments	**1,194,725**	1,127,150
	2,934,941	2,673,488

The contractual terms entitle the Group 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, institutional customers and banks.
Treasury & Investments	Providing money market, trading and treasury services, as well as the management of the Group'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**	
	2023 KD 000's	2022 KD 000's	**2023 KD 000's**	2022 KD 000's	**2023 KD 000's**	2022 KD 000's
Operating income	**138,674**	147,115	**6,219**	8,140	**144,893**	155,255
Segment result	**74,562**	84,091	**4,307**	6,086	**78,869**	90,177
Unallocated income					**45,368**	25,802
Unallocated expense					**(53,026)**	(54,175)
Profit for the year					**71,211**	61,804
Segment assets	**5,334,453**	5,236,887	**1,751,205**	1,510,204	**7,085,658**	6,747,091
Unallocated assets					**88,974**	104,389
Total Assets					**7,174,632**	6,851,480
Segment liabilities	**2,950,868**	3,196,890	**3,198,641**	2,757,554	**6,149,509**	5,954,444
Unallocated liabilities and equity					**1,025,123**	897,036
Total Liabilities and Equity					**7,174,632**	6,851,480

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 Group's total revenue in 2023 or 2022.

28. DERIVATIVES

In the ordinary course of business the Group 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.

				Notional amounts by term to maturity	
At 31 December 2023:	**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**
Derivatives instruments held as:					
Trading (and non qualifying hedges) Forward foreign exchange contracts	**3**	**(1)**	**34,480**	**34,200**	**280**

				Notional amounts by term to maturity	
At 31 December 2022:	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
Derivatives instruments held as:					
Trading (and non qualifying hedges) Forward foreign exchange contracts	52	(46)	7,834	7,834	-

28. DERIVATIVES (continued)

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 Group'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 Group's capital management are to ensure that the Group complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

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 Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2023 and 31 December 2022 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2023 KD 000's	2022 KD 000's
Risk weighted assets	**5,223,798**	5,216,454
Capital required: 14% (2022: 12.5%)	**731,332**	652,057
Capital available		
Tier 1 capital	**827,353**	741,129
Tier 2 capital	**113,789**	114,002
Total capital	**941,142**	855,131
Tier 1 capital adequacy ratio	**15.84%**	14.21%
Total capital adequacy ratio	**18.02%**	16.39%

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT (continued)

Financial leverage ratio

The Group's financial leverage ratio for the year ended 31 December 2023 and 31 December 2022 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2023 KD 000's	2022 KD 000's
Tier 1 capital	**827,353**	741,129
Total Exposure	**8,115,018**	7,659,867
Financial leverage ratio	**10.20%**	9.68%

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 2023 and 31 December 2022 are included under the 'Risk Management' section of the annual report.

30. FIDUCIARY ASSETS

At 31 December 2023, the aggregate value of assets held or managed in fiduciary capacity by the Group amounted to **KD 852,820 thousand** (2022: KD 1,101,000 thousand) and the income related to this activity amounted to **KD 664 thousand** (2022: KD 637 thousand) included in net fees and commissions (Note 6).


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