



(A Public Shareholding Company Incorporated in the State of Kuwait)

Gulf Bank K.S.C.P. Share Capital Increase Prospectus

Offering of 260,869,565 Ordinary Shares at an Issue Price of 230 Fils Per Share

Pre-emption Right Subscription Period

From 29 October 2023 to 12 November 2023

Public Offering Subscription Period

From 19 November 2023 to 3 December 2023

This Prospectus is dated 9 October 2023

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC LANGUAGE PROSPECTUS

KAMCO
INVEST



**Kamco Investment Company ("Kamco Invest")
Joint Lead Manager & Subscription Agent**

**Gulf Bank K.S.C.P. ("Gulf Bank")
Joint Lead Manager & Subscription Agent**

Gulf Bank K.S.C.P. (the “**Bank**”, “**Gulf Bank**”, or the “**Issuer**”) is incorporated in the State of Kuwait as a Kuwaiti public shareholding company on 29 October 1960 as per the Commercial Companies Law applicable in the State of Kuwait, and in accordance with the rules and instructions of the Central Bank of Kuwait (the “**CBK**”). The Bank is registered with the Ministry of Commerce & Industry under commercial registration no. 8347 and was listed on the local stock exchange in Kuwait (“**Boursa Kuwait**”) on 29 September 1984. The Bank’s registered office is at Mubarak Al Kabeer Street, P.O. Box 3200, Safat 13032 Kuwait.

The Issuer’s authorized capital as at the date of this share offering Prospectus (“**Prospectus**”) is KWD 486,056,100.600 (four hundred and eighty six million, fifty six thousand, one hundred Kuwaiti Dinars and six hundred Fils) divided into 4,860,561,006 (four billion, eight hundred and sixty million, five hundred and sixty one thousand, and six) shares at a value of 100 Fils (one hundred Kuwaiti Fils) per share. The Issuer’s issued and paid-up capital as at the date of this share offering Prospectus is KWD 336,056,100.600 (three hundred and thirty six million, fifty six thousand, one hundred Kuwaiti Dinars and six hundred Fils) divided into 3,360,561,006 (three billion, three hundred and sixty million, five hundred and sixty one thousand, and six) shares at a value of 100 Fils (one hundred Kuwaiti Fils) per share (“**Existing Shares**”).

The new share capital increase offered for subscription (the “**Issue**”, or the “**Offering**”), whose provisions include a pre-emption right, as defined herein, shall be composed of 260,869,565 (two hundred and sixty million, eight hundred and sixty nine thousand, five hundred and sixty five) ordinary shares (the “**Issue Shares**”) at an Issue Price of 230 Fils (two hundred and thirty Kuwaiti Fils) per share (the “**Issue Price**”) of which 100 Fils (one hundred Kuwaiti Fils) is the nominal value and 130 Fils (one hundred thirty Kuwaiti Fils) is the share premium.

The Issue represents an increase in the total issued Shares from 3,360,561,006 shares to 3,621,430,571 shares at an increase by 7.76% of the Bank’s current issued share capital, and at a total nominal value of KD 26,086,956.500 (twenty six million, eighty six thousand, nine hundred fifty-six Kuwaiti Dinars and five hundred Fils only) with a total value of KD 60,000,000 (sixty million Kuwaiti Dinars only), upon adding the value of KD 33,913,043.450 for the Issued Shares premium.

The initial eligible subscribers (“**Initial Eligible Subscribers**”) are comprised of, a) those persons (“**Eligible Shareholders**”) whose names are recorded in the shareholder register of the Bank (the “**Bank’s Shareholders Register**”) held with Kuwait Clearing Company (“**Clearing & Depository Agent**”) as at 26 October 2023 (“**Record Date**”), and b) those persons to whom pre-emption rights were transferred during the trading period of pre-emption rights (“**Owners of Transferred Pre-emption Rights**”). For clarity, any trading made on the Bank’s shares prior to the Record Date but for which the settlement process has not been completed at Boursa Kuwait on the Record Date (the “**Ex-Date**”) and, accordingly, not recorded in the shareholder register of the Bank (the “**Bank’s Shareholders Register**”), shall not be taken into account in defining the Eligible Shareholders recorded in the Bank’s Shareholders Register on the Record Date. In any of the following instances concerning the exercising of any right of pre-emption vis-à-vis the Issue Shares (the “**Pre-emption Right**” (as the context may apply)), a) in the case of an Initial Eligible Subscriber, same may subscribe for their pro-rata amount of the Issue Shares based on the amount of Existing Shares registered in the name of the Initial Eligible Shareholder on the Record Date to the extent they have not otherwise transferred their pre-emption right, and b) in the case of an Owners of Transferred Pre-emption Rights, same may subscribe for their pro-rata amount of the Issue Shares based on the amount of pre-emption rights which were transferred during the trading period of pre-emption rights. Each Owner of Transferred Pre-emption Rights may subscribe to Issue Shares based on the amount of Pre-emption Rights so transferred to them.

In addition to the amount of Issue Shares that Initial Eligible Subscribers are entitled to with respect to their Pre-emption Right, the Initial Eligible Subscribers may also subscribe for additional Issue Shares (“**Additional Issue Shares**”) at the same time that they subscribe for Issue Shares under their Pre-emption Right. Additional Issue Shares are those Issue Shares in respect to which Initial Eligible Subscribers elected not to exercise their Pre-emption Right to subscribe for or elected to only partially exercise such right. Available Additional Issue Shares will be allocated to the Initial Eligible Subscribers pro rata to their subscription to the Additional Issue Shares.

The subscription period for exercising Pre-emption Rights in the Issue Shares (and Additional Issue Shares, if available) will commence on 29 October 2023 and will end on 12 November 2023 (“**Pre-emption Right Subscription Period**”).

In the case in which all Issue Shares have not been fully subscribed for by the Initial Eligible Subscribers during the Pre-emption Right Subscription Period, then the unsubscribed Issue Shares shall be open for public subscription (“**Public Subscription**” or “**Public Offering**”) to any person eligible to subscribe for shares in Kuwait (the “**Public Subscribers**”), including without limitation, the Initial Eligible Subscribers.

The Public Subscription shall commence from 19 November 2023 and will end on 3 December 2023 (the “**Public Offering Subscription Period**”). In the event where all of the shares offered for Public Subscription are subscribed for at or prior to the end of the Public Offering Subscription Period, then the subscription may be closed at that time. The board of directors of the Bank (the “**Board of Directors**”) may extend the Public Offering Subscription Period in its sole and absolute discretion in accordance with applicable laws and regulations. In the event where the aggregate of the Pre-emption Right Subscription Period and the Public Offering Subscription Period is to extend beyond a period of three (3) months from the date of opening of the Pre-emption Right Subscription Period, then the approval of the Kuwait Capital Markets Authority (the “**CMA**”) shall be obtained in order to do so.

Initial Eligible Subscribers and Public Subscribers (collectively, “**Subscribers**”) for the Issue Shares will not have the right of retraction except as in accordance with the Companies Law No. 1 of 2016 and its executive regulations (each as amended). The share allocation decision shall be final without any liability on the Issuer or the Subscription Agents.

The number of allocated Issue Shares shall be rounded to the nearest whole number. The Issuer shall have the absolute right to dispose of the fractional shares, if any, without issuing fractional shares.

After the relevant subscription period, the completion of the final allocation of the Issue Shares and fulfillment of all necessary regulatory procedures, the Issue Shares will be listed on Boursa Kuwait for trading without any restrictions, consistent with the protocols for the current Existing Shares.

The proceeds from the Offering will be used to enhance the Bank's capital adequacy ratio under the regulatory framework and for general corporate purposes. (see "**Use of Offering Proceeds**" section).

The Bank's extraordinary general assembly approved the increase of authorized share capital to KD 486,056,100.600 (four hundred and eighty six million, fifty six thousand, one hundred Kuwaiti Dinars and six hundred Fils) at its meeting dated 13 May 2023. Accordingly, the Board of Directors approved, in its meeting dated 9 August 2023, to increase the issued and paid-up share capital to KD 362,143,057.100 (three hundred and sixty two million, one hundred and forty three thousand, fifty seven Kuwaiti Dinars and one hundred Fils) and also determined that the amount of premium attributable to each of the Issue Shares to be 130 Kuwaiti Fils (one hundred thirty Kuwaiti Fils) per share. The Board of Directors further authorized Mr. Jassim Mustafa Boodai (Chairman of the Board of Directors) and /or Mr. Waleed Khaled Mandani (Acting Chief Executive Officer) and / or Mr. Dari Ali Al-Bader (General Manager of Corporate Affairs and Secretary of the Board of Directors) to determine the subscription period for the Issue Shares and to issue a Prospectus and to undertake all corporate actions required to proceed and complete the Offering.

On 28 August 2023, the CBK approved the Offering of the Issue Shares. In addition, on 14 September 2023 the CMA approved the Offering of the Issue Shares.

This Prospectus has been prepared in accordance with the provisions of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating Securities Activities, and the executive bylaws thereto (each as amended). On 9 October 2023, the CMA approved the subscription Prospectus.

The Issue Shares shall be of the same class as the Existing Shares in the issuer's capital. Each share shall confer one vote on its holder and each shareholder shall be entitled to attend and vote in the General Assembly meeting, to receive future dividends whenever announced by the Issuer, to benefit from Pre-emptive Rights in the new equity subscription, to benefit from the rights upon the company's liquidation and any other rights provided for in the Memorandum of Association and the Articles of Association of the Bank. No shareholder shall have any additional rights in preference to any other shareholder.

As per the provisions of Law No. 7 of 2010 the Establishment of the Capital Markets Authority and Regulating Securities Activities, without prejudice to the tax exemptions from the prescribed tax on profits arising from disposal of securities issued by companies listed on Boursa Kuwait, returns in respect of securities, bonds, financial sukuk and all other similar securities, regardless of the issuer, are exempted from taxes.

NOTICE TO POTENTIAL INVESTORS

WE RECOMMEND THAT YOU SEEK THE ADVICE OF A LICENSED PERSON WHO IS DULY QUALIFIED ACCORDING TO THE KUWAIT CAPITAL MARKETS LAW NO. 7 OF 2010, AND THE EXECUTIVE BYLAWS THERETO (EACH AS AMENDED) TO RENDER ADVICE WITH RESPECT TO THE CONTENTS OF THIS PROSPECTUS PRIOR TO MAKING A DECISION AS TO WHETHER OR NOT TO SUBSCRIBE TO THE OFFERING SHARES FORMING THE SUBJECT OF THIS PROSPECTUS. IT SHOULD ALSO BE NOTED THAT, WITHOUT THE PRIOR APPROVAL OF THE CENTRAL BANK OF KUWAIT, THAT OWNERSHIP BY ONE PERSON (WHETHER A NATURAL OR JURISTIC IN NATURE) OF 5% (FIVE PERCENT) OR MORE IN THE BANK'S CAPITAL, IS NOT PERMITTED. IF THE OWNERSHIP OF ONE PERSON EXCEEDS THE AFOREMENTIONED PERCENTAGE THRESHOLD, THEN SUCH PERSON SHOULD DISPOSE OF THE INCREASE WITHIN THE PERIOD SET BY THE CENTRAL BANK OF KUWAIT. THIS VIOLATION SHALL RESULT IN THE SHAREHOLDER NOT AVAILING THE AMOUNT OF SHARE INCREASE IN TERMS OF THE VOTING RIGHTS IN THE BANK'S GENERAL ASSEMBLY AND IN THE BANK'S MANAGEMENT.

THIS PROSPECTUS HAS BEEN APPROVED BY THE KUWAIT CAPITAL MARKETS AUTHORITY ("CMA"). THIS PROSPECTUS HAS BEEN PREPARED IN ACCORDANCE WITH THE KUWAIT CAPITAL MARKETS LAW NO. 7 OF 2010 AND ITS EXECUTIVE BYLAWS (EACH AS AMENDED) (THE "CML RULES"). THE DIRECTORS, WHOSE NAMES APPEAR IN THE MANAGEMENT SECTION OF THIS PROSPECTUS, COLLECTIVELY AND INDIVIDUALLY, ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF ALL INFORMATION CONTAINED IN THIS PROSPECTUS RELATING TO THE ISSUER AND THE OFFERING SHARES, AND CONFIRM, HAVING MADE ALL REASONABLE ENQUIRES, THAT TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO OTHER FACTS THE OMISSION OF WHICH WOULD MAKE ANY STATEMENT HEREIN MISLEADING.

EACH OF THE SUBSCRIPTION AGENTS AND THE ISSUER ACCEPT FULL RESPONSIBILITY FOR ANY INACCURACY OF ALL INFORMATION AND DATA CONTAINED IN THIS PROSPECTUS AND CONFIRM, HAVING MADE ALL REASONABLE ENQUIRIES, THAT TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO OTHER MATERIAL FACTS AND INFORMATION OMITTED, AND THAT THE PROSPECTUS HAS BEEN DRAFTED ACCORDING TO THE INFORMATION AND DATA THAT CORRESPOND TO REALITY.

THE LEGAL ADVISERS TO THE ISSUER CONFIRM THAT THEY HAVE REVIEWED THE PROSPECTUS AND DOCUMENTS RELATED THERETO AS PROVIDED TO THEM BY THE ISSUER, AND THAT TO THE BEST OF THEIR KNOWLEDGE AND AFTER HAVING MADE ALL REASONABLE INQUIRIES, THE PROSPECTUS COMPLIES WITH THE RELEVANT LEGAL REQUIREMENTS AND THAT THE ISSUER HAS OBTAINED THE REQUIRED APPROVALS NECESSARY IN ORDER FOR ITS OBLIGATIONS TO BE VALID AND ENFORCEABLE.

EACH OF THE ISSUER AND THE SUBSCRIPTION AGENTS CONFIRM THAT THE REQUIREMENTS AND NECESSARY PROCEDURES ARE MET, AND ALL THE DOCUMENTS REQUIRED IN THE PROSPECTUS ARE SUBMITTED IN ACCORDANCE WITH THE CMA RULES AND RELATED BYLAWS.

THE CMA DOES NOT TAKE ANY RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS, DOES NOT MAKE ANY REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS PROSPECTUS.

RESPONSIBILITY STATEMENT

Persons Responsible for this Prospectus:

This Prospectus has been prepared by:

Name: Waleed Khaled Mandani

Position: Acting Chief Executive Officer

And

Name: Dari Ali Al-Bader

Position: General Manager – Corporate Affairs & Board Secretary

Address: Gulf Bank K.S.C.P., Mubarak Al Kabeer Street, P.O. Box 3200, Safat 13032, Kuwait.

The aim of this Prospectus is to provide the information required to existing shareholders of Gulf Bank K.S.C.P. (the "Bank") and new shareholders eligible to subscribe. The members of the Board of Directors of the Bank, whose names appear under the Management section of this Prospectus, jointly and severally assume full liability for the accuracy and integrity of the information contained in this document, and assure, to the best of their knowledge and belief and after conducting a full and detailed due diligence, that there are no other facts or information that the omission thereof may have impact on the accuracy and integrity of any statement set forth in this Prospectus. The Board of Directors of the Bank hereby confirm that, to the best of their knowledge and after undertaking all reasonable inquiries, that all the information set in this Prospectus is complete, accurate and true, that the statement is issued after due diligence, that disclosure to investors is made of all information relating to the securities and the issuer for the purpose of deciding whether to underwrite in this subscription or not and that compliance is maintained with all relevant provisions stipulated under Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and Regulating Securities Activities, the Executive Bylaws thereof, issued by virtue of the CMA Resolution No. 72 of 2015, as amended, and the Kuwait Companies Law No. 1 of 2016, the Executive Regulations thereto, as amended, and the instructions and regulations of the Central Bank of Kuwait and the Kuwait Capital Markets Authority.

On behalf of the Board of Directors of the Bank:

Name:

Title:

Signature:

Jassim Mustafa Boodai

Chairman



IMPORTANT NOTES

This Prospectus includes information about Gulf Bank K.S.C.P (the “**Bank**”, “**Issuer**”, or “**Gulf Bank**”) in respect of the shares, subscription and subscription rules, terms and conditions under its share capital increase. The Bank has not authorized any other entity to release, make or provide any statements, information or representations regarding the Bank or the shares other than what is set forth in this Prospectus or as approved for such purpose by the Bank. Any such statements, information, representations or assumptions emanating from third parties should not be relied upon as having been authorized by the Bank in its capacity as an Issuer or as Subscription Agent save those stipulated herein.

While the Bank has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, certain information about the market and industry sectors herein included have been derived from external sources. While neither the Bank, nor its respective advisers have any reason to believe that the market and industry information is materially inaccurate, it is worth mentioning that such information has not been independently verified and, thus, no representation is made with respect to the integrity, accuracy or completeness of any such information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial position of the Bank and the value of the shares may be adversely affected by future developments due to inflation, financing charges, taxation or any other economic or political changes and other factors beyond the Bank’s control. Neither the delivery of this Prospectus nor any verbal, written or printed statement in relation to the shares is intended to be, or should be construed or relied upon in any way, as a promise or representation of any future earnings, results or events.

For the banks subject to their supervision, the Central Bank of Kuwait (“**CBK**”) and the Kuwait Capital Markets Authority (“**CMA**”) and the Ministry of Commerce and Industry are the authorities vested with the right to issue the necessary licenses and approvals for the capital increase. The approval of the CMA has been obtained for this Prospectus, however, the CMA is not held liable in anyway whatsoever for the contents of this Prospectus, and does not guarantee the soundness and accuracy of any information mentioned herein. Therefore, the CMA does not bear any liability whatsoever as to any type of loss arising from relying on the contents of this Prospectus, whether in whole or in part. It is advised to consult an investment advisor. Furthermore, the CMA shall not serve as a party in any case pertinent to damage arising from any Prospectus approved thereby.

This Prospectus should not be considered a recommendation from the Bank or any of its advisers or affiliates to participate in the Issue. The information provided herein is of a general nature and has been prepared without taking into account any potential investor’s strategic objectives, financial situation or particular investment needs. Each recipient of this Prospectus shall be responsible for obtaining their own independent professional advice in relation to the Bank and the Offering of the shares prior to making an investment decision. Further, the recipient of the Prospectus shall be responsible for making their own independent evaluation of the Bank, investment in the shares and of the information and assumptions contained herein by seeking such advice, analysis and projections as they deem necessary in making any investment decision. Potential investors shall not construe the contents of this document as constituting tax, investment or legal advice.

Prior to purchasing any shares, a prospective investor should consult a financial advisor licensed by CMA in shares for such an investor and arrive at an independent evaluation of such an investment. The sole purpose of this Prospectus is to provide background information about the Bank to assist each recipient of the Prospectus in making an independent evaluation of the investment in these shares.

The distribution of this Prospectus and the offering of the Issue Shares in certain jurisdictions is restricted by some laws outside the State of Kuwait. Persons into whose possession this Prospectus may come are required by the Bank and the Managers to inform themselves about and to observe such restrictions.

Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful. Any securities to be issued have not been and will not be registered under the Securities Act of 1933 or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons.

No person has been authorized to give any information or make any representations in connection with the offering of the shares other than those contained in this Prospectus and, if given or made by third parties, any such information or representations should not be relied upon as having been authorized by the Bank as an Issuer or Subscription Agent. Neither the delivery of this Prospectus nor any sale or delivery made hereunder shall, in any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof.

By reading and accepting this Prospectus, the recipient agrees to comply with its conditions and declares that they are responsible for maintaining full compliance with the law in respect of any purchase including getting any necessary government or non-government approvals and satisfying any other requirements.

Financial and Statistical Information

In this Prospectus all references to "KWD", "KD", "Kuwaiti Dinars" and "Dinars" are to Kuwaiti Dinars, the lawful currency of Kuwait and "USD", "US\$" and "\$" are to United States Dollars.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Where statistical information has been sourced for publication in this Prospectus, the Issuer believes that the information represents the latest information available from the relevant particular source.

Financial information contained herein for any period ending after 31 December 2022 has not been audited.

Forecasts and Forward-Looking Statements

Some statements in this Prospectus may be deemed to be forward looking statements. Forward-looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. The Issuer has based these forward-looking statements on the current view of the Issuer's management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in the Issuer's forward-looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialize, including those which the Issuer has identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted. These forward-looking statements speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

TABLE OF CONTENTS

RESPONSIBILITY STATEMENT.....	5
IMPORTANT NOTES	6
TABLE OF CONTENTS.....	8
KEY TERMS OF THE OFFERING.....	9
OFFERING TERMS, CONDITIONS AND INSTRUCTIONS.....	13
BASIS OF CALCULATION OF SHARE PRICE AND PREMIUM.....	18
USE OF OFFERING PROCEEDS.....	19
INFORMATION ABOUT THE ISSUER	20
STRATEGY	25
CORPORATE GOVERNANCE	27
MANAGEMENT.....	30
CAPITALIZATION AND BORROWINGS	45
PROFIT DISTRIBUTIONS BY THE BANK	46
SELECTED FINANCIAL INFORMATION	47
PREVIOUS SECURITIES ISSUANCES BY THE BANK.....	48
RISK FACTORS	49
TAXATION.....	63
MAJOR CONTRACTS	65
GENERAL INFORMATION.....	66
ARTICLES OF ASSOCIATION AND MEMORANDUM OF ASSOCIATION	68
FINANCIAL STATEMENTS	69

KEY TERMS OF THE OFFERING

The following summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This summary does not contain all the information that prospective investors should consider before deciding to invest in the Issue Shares and does not purport to be complete. Accordingly, any decision by a prospective investor to invest in the Issue Shares should be based on consideration of this Prospectus as a whole.

Issuer	Gulf Bank K.S.C.P. a public shareholding company incorporated in the State of Kuwait on 29 October 1960
Issuer's Address	Mubarak Al Kabeer Street, P.O. Box 3200, Safat 13032, Kuwait
Offering Type	Public Subscription in the Issue Shares with pre-emption rights to Eligible Shareholders.
Offering Size	Offering size: KWD 60,000,000 (sixty million Kuwaiti Dinars only), which consists of a nominal value of KWD 26,086,956.500 (twenty six million, eighty six thousand, nine hundred fifty-six Kuwaiti Dinars and five hundred Fils) and an issuance premium of KWD 33,913,043.450.
Issue Price	230 Fils (two hundred and thirty Kuwaiti Fils) per Issue Share (including the nominal value and the issue premium).
Nominal Value	100 Fils (one hundred Kuwaiti Fils) per Issue Share
Issuance Premium	130 Fils (one hundred and thirty Kuwaiti Fils) per Issue Share
Total number of Issued and Paid-up Shares immediately prior to Offering	3,360,561,006 shares with a nominal value of 100 Fils (one hundred Kuwaiti Fils) each, all of which are fully paid
Treasury Shares	None
Number and Nature of Issue Shares	260,869,565 (two hundred and sixty million, eight hundred and sixty nine thousand, five hundred and sixty five) ordinary shares
Number of Issue Shares underwritten	None
Value of underwritten Issue Shares	None
Total number of Issued and Paid-up shares immediately following the Offering if 100% subscribed for	3,621,430,571 (three billion, six hundred and twenty one million, four hundred and thirty thousand, five hundred and seventy one) shares.
Issuer's issued capital immediately following the Offering if 100% subscribed for	KWD 362,143,057.100 (three hundred and sixty two million, one hundred and forty three thousand, fifty seven Kuwaiti Dinars and one hundred Fils).
Restrictions on trading in securities offered for subscription and any future arrangements	None
Offering/Subscription Expenses	Offering Expenses are estimated to be approximately KWD 295,000 (two hundred and ninety five thousand Kuwaiti Dinars). The Bank shall be responsible for all costs relating to the Offering, which includes subscription management fees, printing and publications expenses and other related legal notices.
Offering/Subscription Method	Subscribers may submit the Subscription Application Form online via the Subscription Website for Subscription during the Subscription Period as described in the Offering Terms, Conditions and Instructions section of this Prospectus. Amendments to and/or withdrawal of the Subscription Application Form shall not be permitted once submitted. Upon submission, the Subscription Application Form shall serve as a legally binding agreement between the subscribers and the Issuer.

Pre-emption Right Subscription Period or First Subscription Period	From 29 October 2023 to 12 November 2023
Public Offering Subscription Period or Second Subscription Period(if any)	From 19 November 2023 to 3 December 2023
The Period for Trading Pre-Emptive Rights	The period for trading of Pre-Emption Rights starts from the date of opening of the Pre-emptive Right Subscription Period until five (5) business days prior to the end of the Pre-emptive Right Subscription Period. 29 October 2023 has been set as the date for the start of trading in Pre-Emption Rights and 5 November 2023 as the last day of trading in Pre-Emption Rights.
Trading Pre-Emptive Rights	Approval of this Prospectus shall be an approval from Bursa Kuwait and Kuwait Clearing Company to list and trade Pre-emptive Rights during the Pre-emptive Right Subscription Period in the Issue Shares. Listing shall be cancelled upon the company's disclosure of the results of subscription in the capital increase.
Means of Disposal of Pre-Emptive Rights	<p>Upon the commencement of trading of Pre-emptive Rights, Eligible Shareholders may dispose of their pre-emptive rights, in the capital increase shares subject of this Prospectus, to Eligible Shareholders or third parties through either of the two ways stated below or both of them:</p> <ol style="list-style-type: none"> 1) Trading pre-emptive rights, in part or in full, as per the rules of Bursa Kuwait. 2) Waiving pre-emptive rights to another shareholder or to a third party against no consideration as per the rules of Bursa Kuwait and the Clearing Agency. <p>In all cases, an Eligible Shareholder who disposed of his Pre-emptive Rights in the above manner may not be entitled to subscribe in such rights to the extent disposed of, and any such subscription by him therein shall fall null and void. However, the alienee to whom Pre-emptive Rights were transferred shall have the right to subscribe in the Issue Shares designated for such rights, and shall further have the right to dispose of the same in the manner stated under the applicable rules of the CMA, Bursa Kuwait, and Kuwait Clearing Company up to 5 (five) business days before the Pre-emptive Right Subscription Period is closed. Upon completion of the Pre-emptive Rights' transfer, the alienee may not be deprived of this right expect that he shall be deprived of the Pre-emptive Right in case of not exercising it during the Pre-emption Right Subscription Period.</p>
Allocation Date	Within 5 (five) business days of the end of the Pre-emptive Right Subscription Period, or end of the Public Offering Subscription Period, if applicable.
Eligible Shareholders (Owners of Pre-emption Rights to Subscribe in the Issue Shares)	Shareholders recorded in the Bank's Shareholders Register with Kuwait Clearing Company K.S.C. on the Record Date, i.e., shareholders recorded in the Bank's Shareholders Register as at 26 October 2023. For clarity, any trading on the Bank's shares prior to the Record Date, but for which the trade settlement process at Bursa Kuwait has not been completed as at the Record Date, and as a result have not yet been recorded on the Bank's Shareholders Register, such will not be considered in determining the Eligible Shareholders enrolled as at the Record Date.
Eligible Shareholder's Entitlement	Approximately 7.76% for their total Existing Shares held as of the Record Date
Minimum Subscription	1 (one) Issue Share
Maximum Subscription	No maximum subscription limit whereby each Subscriber may apply for subscription in excess of their entitlement to the Issue Shares and such subscription can exceed the total number of Issue Shares .
Initial Eligible Subscribers' options for the Issue Shares	<p>Initial Eligible Subscribers can exercise any of the following options in respect of the Issue Shares:</p> <ol style="list-style-type: none"> 1) Exercising their Pre-emption Rights in the Issue Shares; 2) Exercising their Pre-emption Rights in the Issue Shares as well as subscribing for Additional Issue Shares;

	<p>3) Assigning their Pre-emption Rights for subscription in the Issue Shares as per the approved mechanism at least 5 (five) days before the end of the Pre-emptive Right Subscription Period (any such assignment shall be made in accordance with the relevant rules applied by the Clearing Agency) or;</p> <p>4) Not exercising any of the above options.</p>
Effect on Eligible Shareholders who choose not to subscribe in Issue Shares	Eligible Shareholders who do not subscribe in the Issue Shares shall be subject to a reduction in the proportion of their equity in the Issuer. They may also experience a change in the value of their pro rata portion in the Existing Shares of the Bank.
Subscription for Additional Issue Shares	In addition to the amount of Issue Shares that Initial Eligible Subscribers are entitled to with respect to their Pre-emption Right, the Initial Eligible Subscribers may also subscribe for additional Issue Shares (“ Additional Issue Shares ”) at the same time that they subscribe for Issue Shares under their Pre-emption Right. Additional Issue Shares are those Issue Shares that Initial Eligible Subscribers elected not to exercise their Pre-emption Right to subscribe for or elected to only partially such right. Available Additional Issue Shares will be allocated to the Initial Eligible Subscribers pro rata to their subscription to the Additional Issue Shares.
Public Subscription / Offering	In case all Issue Shares offered for subscription are not subscribed for during the Pre-emptive Right Subscription Period, the Issue Share surplus will be offered for Public Subscription where any person (including Initial Eligible Subscribers) may subscribe in the surplus Issue Shares.
Allocation of Issue Shares	<p>Allocation during the Pre-emptive Right Subscription Period:</p> <p>Firstly, the Issue Shares shall be allocated in full to those Initial Eligible Subscribers who exercised their Pre-emptive Right to subscribe in the Issue Shares in accordance with their Pre-emptive Right.</p> <p>Secondly, any remaining Issue Shares shall be allocated to those Initial Eligible Subscribers who have exercised their right to subscribe in Additional Issue Shares pro rata to their subscription to the Additional Issue Shares.</p> <p>Allocation during the Public Offering Subscription Period:</p> <p>In the event that there are Issue Shares available for Public Subscription, Issue Shares will be allocated to Public Subscribers pro rata to their subscription in the remaining Issue Shares</p> <p><u>In case all Issue Shares offered for subscription are subscribed to before the end of the period for Public Offering Subscription Period, the subscription may be closed prior to the initial scheduled completion of the Public Offering Subscription Period.</u></p>
Share Fractions	<p>Subscription shall not be made for fractions of Issue Shares and, wherever necessary, the number of Issue Shares to which a Subscriber has a fractional entitlement shall be rounded to the nearest whole number. The Issuer reserves the sole right to dispose of the fractional shares.</p> <p>(See “Offering Terms, Conditions and Instructions” Section).</p>
Use of Offering Proceeds	The proceeds from the Offering will be used by the Issuer to enhance the Bank’s capital adequacy ratio under the regulatory framework and for general corporate purposes.
Offering Terms	The Issuer, the Subscription Agents, and the Clearing and Depository Agent reserve the right to reject, in full or in part, any Subscription Application Form, which is not in compliance with the terms of the Offering. Once submitted, Subscription Application Forms cannot be amended or withdrawn. The acceptance of Subscription Application Forms by the Subscription Agents, the Clearing and Depository Agent and the Issuer constitutes a legally binding agreement between subscribers and the Issuer (Refer to “Offering Terms, Conditions and Instructions” section).

Dividends	The shareholder of the Issue Shares will be entitled to receive any dividends declared by the Issuer in future.
Voting Rights	The Issuer has only one class of shares. Each Issue Share entitles the shareholder to one vote and the shareholder has the right to attend and vote at the General Assembly meetings. No Shareholder has any preferential voting right.
Subsequent Equity Subscriptions	The holders of Issue Shares will be entitled to benefit from pre-emptive rights in subsequent public equity subscriptions
Rights arising from the Issue Shares in the event of liquidation of the Issuer	A shareholder is entitled to receive a portion in proportion to the shares they hold from the Issuer's assets on liquidation behind claims of any preferred shareholders and following repayment of the Issuer's debts and other costs <i>pari passu</i> with all other holders of ordinary shares.
Process and Procedures in the event of undersubscribed share capital increase	<p>If the Issue Shares have not been fully subscribed during the subscription period, the Board of Directors of the Bank may decide to extend the subscription period to any period in accordance with the Law. If the Issue Shares have not been fully subscribed during the initial period or any extended subscription period, the Board of Directors of the Bank may decide either to:</p> <ol style="list-style-type: none"> 1) retract the share capital increase and refund the subscribers, or; 2) limit the share capital increase to the amount actually subscribed for at the close of the relevant subscription period. <p>Subscribers for the Issue Shares will not have the right of retraction except as per the Law.</p>
Listing of Shares	After the close of the subscription period, the final allocation of the Issue Shares and completion of all the necessary regulatory procedures, the Issue Shares will be listed on Boursa Kuwait and will be set for trading without any restrictions.
Regulatory Authorities	The Central Bank of Kuwait, the Kuwait Capital Markets Authority, and the Ministry of Commerce and Industry
Auditors	Ernst & Young, Al Aiban, Al Osaimi & Partners, and Deloitte & Touche, Al-Wazzan & Co.
Issuance Managers & Subscription Agents	Kamco Invest and Gulf Bank
Clearing and Depository Agent	Kuwait Clearing Company K.S.C.
Legal Advisors	ASAR – Al Ruwayeh & Partners
Law	The laws of the State of Kuwait
Courts	Courts of the State of Kuwait
Issuer's Board of Directors	<p>Mr. Jassim Mustafa Boodai Mr. Ali Morad Behbehani Mr. Omar Hamad AlEssa Mr. Bader Nasser AlKharafi Mr. Abdullah Sayer Al-Sayer Dr. Fawaz Mohammad Al Awadhi Mr. Barrak Abdulmohsen Al Asfour Mrs. Reem Abdullah Al Saleh Mr. Ahmad Mohammad Al Bahar Dr. AbdulRahman Mohammad Al-Taweel Mr. Talal Ali Al Sayegh</p>

OFFERING TERMS, CONDITIONS AND INSTRUCTIONS

1. Subscription Agreement

The Issuance Managers and the Subscription Agents agreed with the Issuer, according to the terms of the Subscription Agreement, and on the condition that some related conditions are met, to exercise the necessary care in order to offer the Subscribers the right to subscribe to the Issue Shares at the Issue Price. The Issuance Managers and the Subscription Agents are not obligated to subscribe to any of the Issue Shares that were not subscribed to by the Subscribers.

2. Subscribers

The initial eligible subscribers (“**Initial Eligible Subscribers**”) are comprised of, a) those persons (“**Eligible Shareholders**”) whose names are recorded in the shareholder register of the Bank (the “**Bank’s Shareholders Register**”) held with Kuwait Clearing Company (“**Clearing & Depository Agent**”) as at 26 October 2023 (“**Record Date**”), and b) those persons to whom pre-emption rights were transferred during the trading period of pre-emption rights (“**Owners of Transferred Pre-emption Rights**”). For clarity, any trading made on the Bank’s shares prior to the Record Date but for which the settlement process has not been completed at Boursa Kuwait on the Record Date (the “**Ex-Date**”) and, accordingly, not recorded in the shareholder register of the Bank (the “**Bank’s Shareholders Register**”), shall not be taken into account in defining the Eligible Shareholders recorded in the Bank’s Shareholders Register on the Record Date. Each Eligible Shareholder may subscribe for their pro-rata amount of the Issue Shares based on the amount of Existing Shares registered in the name of the Eligible Shareholder on the Record Date (the “**Pre-emption Right**”), to the extent they have not otherwise transferred their Pre-emption Right. Each Owner of Transferred Pre-emption Rights may subscribe to Issue Shares based on the amount of Pre-emption Rights so transferred to them.

In addition to the amount of Issue Shares that Initial Eligible Subscribers are entitled to with respect to their Pre-emption Right, the Initial Eligible Subscribers may also subscribe for additional Issue Shares (“**Additional Issue Shares**”) at the same time that they subscribe for Issue Shares under their Pre-emption Right. Additional Issue Shares are those Issue Shares that Initial Eligible Subscribers elected not to exercise their Pre-emption Right to subscribe for or elected to only partially such right. Available Additional Issue Shares will be allocated to the Initial Eligible Subscribers pro rata to their subscription to the Additional Issue Shares.

There is no maximum limit for the subscription applications whereby each Subscriber may apply for subscription in excess of their entitlement to the Issue Shares provided that such subscription by a Subscriber cannot exceed the total number of Issue Shares.

The Issuer does not guarantee the availability of any Additional Issue Shares.

In the case in which all Issue Shares have not been fully subscribed for by the Initial Eligible Subscribers during the Pre-emption Right Subscription Period, then the unsubscribed Issue Shares shall be open for public subscription (“**Public Subscription**” or “**Public Offering**”) to any person eligible to subscribe for shares in Kuwait (the “**Public Subscribers**”) including without limitation, the Initial Eligible Investors.

Initial Eligible Subscribers and Public Subscribers (collectively, “**Subscribers**”) for the Issue Shares will not have the right of retraction except as in accordance with the Companies Law No. 1 of 2016 and its executive regulations (each as amended). The share allocation decision shall be final without any liability on the Issuer.

In all cases, fractions of Shares may not be subscribed to and, wherever necessary, the entitlement figure shall be rounded to the nearest whole number.

3. Subscription Period

The subscription period for exercising Pre-emption Rights in the Issue Shares (and Additional Issue Shares if available) will commence on 29 October 2023 and will end on 12 November 2023 (“**Pre-emption Right Subscription Period**”).

The Public Subscription shall commence from 19 November 2023 and will end on 3 December 2023 (the “**Public Offering Subscription Period**”). In the event where all of the shares offered for Public Subscription are subscribed for at or prior to the end of the Public Offering Subscription Period, then the subscription may be closed at that time.

4. Extension of Subscription Period

The board of directors of the Bank (the “**Board of Directors**”) may extend the Public Offering Subscription Period in its sole and absolute discretion in accordance with applicable laws and regulations. In the event where the aggregate of the Pre-emption Right Subscription Period and the Public Offering Subscription Period is to extend beyond a period of three (3) months from the date of opening of the Pre-emption Right Subscription Period, then the approval of the Kuwait Capital Markets Authority (the “**CMA**”) shall be obtained in order to do so.

5. Partial Subscription to the Issue Shares

If the Issue Shares have not been fully subscribed for, the Issuer will either (a) retract the share capital increase, or (b) limit the share capital increase to the amount of Issue Shares actually subscribed for, and reduce the share capital of the Issuer in both cases, and such reduction must be recorded and marked in the register based on the Issuer's decision.

6. Subscription Procedures

All Subscribers with mortgaged shares must provide to the Clearing and Depository Agent an original and signed approval letter from the mortgagee stating that the Subscriber may subscribe in the capital increase. The approval letter must be submitted in Ahmad Tower – 5th floor.

Subscriptions and all required documents must be submitted through the Subscription Website.

General subscription procedures:

The Subscriber shall:

1. Login to the Subscription Website via the link: <https://www.ipo.com.kw>
2. In the event the Subscriber is an individual, they shall register their Civil ID number, and then the system will verify the eligibility of the Subscriber.
3. In the event the Subscriber is a legal entity or a company, the Subscriber must enter the commercial registration number, and then the system will verify the eligibility of the Subscriber.
4. Record the number of shares to be subscribed for.
5. The Subscriber must make the payment through either K-NET service or bank wire transfer as follows:

For Subscribers paying through K-NET service, the Subscriber shall:

- Pay from their own account (no other person may pay on behalf of the Subscriber except in the cases provided for under the law).

Subscribers are advised to confirm with their bank that their payment limit on their K-NET card will enable them to pay for their subscription.

Or,

For Subscribers paying through bank wire transfer, the Subscriber shall:

- Print the Subscription Application Form and visit their own bank and submit a copy of the Subscription Application Form printed from the above link and transfer the amount required to the Subscription Bank Account (net amount without any charges by the transferring bank and the receiving Bank) stated below:

Name of Bank:	Gulf Bank K.S.C.P.
Account number:	38750089
IBAN:	KW89 GULB 0000 0000 0000 0038 7500 89
SWIFT:	GULBKWKW
Beneficiary:	GULF BANK CAPITAL INCREASE SUBSCRIPTION
Reference/Description:	Subscription Application Form number + subscriber civil identification (for residents and citizens)/ passport (for non-residents and non-citizens)/ commercial registration number (for corporates) + subscriber contact number

- The subscriber shall upload the copy of the original deposit voucher of the amount transferred from their own bank in addition to the documents listed in item 7 **“Documents required to be submitted with applications to subscribe”** stated in this Prospectus through the electronic link that will be sent from the Subscription Website to the subscriber by e-mail and text message on the registered phone.

The Clearing and Depository Agent shall send an email confirmation to the Subscriber in case of a successful Subscription. Failure of any Subscriber to submit a duly completed Subscription Application Form (together with all applicable supporting documentation thereto) to the Subscription Website, after the transfer or deposit of the subscription funds (the **“Subscription Monies”**) as required in this Prospectus, shall render the Subscription Application Form of a Subscriber null and void. Subscription Monies shall not be accepted in cash.

7. Documents required to be submitted with applications to subscribe

The Subscription Application Form must be submitted through the Subscription Website along with the following documentation, as applicable to the nature of and payment method chosen by the Subscriber:

a) Individual Subscribers

- Signed Subscription Application Form;
- Copy of personal civil identification card;
- Copy of passport to verify the signature;
- Copy of the bank transfer receipt;
- Copy of the IBAN number;
- Copy of special legal proxy for subscribing in shares (for proxy subscriber);
- Copy of Certificate of Guardianship for orphans;
- Copy of Certificate of Guardianship for minors; or
- Copy of a Limitation of Succession Deed for beneficiaries.
- Copy of Guardianship rule

b) Corporate Subscribers

- Signed Subscription Application Form;
- Copy of the bank transfer receipt;
- Copy of the IBAN number;
- Copy of the Authorized Signatories Certificate or the Extract of the Commercial Register; as the case requires; and
- Copy of the personal identification card of the authorized signatory;

c) Non-Residents of Kuwait Subscribers

- Non-resident subscribers (whether corporates or individuals, as the case may be) are required to provide the equivalent of the aforementioned documentation as issued by their jurisdictional authorities if they do not have Kuwaiti issued documentation as highlighted further above.

Cash will not be accepted. The Subscription Monies must be paid in full upon submitting the Subscription Application Form on the Subscription Website by authorizing a debit of the appropriate amount from the subscriber's account with the Bank, or by bank transfer. Subscription amounts will be deposited in full in the Issuer's bank account designated by the Issuer (the "**Subscription Bank Account**"). The Subscriber must, in any event relating to the Issue Shares or the Additional Issue Shares, ensure that the bank debit or the bank transfer has been processed from their respective bank account and that the subscription account with the Issuer has been credited with the appropriate amount at the time of the submission of the Subscription Application Form to the Clearing and Depository Agent.

Without prejudice to the other grounds of rejection of the Subscription Application Forms, the Subscription Agents, the Clearing and Depository Agent and the Bank shall have the right to reject the Subscription Application Form in the event the Subscription Monies are not received in the subscription account at the time of submission of the Subscription Application Form to the Clearing and Depository Agent.

8. Applicant Declarations

By completing and submitting the Subscription Application Form, the Subscriber:

- agrees to subscribe to a number of Issue Shares set forth in the Subscription Application Form that is final and irrevocable;
- warrants that he has read and carefully studied this Prospectus and understands all of its contents;
- accepts the Memorandum and Articles of Association of the Issuer and all of the Offering Terms and Conditions mentioned in this Prospectus;
- accepts that the Issuer and the Clearing and Depository Agent shall have the right to refuse any unsatisfactory, incomplete or unclear Subscription Application Form or for any of the reasons set forth in this Prospectus;
- accepts the number of Issue Shares allocated to him (to a maximum of the amount he has subscribed for) and all other instructions of subscription stated in the Subscription Application Form and this Prospectus;
- undertakes that he will not cancel or amend the Subscription Application Form after submission to the Clearing and Depository Agent; and
- the corporate subscriber declares, at his full responsibility, that he obtained all the authorizations and consents required pursuant to his Memorandum and Articles of Association or pursuant to the law, in order to enable him to apply for the subscription and to perform his obligations in accordance to the terms and conditions contained in the Prospectus and to transfer his Pre-emption Right, including the consent of his Board of Directors or the General Assembly, as the case may be, in respect of shareholding companies.

9. Declining Subscription Application Forms

The Issuer and the Clearing and Depository Agent, and the Subscription Agents reserve the right, free from any liability, to reject, in full or in part, any Subscription Application Form in the event any of the forms are not compliant with the applicable laws, or any of the subscription terms and conditions are not met or the instructions are not duly and punctually followed including without limitation, the failure to accompany the Subscription Application Form with the appropriate proof of payment, the non-payment by the Subscriber of the full amount of the Subscription Monies at the time of submitting the Subscription Application Form or if the amounts are transferred after the closing of the subscription period, or the inaccuracy or the invalidity of any information contained in the Subscription Application Form or the failure of the Subscription Application Form to comply with or follow any terms or requirements set forth under this Prospectus or in the Subscription Application Form. In the event where any Subscription Application Forms are rejected, then any Subscription Monies related to the rejected Subscription Application Form shall be refunded to the concerned Subscriber within a period of five (5) business days from the date of announcement of the final allocation.

10. Subscription Application Form

During the Pre-emption Right Subscription Period, the offering of the Issue Shares is restricted to Initial Eligible Subscribers only. Initial Eligible Subscribers who would like to participate in the Offering can submit the Subscription Application Form during the Pre-emption Right Subscription Period on the Subscription Website. Each Eligible Shareholder shall have the right to subscribe for approximately 776 Issue Shares for every 10,000 Existing Shares that he owns at the Record Date, i.e. approximately 7.76% of their Existing Shares ownership.

In the event the subscription period is extended beyond the Pre-emption Right Subscription Period, any Subscriber who would like to participate in the Offering can submit their Subscription Application Form during the Public Offering Subscription Period on the Subscription Website.

A Subscriber must specify on the Subscription Application Form the number of Issue Shares he wishes to subscribe to and transfer the Subscription Monies.

Each Subscriber who is participating in the Offering must agree to the terms and conditions and provide all relevant information for the Subscription Application Form. The Issuer, the Subscription Agents, and the Clearing and Depository Agent reserve the right, free from any liability, to reject, in full or in part, any Subscription Application Form in the event any of the subscription terms and conditions are not met or the instructions are not duly and punctually followed including without limitation, the failure of the Subscription Application Form to comply with the applicable laws and regulations, the non-payment by the Subscriber of the full amount of the Subscription Monies, the inaccuracy or the invalidity of any information contained in the Subscription Application Form or the failure of the Subscription Application Form to comply with or follow any terms or requirements set forth under this Prospectus or in the Subscription Application Form. Amendments to and withdrawal of the Subscription Application Form shall not be permitted once the Subscription Application Form has been submitted. Furthermore, the Subscription Application Form shall, upon submission, represent a legally binding agreement between the Subscriber and the Issuer.

The Subscription Application Form and all relevant terms, conditions and undertakings shall be binding on the Subscribers and their assignees, executors, estate managers and beneficiaries, unless specifically stipulated otherwise in this Prospectus. The Subscriber must accept whatever number of Issue Shares are allocated to the Subscriber in accordance with the terms of the Offering.

The Offering, terms and conditions, and receipt of the Subscription Application Form and contracts and all matters arising therefrom shall be subject to the laws of the State of Kuwait and must be interpreted and applied in accordance therewith. The Courts of Kuwait have exclusive jurisdiction over any matter related to the Offering, the Subscription Application Form, and contracts and all matters arising therefrom.

All Subscribers must read the instructions relating to the Offering carefully before submitting the Subscription Application Form. Signing the Subscription Application Form shall be considered agreement to and acceptance of the Offering Terms, Conditions and Instructions.

11. Eligible Shareholders who do not Subscribe to the Issue Shares

Eligible Shareholders who do not subscribe to the Issue Shares shall be subject to a reduction in the proportion of their equity in the Issuer as well as a reduction in the value of their Issued Shares. Owners of Transferred Pre-emption Rights who do not exercise their right to subscribe to the Issue Shares prescribed for these rights, shall waive the price paid by them in exchange for these rights without having the right of any recourse against the Bank, the Subscription Agents, or the Clearing and Depository Agent for any claim or compensation.

12. Owners of Transferred Pre-emption Rights in the case of Retraction of Capital Increase

In the event of retracting the capital increase, the Owners of Transferred Pre-emption Rights will not be able to exercise their right to subscribe to the Issue Shares, which will lead to the loss of the price that the Owners of Transferred Pre-emption Rights paid for the Pre-emptive Right without having the right of any recourse against the Bank, the Subscription Agents, or the Clearing and Depository Agent for any claim or compensation.

13. Allocation and Refund of Surplus

The Issuer shall announce the final allocation not later than five (5) business days (which is a day (other than a Friday or a Saturday) which is not a public holiday and on which the banks are open for business in Kuwait) from the date of closing of the Pre-emption Right Subscription Period (or in the case in which all Issue Shares have not been fully subscribed for by the Initial Eligible Subscribers during the Pre-emption Right Subscription Period from the date of closing the Public Offering Subscription Period), and will refund the surplus Subscription Monies, without any interest, fees or deduction by the Bank, within five (5) business days from the date of announcement of the final allocation.

The surplus amounts will be refunded without any interest, fees or deductions. Subscribers should contact the Issuance Managers and the Subscription Agents to obtain further information.

14. Convertibility of offered shares

The Issue Shares cannot be converted into another form of securities.

15. Tradability of the Issue Shared and Pre-emption Rights

Pre-emption Rights may be traded or assigned free of charge without restriction and in accordance with the applicable rules of Bursa Kuwait and the Kuwait Clearing Company. Approval of this Prospectus constitutes approval of the listing and trading of priority rights during the Subscription Period for the Issue Shares, and the listing shall be canceled when the Bank discloses the results of the Subscription to the capital increase.

Following the close of the Subscription Period, the final allocation of the Issue Shares and completion of all the necessary regulatory procedures, a statement of Issue Shares will be made and the Issue Shares will be listed and traded on Bursa Kuwait without any restrictions in the same fashion as the Existing Shares.

16. Expected Timetable

Event	Date
Record Date	26 October 2023
Ex-Date	24 October 2023 (i.e. two (2) trading days prior to the Record Date according to the T+3 settlement cycle)
First Subscription Period Allocated for the Issue Shares during the Pre-emption Right Subscription Period	From 29 October 2023 to 12 November 2023 (inclusive)
The Period for Trading Pre-Emptive Rights	From 29 October 2023 to 5 November 2023 (inclusive)
Second Subscription Period Allocated for Issue Shares during the Public Offering Subscription Period (if any)	From 19 November 2023 to 3 December 2023 (inclusive)
Allocation of Issue Shares	Within five (5) business days of the date of the closure of the First Subscription Period or the Second Subscription Period (if any).
Refunding subscription amounts to Subscribers	Within five (5) business days of the date of announcement of the Allocation of the Issue Shares date.
Trading Issue Shares on Bursa Kuwait	The Issue shares will be listed on Bursa Kuwait following completion of all necessary regulatory procedures.

BASIS OF CALCULATION OF SHARE PRICE AND PREMIUM

The Bank has appointed an independent asset valuer BDO for Economic, Administrative, Industrial and Computer Consulting, and Opening Private Training Institutes W.L.L (“**BDO**”) certified by the Capital Markets Authority to evaluate the fair value of the net equity of Gulf Bank K.S.C.P. for the purpose of increasing the capital and for the purpose of submitting an independent report to the Capital Markets Authority.

The Issue Price is set at 230 fils, i.e., 130 Kuwaiti fils above the nominal value of 100 fils per share, based on a valuation report (the “**Valuation Report**”) prepared by an independent asset valuer licensed by the Capital Market Authority (BDO) to assess the fair value of its shares in relation to the Offering. The independent Valuation Report was prepared as at 30 June 2023 (the “**Valuation Date**”) and was provided to the Capital Markets Authority.

According to the Valuation Report, the valuation range for the Issuer is between 233 fils per share to 613 fils per share. The Offering price offers a 35.57% discount to the weighted average share price of 357 fils per share. BDO has approved the use of its findings contained in the Valuation Report in this Prospectus and that the conclusions contained in the Valuation Report remain valid.

It should be noted that several valuation methods have been used to derive the valuation range based on the audited financial statements of the years 2018, 2019, 2020, 2021 and 2022 and the Interim Condensed financial statements as at 30 June 2023 of the Issuer and information available in the public domain from reliable third-party sources.

These methods are summarized as follows:

1. Market Valuation Methodology: This method mainly uses Market Multiples, Volume weighted average price model (VWAP) and Market Capitalization
2. Cost Methodology: This method uses Adjusted Net Asset Value
3. Income Methodology: This method mainly uses Discounted Cash Flows (“**DCF**”) and Discounted Net Residual Income Valuation model (“**DNRI**”)

The below table summarizes the findings of the independent valuation prepared by BDO, which has been deemed an indicative fair value:

Valuation Approach	Indicative Value	Indicative unweighted fair value per share	Weightage	Contribution to indicative weighted average fair value per share
	KD'000s	Fils	%	Fils
MARKET APPROACH				
Value of the Bank as per market capitalization method – Benchmark	890,549	265	20%	53
Value of the Bank as per Volume weighted average price model (VWAP)	1,044,132	311	15%	47
Value of the Bank according to Trailing P/Book value multiple	781,969	233	10%	23
Value of the Bank according to Trailing P/Earnings multiple	886,519	264	5%	13
Weightage assigned for Market Approach			50%	
COST APPROACH				
Adjusted Net Asset Value (NAV)	1,280,475	381	33%	126
Weightage assigned for Cost Approach			33%	
INCOME APPROACH				
Discounted Cash Flow (DCF)	2,059,559	613	11.39%	70
Discounted Net Residual Income Valuation Model	1,513,915	450	5.61%	25
Weightage assigned for Income Approach			17%	
Indicative weighted average fair value of the Bank			100%	357

No. of outstanding shares of capital: 3,360,561,006

USE OF OFFERING PROCEEDS

The capital increase proceeds will be used for the following objectives:

The proceeds from the Offering will be used by the Issuer to enhance the Bank's capital adequacy ratio under the regulatory framework and for general corporate purposes. It should be noted that the Bank shall be responsible for settling all costs relating to the Offering.

INFORMATION ABOUT THE ISSUER

Overview:

Gulf Bank K.S.C.P. (the “**Bank**” or “**Gulf Bank**”) a public shareholding company, is one of the leading conventional banks in Kuwait with KD 6.9 billion in total assets as of 30 June 2023 and provides a wide range of services including consumer banking, wholesale banking, treasury, and investment services through its large network of over 50 branches and over 300 ATMs, that are strategically positioned in key locations in Kuwait in addition to point of sale (“**POS**”) terminals, tele-banking, internet banking and mobile banking. The company was incorporated in 1960 and listed on Boursa Kuwait (formerly known as the Kuwait Stock Exchange) in 1984. The company is headquartered in Kuwait City, Kuwait.

As of 31 December 2022, the total deposits including deposits from Financial Institutions amounted to KWD 5.0 billion while net loans and advances reached KWD 5.1 billion. The Bank’s profit for 2022 was KWD 61.8 million.

Registered office:

Gulf Bank’s registered office is at Mubarak Al Kabeer Street, P.O. Box 3200, Safat 13032, Kuwait City and its telephone number is +965 22449501. Its commercial registration number with the Kuwaiti Ministry of Commerce is 8347.

Objectives as per the articles:

The Extraordinary General Assembly of Gulf Bank’s Shareholders, at its 41st annual meeting held on Saturday 18 March 2023, approved the following objectives of the Bank:

1. Conduct all banking and commercial banks business activities, dealing in shares, bonds, and securities, in all aspects of legal disposition, all other business activities which banks and financial institutions are allowed to transact by law.
2. Accept cash deposits, pay against commercial papers and orders drawn on the bank by depositor with the amounts deposited to their account.
3. Obtain funds by issuing lending bonds.
4. Buy and sell gold bullions, foreign currencies, grant advances thereon, and buy and sell their assignments.
5. Issue, purchase, re-issue assignments, bills, lending bonds, coupons, and all commercial and industrial bonds, and invest capitals.
6. Lend, grant advances, credits and all bank facilities.
7. Grant advances on bills of lading, transport notes, and fund delivery notes in Kuwait and abroad.
8. Collect amounts of transfers, bills, commercial papers, bills of lading, and other notes, and issue secured or unsecured guarantees.
9. Act as savings and family fund bank.
10. Buy and sell securities for the Bank’s own account.
11. Take custody of all types of currencies, precious metals, and other properties, bonds, parcels, bundles, and leasing private metal safe deposit boxes.
12. Purchase and import devices, fittings, and equipment necessary to implement the company’s objects.
13. Own movables and real estate properties necessary to proceed on its activity within the limits permitted by law.
14. Utilize the financial surpluses available with the company by investing the same in financial portfolios managed by specialized companies and entities.
15. Investment Portfolio Manager.
16. Investment Advisor.
17. Investment Controller.
18. Subscription Agent.
19. Custodian.
20. Establish or participate in establishing new companies or provide financing to existing companies.
21. In general, to carry out all banking and other commercial works and services permitted by applicable laws, regulations, bylaws, current customs of banks and financial institutions and this Memorandum of Association; as well as all works and services necessary for the attainment of its objects or that are incidental or conducive to or related thereto, whether directly or indirectly.

The company may practice the above activities in the State of Kuwait or abroad, originally or by agency. The company may also have interest in, or participate, in any manner, in the companies or institutions that run similar business activities or cooperate to achieve its objects in Kuwait or abroad, and to merge thereto, acquire or annex those entities, all in accordance with the provisions of the law and these Articles, as it is imperative to obtain CBK’s prior approval. In case of merger, it is imperative to obtain a prior license from the Minister of Finance.

Listing:

The Bank was listed on Boursa Kuwait on 29 September 1984.

Authorized and Paid-up capital:

As of 30 June 2023, the Bank had an authorized share capital of KWD 486,056,100.600 comprising of 4,860,561,006 shares of KWD 0.100 each.

As of 30 June 2023, the Bank had an issued and paid-up share capital of KWD 336,056,100.600 comprising of 3,360,561,006 shares of KWD 0.100 each.

Ownership:

As of 1 October 2023, the following shareholders had holdings in excess of 5.0% in the Bank's issued ordinary share capital and are required to disclose such shareholding pursuant to the CMA Rules:

Name	Country of incorporation	Primary business	Holding (%)
Group of Kutayba Yusuf Ahmad Alghanim (Alghanim Trading Co. WLL)	Kuwait	General Trading and Contracting	32.75%
The Public Institution for Social Security	Kuwait	Government entity	7.19%
Behbehani Investment Company	Kuwait	Investment	5.47%
Total			45.41%

Brief description of the Group exerting control – Alghanim Trading Co. WLL:

Alghanim Trading Co. W.L.L was incorporated in 1979 and is owned and controlled by Kutayba Yusuf Ahmed Alghanim who owns 99.975% of the capital of Alghanim Trading Co. W.L.L. The balance of 0.025% is owned by AI Universal for Sale and Purchase of Shares and Bonds an entity also controlled by Kutayba Yusuf Ahmed Alghanim.

Kutayba Yusuf Ahmed Alghanim controls and is the Chairman of Alghanim Industries Group Holding Co K.S.C.C a parent company of Alghanim Industries. Alghanim Industries is one of the largest and oldest, privately owned companies in the Gulf region. They manage over 30 businesses with a commercial presence in more than 30 countries, mainly in the region, India and South East Asia. Alghanim Industries is currently active in several key segments. Automotive, Retail, Distribution, F&B, Industrial and Services.

Subsidiaries:

As of 14 December 2022, the Bank has obtained the CBK approval to establish a fully owned investment subsidiary. The Bank and its subsidiary are together referred to as (the "Group").

During the 2022 Annual General Meeting, Gulf Bank obtained the shareholders' approval to act as an investment advisor and deliver advisory services in accordance with the laws and regulations of the Central Bank of Kuwait ("CBK") and the Capital Markets Authority. Subsequently, the Bank obtained the CBK approval to establish a fully owned investment subsidiary. Several important appointments were made to fill various key positions of the proposed investment company, including the CEO position. The Bank obtained an initial approval from Capital Market Authority to finalize the establishment procedures. The investment subsidiary activities will be focused on asset management and advisory services, both will be complementary activities to the Bank, where it will enhance customer offerings predominantly for its private and corporate banking clients. The Bank believes this complementary business will have a positive impact on its fees and commission income over the long run.

Business Divisions

Gulf Bank currently operates through three segments:

1) Wholesale Banking:

Wholesale Banking has a comprehensive suite of wholesale, commercial and Small and Medium Enterprise (SME) banking products and services. These include transaction banking, Merchant Banking and Cards. As of 31 December 2022, this segment accounts for 58% of the Bank's gross customer loan book.

2) Consumer Banking:

Consumer Banking principally 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, credit and debit cards, and deposits. As of 31 December 2022, this segment accounts for 42% of the Bank's gross customer loan book.

3) Treasury and Investments:

Treasury activities involve the provision of money market, trading and treasury services and the management of the Bank's funding operations through the use of treasury bills, government securities and placements and acceptances with other banks. Investment activities encompass managing Gulf Bank's proprietary investments and offer investment products to clients. As of 31 December 2022, this segment accounts for 22.04% of the bank's total assets.

1) Wholesale Banking:

A) Domestic Corporate Banking

Gulf Bank is engaged in providing its domestic corporate clients a range of commercial banking products and services, including loans, overdrafts, trade finance, letters of credit and guarantee, contract financing, foreign exchange, hedging products and a variety of current and deposit accounts.

The Kuwait-based corporate banking clients are divided into four business segments which are served by separate commercial, contracting, financial markets and middle market divisions, that are staffed by teams of industry focused relationship managers dedicated to the needs of their clients.

Commercial division: The commercial division targets major Kuwaiti companies operating across the trading, manufacturing and services sectors and active across a range of business activities, principally including the telecommunications and information technology ("IT"); industrial; food; electronics; building materials; oil and petrochemical; automotive; education; transportation; furniture and textile retail; and healthcare sectors.

Contracting division: The contracting division serves Kuwaiti clients involved in both Kuwaiti government and private sector projects such as civil; electromechanical; infrastructure; power and oil-related works.

Financial markets division: The financial markets division has two principal operating units: the share finance unit and the real estate finance unit. The share finance unit principally serves Kuwaiti investment companies and high net worth individuals. The real estate finance unit serves the banking needs for real estate finance transactions.

Middle markets division: The middle markets division offers its Kuwaiti-based medium-sized clients flexible banking solutions revolving around cash and non-cash facilities, tailored to the client's needs and based on an extended assessment of the client's business. Middle market clients principally comprise retailers, trading companies and companies operating in the services and commercial sectors.

Corporate SME: Gulf Bank's business banking team caters to the banking needs of SMEs in Kuwait with an annual turnover of up to KWD 1.5 million and focuses on three priority sectors: 1) importing, contracting and fabrication; 2) domestic retail trading sector; and 3) service sectors. A range of payment, account and foreign exchange services, working capital, term finance and trade finance services tailored to meet the customer's needs are available to Gulf Bank's SME customers.

Transaction Banking: The Transaction Banking department is responsible for the development and roll out of products and services serving the needs of Gulf Bank's corporate customers in the areas of Trade Finance, Payment Solutions and Cash and Liquidity Management. The unit develops Bank-wide IT improvements to Gulf Bank's e-banking products as well as specific tailor-made solutions for larger corporate clients.

B) International Banking:

The International Banking Department is responsible for the international lending activities. The sub-divisions focus on international clients in the oil, multinational trade and financial services sectors.

Multinational and Oil division: The Multinational and Oil division is responsible for conducting transactions related to multinational and oil sector counterparties. The division services the domestic and international needs of multinational corporations operating in Kuwait and the rest of the GCC region. These companies operate across a broad range of sectors and have diverse and frequently complex needs. The division works with its clients to tailor solutions that fit their needs using a range of financing products including traditional working capital finance, project-specific finance, general purpose loans, letters of credit and guarantees. Additionally, the Division supports both Kuwaiti and non-Kuwaiti companies active in the Kuwaiti oil sector or bidding for oil projects or contracting oil-related business in Kuwait. The services provided include the full array of corporate banking products offered by Gulf Bank.

2) Consumer Banking:

Gulf Bank offers its consumer banking customers a wide range of banking services, including:

Deposits: Gulf Bank has a complete range of deposit products including current, savings and time deposit accounts. In addition, it offers a market leading draw account, named Al Danah, which is non-interest bearing but features daily, quarterly and annual draws to allow customers to win cash prizes. In addition, there are various packages for young Kuwaitis and salaried customers.

Loans and credit cards: Gulf Bank's loan products include consumer and instalment loans with repayment terms extending up to five years and 15 years, respectively. Gulf Bank also provides a range of Visa and MasterCard credit, prepaid and debit cards. These cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. In addition, the bank has introduced its "Gulf Points" program, the fastest and most rewarding program in Kuwait that gives its clients valuable points to use for free airline travel, hotel accommodation plus special seasonal packages.

Additional range of more general consumer banking services are offered by Gulf Bank, including bill payments, remittances, foreign exchange, safe deposit boxes, electronic funds transfer and online trading.

Gulf Bank offers its consumer banking products and related services in Kuwait through an integrated distribution network comprising branches, ATMs and other remote banking platforms. In addition, Gulf Bank has a direct sales force which markets its consumer products and services to its customers.

Wealth Management: Gulf Bank Wealth Management offers customized services and products designed to cater to high net-worth & Ultra high net-worth clients as well as those seeking distinctive banking solutions. The Wealth Management services are exclusively available to Gulf Bank's Private and Priority Banking clients, who benefit from dedicated and highly experienced Private and Priority Bankers.

These Relationship Managers possess an in-depth understanding of their clients' unique financial requirements, enabling them to deliver tailored solutions crafted to preserve and enhance their clients' wealth. Simultaneously, they identify exceptional investment opportunities that align with their clients' financial aspirations.

Distribution channels: Gulf Bank's principal distribution channels comprise:

Branch network: Gulf Bank has the third largest branch network in Kuwait with over 50 branches across the country as of 31 December 2022.

Telebanking: Gulf Bank introduced automated banking by telephone to its customers and opened its 24/7 call center in 2000. This call center can be used by customers to conduct almost all the transactions that can be affected at a branch, including applying for loans and credit or debit cards and making transfers between accounts.

Online banking: Gulf Bank commenced offering online banking to its customers in 2001. The services provided through the online banking platform include account balances, history and transaction detail enquiries, funds transfers, bill payments, online trading, foreign exchange and interest rate enquiries, online credit card applications, cheque book ordering and statement requests.

Mobile banking: Since 2001, Gulf Bank's customers have been able to use mobile banking services that provide regular account updates and SMS alerts to registered mobile phone users and through which they can conduct a large range of banking services, such as balance enquiries, bill payments, funds transfers and statement and cheque book requests.

Gulf Bank has an integrated customer service unit which co-ordinates customer service improvements, promotes a culture of customer service throughout its operations and acts as the focal point for dealing with customer complaints.

3) Treasury and Investments:

A) Treasury:

The Treasury group is primarily responsible for managing Gulf Bank's assets and liabilities and liquidity requirements and the Bank's interest rate, liquidity and foreign exchange risk profile. It acts under the supervision of the Assets and Liabilities Committee ("ALCO"), which monitors and reviews all aspects of Gulf Bank's liquidity profile, asset and liability structure and internal and statutory ratio requirements.

In addition, Gulf Bank's treasury group manages the money market books and money market funding positions for Gulf Bank's own account to fund its domestic and international foreign currency assets. As a matter of general policy, these positions do not contain any material element of interest rate risk. The bank also undertakes a wide range of foreign exchange business, across both spot and forward markets, largely on behalf of Gulf Bank's corporate customer base and conducts a limited amount of proprietary foreign exchange trading within the constraints of what Gulf Bank considers to be prudent risk guidelines. Gulf bank also maintains a portfolio of Kuwaiti government treasury bills and bonds to meet CBK statutory requirements and to manage surplus domestic currency liquidity.

Financial Institutions and Sovereign Division: The Financial Institutions and Sovereigns team facilitates solutions for both Consumer and Corporate clients, allowing for efficient Trade Finance Services as well as Straight Through Processing of global payments in line with international regulations. With access to global correspondent banks and longstanding mutually beneficial international banking relationships, the division also provides various funding solutions to support the diversity of the Bank's funding sources.

The Financial Institutions and Sovereign division continues to accelerate its business activity through lending, borrowing, correspondent banking activities as well as facilitating trade related transaction throughout the year. In line with the Bank's initiatives related to ESG, Financial institutions and Sovereign participated in an ESG related transactions in 2022 which provides incentivized pricing to our client in the syndicated facility based on its ESG performance and KPIs.

On the digital transformation front, the department 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. Over the past year the team has doubled in size with 100% young local talent acquisition all of which have received certified credit training as our believe in human capital development within the Bank and the department.

B) Investments:

The key focus of Gulf Bank's Proprietary Investment activities is to support the liquidity needs of the Bank, diversify income streams, and generate returns within the Bank's risk appetite. In 2022, the activity was mostly focused on managing the existing investment portfolio of listed and unlisted equities as the environment for fixed income products was not favourable. On the other hand, Gulf bank is licensed by the Kuwait Capital Markets Authority, to offer investment products to the Bank clients. Gulf Bank's Fiduciary activities include carrying out portfolio management services, custody services, investment controller and investment advisory and manages assets.

The Bank also acts as a selling agent for local funds and a Fiscal and Paying agent for several local corporate bonds. Additionally, the Investment Advisory unit is comprised of Investment Managers registered with the Capital Markets Authority Kuwait providing professional financial advice to Gulf Bank clients with a fiduciary duty to assist and manage client portfolios enabling them to reach their financial goals.

The WISE Investment Service is Gulf Bank's flagship digital platform allowing clients to invest in international markets through Exchange Traded Funds "ETFs".

In addition, Gulf Bank provides Investment Banking and advisory services to its customers. This unit is responsible for the origination, execution and distribution of transactions relating to capital markets transactions, structured and syndicated financing, project financing, restructuring and corporate finance advisory services. The unit is staffed by a team of investment banking specialists.

STRATEGY

Gulf Bank 2025 Strategy

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 Six Strategic Pillars and Three Strategic Foundations.

Pillars	Foundation
1. Corporate	1. People
2. Consumer	2. Risk
3. Treasury	3. Technology
4. Digital Banking	
5. Wealth	
6. Inorganic Growth	

The focus of Strategy '2025' is on:

- Promoting selective growth in the corporate banking and SME segment by expanding our product range and services
- Growing Consumer banking market share, while supporting the youth, women and affluent client segments
- 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 Offering

- 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".

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.

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 New Kuwait 2035 Vision.

	<i>New Kuwait 2035</i>	<i>Gulf Bank</i>
<i>Creative Human Capital</i>	Reform the education system to better prepare youth to become competitive and productive members of the workforce	The launch of the Data Ambassadors program, as the first program in Kuwait targeting 10% of the bank’s team on data science and prepare productive members for future industry changes with data and technology innovations.
<i>Sustainable Diversified Economy</i>	Develop a prosperous and diversified economy to reduce the country’s dependency on oil export revenues	Gulf Bank strategy continues to support & engage with the SME sector in Kuwait through a “one-stop shop” by providing lending & non-lending products & services on a sustainable basis. Introduce world-class transaction banking and other new products.
<i>Strong Progressive Infrastructure</i>	Develop and modernize the national infrastructure to improve the quality of life for all citizens	Seeking to play an important role in providing financial advice and solutions for New Kuwait projects. Gulf Bank is a leading provider of financial services to the Engineering, Procurement and Construction industry with expertise in contract financing.
<i>High Quality Healthcare</i>	Improve service quality and develop national capabilities in the public healthcare system at a reasonable cost	Active in financing hospital construction, specialized medical institutions, medical equipment & medicine suppliers. Focusing on staff health & wellbeing by providing insurance, promoting sporting events & by engaging with medical bodies such as the Heart Institute & Diabetes Centre.
<i>Sustainable Living Environment</i>	Ensure the availability of living accommodation through environmentally sound resources and tactics	Gulf Bank has identified a range of environmental & social issues (climate change, conservation, customer protection, data privacy, etc.). Gulf bank has kicked off the digitization project of all bank reports to reduce printing of regular reports.

CORPORATE GOVERNANCE

In September 2019, CBK issued amendments to Corporate Governance instructions focusing on (a) Independent Board members, (b) Information Security systems and Cyber Security Risks, (c) Risk governance framework built on the premise of 3 lines of defense, and (d) Compliance Governance.

The Bank under the leadership of its Chairman and Board of Directors is fully committed to the implementation of the new rules on Corporate Governance of 2019 as announced by the CBK.

Stakeholder Definition:

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

- Customers & Depositors;
- Shareholders;
- Regulators;
- Board of Directors and Executive Management;
- Employees;
- Suppliers & Service Providers;
- Local and correspondent banks; and
- The Community where the Bank operates.

Policies & Procedures:

The Bank has adopted a comprehensive framework of Corporate Governance Guidelines, designed to properly balance performance and conformance. This enables the Bank to undertake, in an effective manner, the prudent risk-taking activities which are the basis for its business. The Bank's corporate governance framework is subject to ongoing review and assessment.

Roles & Responsibilities:

The Bank's Corporate Governance Manual clearly distinguishes between the Board and Executive roles and intermingling of roles is not allowed. There are clear descriptions of the roles of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), Board Affairs, Chief Internal Auditor (CIA) and Chief Financial Officer (CFO). The independence of key executive roles has been assured through appropriate reporting lines. The Board provides oversight to key roles within the Bank and the CBK also protects key positions in the Bank so as to ensure their independence.

Governance Structure – Overview:

Gulf Bank has a strong and well-established corporate governance framework. We maintain a high-class corporate governance framework that protects our customers, shareholders and the reputation of the Bank. Strong and explicit corporate governance structure underpins our integrity and promotes economic growth by reinforcing the trust and confidence our shareholders and investors place in us.

The corporate governance framework in place is proactive and aligned with the Bank's strategic objectives. The framework is based on the prevailing laws and the rules and regulations emanating from the Central Bank of Kuwait and other regulators. The framework is regularly reviewed and adjusted to reflect changes in the bank's businesses, regulation and external environment.

The Bank's Corporate Governance structure stresses the engagement of the Board of Directors in monitoring the performance of the Executive Management and the overall activity of the Bank. The Corporate Governance structure also stresses the clear segregation between the Board's and Executive Management's prerogatives and establishes clear checks and balances in this respect.

The corporate governance structure is further driven by proactive risk management policies, appropriate delegation of power mechanisms and clear accountability yardsticks. The Bank believes that organizations that attach equal importance to performance and culture achieve exceptional results over time. To enhance a governance culture across the different business units, the Bank organizes continuous training and awareness campaigns to update management and staff about corporate governance in line with global best practices and local regulatory requirements.

The Bank's corporate governance structure sets clear boundaries and responsibilities for the operation of the Board of Directors, Board Committees, Executive Committees and supporting Management Committees.

1. Executive 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	Management Committees
<ul style="list-style-type: none">• Executive Credit Committee• Management Credit Committee• Remedial Credit Committee• Classification & Provisions Committee• Consumer Banking Credit Committee• Wealth Management Credit Committee	<ul style="list-style-type: none">• Executive Risk Committee• Asset & Liability Committee• Fraudulent Cases Review Committee• Internal Controls Governance Committee• IT Steering Committee• Policy and Procedure Committee• Wealth Management Governance Committee• Executive Product Committee• Tender Committee• Project Governance Committee• Suspicious Transaction Reports Review Committee• Technology Risk & Information Security Management Committee

2. Board Governance Structure:

The Board of the Bank has formed five Committees which look after dedicated areas of the Bank. Each of the committees has its own bylaws approved by the Board with its own Chairman, Deputy Chairman, Member, Secretary and other attendees.

a. Board Risk Committee (BRC):

The Board Risk Committee's (BRC) main duties are to provide oversight of the Bank's Risk Management, ensure autonomy of the Risk Management function and enhance the effectiveness of the Board of Directors monitoring of risk issues facing the bank. The Committee reviews significant risk exposures and provides the Board with an update on the Bank's current and future risk strategy and appetite and oversees the Executive Management's implementation of the strategy. The Committee evaluates the risk exposure, concentration and tolerance limits and has authority to approve the aggregate transactional and trading limits for extraordinary or new risks. Furthermore, the Committee reviews, on a quarterly basis, credit risks rated 6 or worse and exposures which constitute more than 10% of the Bank's capital. In addition, the Committee can review any specific transaction or risk exposures 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 has authority to accept such risks or to instruct actions to be taken to mitigate and manage risks to ensure conformity to the Bank's risk appetite.

b. Board Audit Committee (BAC):

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, taking into account 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.

c. Board Compliance and Governance Committee (BCGC):

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

d. Board Nomination and Remuneration Committee (BNRC):

The Board Nomination and Remuneration Committee (BNRC) ensures that all components of granting financial remuneration are compliant with the framework of enhancing the effectiveness and management of the Bank's risk management. The Board Nomination and Remuneration Committee also submits recommendations to the Board of Directors (BoD) on the nomination of Board members. The Committee reviews the nominated members' skills, capabilities and qualifications in accordance with the Bank's approved policies and standards, while adhering to the Central Bank of Kuwait's (CBK) instructions. The Committee conducts an annual review of the Board of Directors structure and draws recommendations on the changes that can be made in line with the best interest of the Bank.

Furthermore, this Committee ensures that the Board members are consistently informed on the latest banking updates and vet the soundness of the principles and practices upon which remuneration is granted.

The 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 Board Nomination and Remuneration Committee annually prepares and reviews a Remuneration Grading Policy to the Board of Directors.

e. Board Credit and Investment Committee (BCIC):

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.

3. Board Governance Structure:

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

The Board's core responsibilities include the following:

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

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

Adequacy of Internal Control System:

The Board of Directors, further to CBK rules and instructions 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.

MANAGEMENT

Board of Directors:

The Board is made up of eleven elected members including at least four independent members. Each is elected during a shareholders' general assembly meeting for a period of three years, renewable, and the Board convenes at least six times every year and at least once per quarter in accordance with Kuwait's commercial law requirements.

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

The Chief Executive Officer (CEO) will be appointed by the Board of Directors for the management of the Bank. The roles of the CEO and Chairman of the Board of Directors are independent with clearly defined responsibilities.

The table below shows the names of the members of Board of Directors as of the date of this Prospectus:

	Name	Position
1.	Jassim Mustafa Boodai	Chairman
2.	Ali Morad Behbehani	Deputy Chairman
3.	Omar Hamad AlEssa	Board Member
4.	Bader Nasser AlKharafi	Board Member
5.	Abdullah Sayer Al-Sayer	Board Member
6.	Dr. Fawaz Mohammad Al Awadhi	Board Member
7.	Barrak Abdulmohsen Al Asfour	Board Member
8.	Reem Abdullah Al Saleh	Independent Board Member
9.	Ahmad Mohammed Al Bahar	Independent Board Member
10.	Dr. AbdulRahman Mohammad Al-Taweel	Independent Board Member
11.	Talal Ali Al Sayegh	Independent Board Member

*Note: There are no familial relationships between the Issuer's Board of Directors.

I. **Jassim Mustafa Boodai**

Chairman, Board of Directors

Chairman, Board Compliance and Governance Committee

Chairman, Board Credit and Investment Committee

Date of Appointment:

- Chairman - 4 March 2020 - Present
- Board Member - 17 March 2012 - 3 March 2020

Experience:

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

II. Ali Morad Behbehani

Deputy Chairman of Board of Directors

Date of Appointment:

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

Academic Qualifications:

BA, English Literature, Kuwait University, Kuwait.

Experience:

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

III. Omar Hamad AlEsa

Board Member

Deputy Chairman, Board Nomination and Remuneration Committee

Deputy Chairman, Board Credit and Investment Committee

Date of Appointment: 11 April 2009

Academic Qualifications:

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

Experience:

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

IV. Bader Nasser AlKharafi

Board Member

Deputy Chairman, Board Risk Committee

Date of Appointment: 17 March 2012

Academic Qualifications:

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

Experience:

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

V. Abdullah Sayer Al-Sayer**Board Member****Deputy Chairman of Board Audit Committee**

Date of Appointment: 27 March 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).
- Senior Manager, Al Sayer Group – Al Dhow Holding Co., Kuwait (2015 to date)
- Formerly Financial Analyst in Injazzat Real Estate Dev. Co (2013-2015)
- Formerly, Analyst in Bader Al Abduljader & Partners (Russell Bedford International), Kuwait (2012-2013)
- Formerly Associate in Qunsult International Ltd, Kuwait (2012)
- With over 10 years of experience, largely in finance and investment sectors, he 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

VI. Dr. Fawaz Mohammad Al Awadhi

Board Member

Member of Board Nomination and Remuneration Committee

Member of Board Credit and Investment Committee

Date of Appointment: 7 August 2019

Academic Qualifications:

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

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) (Formerly/ 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)

VII. Barrak Abdulmohsen Al Asfour

Board Member

Member of Board Risk Committee

Date of Appointment: 31 October 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)
- Moved to the private sector since 1989.
- Board Member in 1993, then Deputy Chairman of Kuwait Gypsum Manufacturing & Trading Company from 2004 to present.
- Managing Director of Bridgestone Tiers Company W.L.L., from 1992 to present.

VIII. Reem Abdullah Al Saleh

Independent Board Member

Member of Board Audit Committee

Member of Board Compliance and Governance Committee

Date of Appointment: 25 June 2022

Academic Qualifications:

- Bachelor of Accounting from Faculty of Commerce, Economics and Political Sciences - Kuwait University, Kuwait.

Experience:

- Board Member of Gulf Inspection International Company & CEO since 2015. She joined the company in 2003 as Business Development Manager. She re-established and developed various departments and processes in the company.
- Independent Board Member of Injazzat Real Estate Development Company K.S.C.
- Since 2018, she serves as an Additional Director in AlShamali Pvt. Ltd.(India) and M/s Ever Win HR Consultants Pvt.(India).
- A consultant to Musaed AlSaleh group since 2015.
- Formerly Chairman of Kayan International Construction Co.
- Vice Chairman of Kuwait Computer Services Co.
- Vice President in the Board of Data Plus since 2018.
- She is a member of ACI Kuwait Chapter, Kuwaiti Economics Society, and Kuwait Accountants and Auditors Association.

IX. Ahmad Mohammed Al Bahar

Independent Board Member

Chairman, Board Nomination and Remuneration Committee

Date of Appointment: 31 October 2020

Academic Qualifications:

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

Experience:

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

X. Dr. AbdulRahman Mohammad Al-Taweel

Independent Board Member

Chairman, Board Risk Committee

Deputy Chairman, Board Compliance and Governance Committee

Date of Appointment: 27 March 2021

Academic Qualifications:

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

Experience:

- Assistant Professor, Finance and Financial Institutions Department, College of Business Administration, Kuwait University.
- Dr. Abdulrahman has been very active in the academic and teaching profession for over 8 years, conducting various professional seminars, workshops and development programs during his career.
- He had many intellectual contributions relating to corporate finance and corporate governance in several working papers.
- Advisor to the Director General of State Bureau of Financial Controllers from 2019.

XI. Talal Ali Al Sayegh**Independent Board Member****Chairman, Board Audit Committee**

Date of Appointment: 12 September 2021

Academic Qualifications:

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

Experience:

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

Shareholding of Directors:

The number and percentage of the shares owned by each member of the Bank's Board of Directors as at 15 September 2023 are as follows:

No.	Name	Total	Percent	Type of Shares
1	Jassim Mustafa Boodai	52,600,506	1.565%	Ordinary
2	Ali Morad Behbehani	19,752,363	0.588%	Ordinary
3	Omar Hamad AlEsa	120,607	0.004%	Ordinary
4	Bader Nasser AlKharafi	134,008	0.004%	Ordinary
5	Abdullah Sayer Al-Sayer	110	0.000%	Ordinary
6	Dr. Fawaz Mohammad Al Awadhi	110	0.000%	Ordinary
7	Barrak Abdulmohsen Al Asfour	11,025	0.000%	Ordinary
8	Reem Abdullah Al Saleh	-	-	-
9	Ahmad Mohammad Al Bahar	-	-	-
10	Dr. AbdulRahman Mohammad Al-Taweel (NBK Capital - portfolio)	7,166	0.000%	Ordinary
11	Talal Ali Al Sayegh	-	-	-
TOTAL		72,625,895	2.161%	

Directors' Remuneration

KD'000	2020	2021	2022
Directors' remuneration - Cash	135	179	188
Directors' remuneration - In-Kind	-	-	-
Total Directors' remuneration	135	179	188

As 30 June 2023, the total Directors' remuneration is KD 60,000.

The estimated value of the total Directors' remuneration for financial year 2023 is KD 295,000, which is based on the Board Effectiveness Assessment's Result, market standards and the Board Nomination and Remuneration Committee (BNRC) recommendation. These are estimated expectations for the current year and subject to change according to the development of circumstances during the fiscal year.

Board confirmation of financials:

The financial results for years ending 31 December 2022, 31 December 2021, and 31 December 2020 have been audited and approved by the Bank's General Assembly Meeting of Shareholders on 18th March 2023, 22nd March 2022, and 27th March 2021 respectively. The Bank's Board of Directors have been obligated to present the financial results of the Bank in accordance with the Companies Law No. 1 of 2016 and its subsequent amendments, and the Board of Directors accepts such responsibility.

Description of Contracts entered between Directors or any Subsidiaries of the Bank:

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

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

	Number of Board Members / Executive Management			Number of Related Parties			Amount in KD'000		
	June 2023	December 2022	December 2021	June 2023	December 2022	December 2021	June 2023	December 2022	December 2021
Board Members:									
Balances									
Loans and Advances	1	1	1	11	10	10	144,132	166,370	163,558
Credit Cards	3	3	2	6	5	4	14	18	34
Deposits	8	8	8	77	77	73	48,700	42,389	72,124
Commitments/ Derivatives									
Guarantees/ Letter of Credit	-	-	-	13	13	10	43,944	32,742	7,898
Forward foreign exchange contracts	-	-	-	1	-	-	71	-	-
Transaction									
Interest Income	1	1	1	14	18	15	4,164	5,582	4,147
Interest Expense	4	4	4	14	16	13	360	564	374
Net Fees & Commissions	-	-	-	12	17	12	103	138	100
Other Expenses	-	-	-	9	12	13	822	1,764	1,257
Purchase of Equipment	-	-	-	2	2	3	153	276	162
Executive Management:									
Balances									
Loans and Advances	6	7	4	-	-	-	895	1158	207
Credit Cards	9	11	14	-	-	-	13	22	20
Deposits	14	17	15	-	-	-	3,172	4,229	2,631
Transaction									
Interest Income	6	7	5	-	-	-	24	41	9
Interest Expense	18	18	16	-	-	-	89	74	22

The loans issued to directors and executive management are repayable within CBK regulatory limits and had interest rates of 5% to 6.25% for the period ended 30 June 2023 (December 2022: 4.5% to 6.25% per annum and December 2021: 2% to 5.5% per annum). Some of the loans advanced to Board members and their related parties during the year are collateralized. The fair value of these collaterals as of 30 June 2023 was KD 66,096 thousand (31 December 2022: KD 66,821 thousand and 31 December 2021: KD 109,687 thousand).

Contracts with the Bank in which any Director has a Personal Profit:

Members of the Board of Directors and their families were customers of the Bank in the ordinary course of business. However, there are no contracts with the Bank in which any Director has a personal profit.

Executive Management:

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

Name	Position	Years of Experience with the Bank ¹	Work Experience other than the Bank
Waleed Khaled Mandani	Acting Chief Executive Officer Deputy Chief Executive Officer – Consumer Banking and Investments	2	25
Sami Bakhos Mahfouz	Acting Deputy Chief Executive Officer – Operations	5.5	25
David John Challinor	Chief Financial Officer	2.4	25
Abdulrahman Ahmad Alsaddah	Acting Chief Risk Officer	20	0
Ali Khaled Al Faras	Chief Internal Auditor	20	2
Faisal Abdulwahab Al-Adsani	General Manager - Corporate Banking	19.4	0
Mohammed Bader Al Qattan	General Manager - Consumer Banking	9.4	18
Lamia Ali Karam	General Manager - Treasury	6.2	30
Hani Mohammad Al-Awadhi	General Manager - Investments	1	20
Salma Abdulkareem Al Hajjaj	General Manager - Human Resources	10.6	23
Mona Mansour Ali	General Manager – Customer Service Delivery	19	20
Dari Ali Al-Bader	General Manager – Corporate Affairs & Board Secretary	3.1	22
Shahzad Anjum Mohammad	General Manager – Information Technology	4	21
Meshal Abdulrazzaq Al-Wazzan	Deputy General Manager – Head of Strategy	15.3	1.9

I. Waleed Khaled Mandani

- Acting Chief Executive Officer, Deputy Chief Executive Officer – Consumer Banking and Investments

Date of Joining Gulf Bank:

- 5 September 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

¹ Years of Experience as of 31 August 2023

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

II. Sami Bakhos Mahfouz

- Acting Deputy Chief Executive Officer - Operations

Date of Joining Gulf Bank:

- 6 March 2018

Academic Qualifications:

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

Experience:

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

III. David John Challinor

- Chief Financial Officer

Date of Joining Gulf Bank:

- 14 April 2021

Academic Qualifications:

- BSc. In Economics from the University of Newcastle
- Fellow at The Institute of Chartered Accountants in England & Wales
- Qualified Chartered Accountant with Price Waterhouse in London

Experience

- Over 25 years' experience in the financial service industry, Mr. Challinor has held various leadership and executive positions in the United Kingdom, Australia, Canada and Qatar
- Previously, Chief Financial Officer at Doha Bank

IV. Abdulrahman Ahmad Alsaddah

- Acting Chief Risk Officer

Date of Joining Gulf Bank:

- 21 September 2003

Academic Qualifications:

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

Experience:

- More than 17 years of experience in Corporate Banking and Corporate Finance
- Previously Deputy Chief Risk Officer at Gulf Bank
- Previously Deputy GM of Structured Workout and Remedial in Corporate Banking at Gulf Bank
- Served as Board Member in Kuwait Finance and Investment Company (KFIC)
- Led and Co-Led several debt restructuring and M&A transactions

V. Ali Khaled Al Faras

- Chief Internal Auditor

Date of Joining Gulf Bank:

- 20 September 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 19 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
- 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.

VI. Faisal Abdulwahab Al-Adsani

- General Manager – Corporate Banking

Date of Joining Gulf Bank:

- 18 April 2004

Academic Qualifications:

- BA in Finance, University of Denver, Denver, USA
- Certified Credit Management – IBS, Kuwait
- Advanced Certificate in Credit Management- IBS, Kuwait
- Leading Strategy Execution in Financial Services – HBS, Dubai
- Berkeley Executive Leadership Program – Berkeley, California
- Leading Change in Disruptive Times – INSEAD

Experience

- Close to 20 years of Corporate Banking experience
- Previously Deputy GM of Multinational Corporations, Oil & Gas, Family Conglomerates and Transaction Banking at Gulf Bank.
- Faisal held many roles in the bank that included business development, establishing strategic partnerships, market intelligence and enhancing the overall digital offerings to Corporate Clients.

VII. Mohammed Bader AlQattan

- General Manager – Consumer Banking

Date of Joining Gulf Bank:

19 August 2014

Academic Qualifications:

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

Experience

- More than 20 years of experience in Banking and Financial Services
- Previously worked in leadership positions in the Commercial Facilities Company
- Board member in Public Institute for Social Security (PIFSS), and Head of Audit & Risk Committee
- Vice Chairman in Priority Automobile Company
- Board member in Credit Information Network Company (Ci-Net)
- Previously, Board member in Oula Wasata

VIII. Lamia Ali Karam

- General Manager – Treasury

Date of Joining Gulf Bank:

- 2 July 2017

Academic Qualifications:

- BSc in Economics, Kuwait University, Kuwait
- Executive Certificate in Management and Leadership – MIT Sloan Management School - USA
- High performance Negotiator -IESE Business School-University of Navarra – Spain

Experience:

- Over 30 years of experience in the Treasury department, with extensive experience in Money Market, Foreign Exchange, and Sales.
- Previously Deputy General Manager – Treasury at Gulf Bank
- Started at Al Ahli bank in 1987 where she worked for four years with the last position as Money Market Dealer
- Spent twenty-three years at Burgan Bank, where she held many positions, with her last position as Treasurer for Kuwait Office. During this time, she gained expertise in trading deposits, FX swaps and Islamic deposits, also managed the bank's assets & liabilities and regulatory ratios.
- Furthermore, she took part in promoting synergies within Burgan Bank Group, and chaired the Treasurer meetings at KBA.

IX. Hani Mohammad Al Awadhi

- General Manager -Investments

Date of Joining Gulf Bank:

- 1 August 2022

Academic Qualifications:

- Bachelor's degree in business administration from the Frank G. Zarb School of Business at Hofstra University, USA

Experience:

- More than 20 years of experience in the investment realm both locally and abroad prior to Gulf Bank
- Prior to joining Gulf Bank, Al Awadhi served as the head of managed funds and acting head of GCC equities at the Gulf Investment Corporation (GIC), managing international investments in hedge funds, private equities, real estate, infrastructure, and more
- During his career, Al Awadhi held numerous prominent leadership roles across multiple major financial institutions including the Public Institutions for Social Security (PIFSS), Albourne Partners and Global Investments House and was a board member at Shamal Azzour, Wafra New York and Al Ezzel Power Company in the Kingdom of Bahrain

X. Salma Abdulkareem Al Hajjaj

- General Manager – Human Resources

Date of Joining Gulf Bank:

- 1 February 2013

Academic Qualifications:

- Master's Degree in Organizational Management, University of Phoenix, Arizona, USA
- BSc. in Mathematics, Kuwait University, Kuwait

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.
- Member of the Arabian Society for Human Resources (ASHRM) board of trustees.
- Member of the Advisory Board of college of Business and Administration of GUST
- Member of the Board of INJAZ a nonprofit organization for the development of the youth
- Established the "GB WOW Network" an initiative within Gulf Bank focusing on supporting and advancing women in the corporate world.
- Won MENA region "HR Executive of the year" awarded at the Human Assets Expansion Summit held in Dubai 2014
- Featured in the 2018 publication of 'Those who Inspire' – Kuwait Edition
- Lifetime member of the International Society of Female Professionals
- A Senior Certified Professional Coach from both the International Coaching Federation and the Coach Transformation Academy

XI. Mona Mansour Ali

- General Manager - Customer Service Delivery

Date of Joining Gulf Bank:

- 15 August 2004

Academic Qualifications:

- Bachelor's 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 National Bank of Kuwait for 20 years with diversified experience in IT, cards, customer services & operations

- Currently is one of the major stock holders leading “Gulf Bank transformation project”

XII. Dari Ali Al-Bader

- General Manager – Corporate Affairs & Board Secretary

Date of Joining Gulf Bank:

- 21 October 2019

Academic Qualifications:

- MBA from Columbia Business School, NY, USA
- B.Sc. in Management Science and Mechanical Engineering from Massachusetts Institute of Technology, Cambridge, MA, 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 several 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

XIII. Shahzad Anjum Mohammad

- General Manager – Information Technology

Date of Joining Gulf Bank:

- 1 August 2019

Academic Qualifications:

- MBA from London Business School, UK
- B.S. in Computer Science from Newport’s Institute Pakistan

Experience:

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

XIV. Meshal Abdulrazzaq Al-Wazzan

- Deputy General Manager – Head of Strategy

Date of Joining Gulf Bank:

- 10 February 2019

Academic Qualifications:

- MBA from IE Business School, Madrid
- Bachelor’s in Business Administration with a specialization in Information Systems & E-Commerce from the University of Toledo, Ohio. – USA

- Harvard University – John F. Kennedy School of Government: Decision - Making Strategies Under Risk & Uncertainties
- Gulf Bank K.S.C. – Middle Management Leadership Program affiliated by AILA
- University of Chicago – Chicago Booth - Advanced Strategy Program & Executive Program in Corporate Strategy

Experience

- Meshal began his career with Wafra Investment Advisory Group in New York as Junior Analyst.
- Previously worked as the Executive Deputy Chairman at National Fund for Small & Medium Enterprise Development
- Previously worked as the Executive Director at Kuwait’s Competition Protection Agency
- While at Gulf Bank, Meshal worked in many departments within Corporate Banking such as Financial Markets, Structured Workout and Corporate Finance

CAPITALIZATION AND BORROWINGS

The table below presents the Bank's capitalization as of 30 June 2023 in addition to the pro-forma figures post the Capital Increase issuance:

KD mn

Equity	June 2023	Post Capital Increase issuance (unaudited)
Share capital	336	362
Statutory reserve	53	53
Share premium	153	187
Property revaluation reserve	18	18
Treasury shares	-	-
Fair valuation reserve	1	1
Retained earnings	162	162
Total equity	723	783
Due to banks	318	318
Deposits from financial institutions	970	970
Customer deposits	4,216	4,216
Other borrowed funds	539	539
Other liabilities	147	147
Total liabilities	6,190	6,190
Total liabilities and equity	6,914	6,974

Affirmation of Paid-Up Capital:

As of 30 June 2023, the Bank has an authorized share capital of KWD 486,056,100.600 comprising of 4,860,561,006 shares of KWD 0.100 each.

As of 30 June 2023, the Bank has an issued and paid-up share capital of KWD 336,056,100.600 comprising of 3,360,561,006 shares of KWD 0.100 each.

PROFIT DISTRIBUTIONS BY THE BANK

The table below shows the profit distributions by the Bank since 2018.

Dividend distribution	2018	2019	2020	2021	2022
Date of Approval	11-Mar-19	31-Mar-20	27-Mar-21	22-Mar-22	18-Mar-23
Stock dividend (%)	-	-	-	5%	5%
Bonus shares (KD'000 amount)	-	-	-	15,241	16,003
Cash dividend (fils per share)	10	11	5	7	10

The shareholders at the Annual General Meeting (AGM) held on 18 March 2023 approved a cash dividend of 10 fils per share and bonus shares of 5% amounting to KD 16,003 thousand for the year ended 31 December 2022. The cash dividend was recorded and paid. The bonus shares was distributed on 13 April 2023.

SELECTED FINANCIAL INFORMATION

Kindly refer to the annual financial statements of the Bank along with accompanying notes provided in the Appendix.

PREVIOUS SECURITIES ISSUANCES BY THE BANK

1. The previous bond issuance of the Bank during the last five years are listed below, and is being paid in accordance with its terms:

Issue Date	Value (KWD)	Tenor (Years)	Basis	Coupon	Interest Payment Frequency
10-June-2021	50 Mn	10	Fixed/Floating	4.00% / CBK Discount rate + 2.25%	Quarterly

2. All share capital issuances of the Bank during the last five years are listed below:

Year	Capital Shares issued (Rights' Issue) Number	Capital Shares issued (Rights' Issue) Par Value (KWD)	Capital Shares issued (Rights' Issue) Premium (KWD)	Capital Shares issued (Rights' Issue) Total Value (KWD)	Bonus shares issued Number	Bonus shares issued Total Value (KWD)
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	152,406,394	15,240,640
2022	-	-	-	-	160,026,714	16,002,671

RISK FACTORS

Prior to investing in any Issue Shares, prospective investors should carefully consider, together with all other information contained in this Prospectus, the risk factors described below. The Issuer believes that the factors described below represent the principal risks inherent in investing in the Issue Shares but these risk factors are not exhaustive and other considerations, including some which may not be presently known to the Bank, or which the Issuer currently deems to be immaterial, may impact on any investment in the Issue Shares.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects

RISKS RELATING TO THE BANK

The Bank believes that the following factors may affect the performance of subscribers' investment in the Issue Shares. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Bank believes may be material for the purpose of assessing the market risks associated with the Capital Increase are also described below.

Gulf Bank's business, financial condition, results of operations and prospects are and will continue to be affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait and the wider MENA region could materially adversely impact Gulf Bank

Macro-economic and financial market conditions have materially adversely affected and may continue to materially adversely affect the Bank's business, results of operations and financial condition. In 2020, Gulf Bank registered a decline of 55% in net profit compared to 2019 due to COVID-19 related economic slowdown. The Bank, in common with other financial institutions, is susceptible to changes in the macro-economic environment and the performance of financial markets generally, and, in particular, the oil price environment.

Gulf Bank's business and results of operations were adversely affected by these conditions and the impact they had in Kuwait and other countries in the GCC region. If comparable market disruptions and levels of volatility recur, Gulf Bank may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, credit losses and impairment charges, and lower profitability and cash flows. Gulf Bank's business and financial performance may also be adversely affected by future recovery rates on assets, particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

Gulf Bank's operations are focused in Kuwait. In 2022, 83.66% of Gulf Bank's maximum exposure to credit risk, including assets and off-balance sheet items, was represented by Kuwait. As of 31 December 2022, Loans and advances to Kuwaiti entities comprised 90.27% of Gulf Bank's gross customer loan portfolio. Kuwait's economy is dependent on oil and gas and related industries, as well as the prices and production quantities of these commodities. Oil prices have, however, been volatile in recent years, which has impacted economic growth in Kuwait. The decline in oil prices and any resulting future deterioration in economic conditions in Kuwait whether or not due to deterioration in the oil and gas industries, could materially adversely affect many of Gulf Bank's borrowers and contractual counterparties which, in turn, is likely to adversely affect Gulf Bank's business, financial condition, results of operations and prospects. See "*—Gulf Bank's customer Loan portfolios, deposit base and securities portfolios are concentrated in Kuwait*".

Gulf Bank is exposed to credit risk of borrowers and anticipated future growth in, or deterioration in the quality of, Gulf Bank's loan portfolio could result in an increase in its credit risk profile

Risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from counterparties are inherent in a wide range of Gulf Bank's businesses, principally in its lending and investment activities. In particular, Gulf Bank is exposed to the risk that borrowers may not repay their loans according to their contractual terms and that the collateral securing the payment of these loans may be insufficient. Gulf Bank regularly reviews and analyses its loan portfolio and credit risks, and Gulf Bank's provision for losses on loans is based on, among other things, its analysis of current and historical delinquency rates and loan management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in the current

volatile economic climate. See “—Gulf Bank’s risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks”.

At 31 December 2022, Gulf Bank’s gross customer loans and advances (its customer loan portfolio) amounted to KD 5,158 million. At 31 December 2021, Gulf Bank’s gross customer loan portfolio amounted to KD 4,838 million. In 2022 and 2021, Gulf Bank’s provisions including excess general provisions for impairments in respect of its loans and advances to customers amounted to about 5.7% and 5.8% of its gross loans and advances to customers at 31 December 2022 and 31 December 2021, respectively.

As Gulf Bank expands its customer loan portfolio, this will increase its credit exposure and management will need to continually monitor the credit quality of the customer loan portfolio. See “Risk management—Credit risk”, note 24A to the 2022 Financial Statements and “—Gulf Bank’s risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks”.

Credit losses could also arise from a deterioration in the credit quality of specific issuers and counterparties of Gulf Bank, or from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, which could affect the recoverability and value of Gulf Bank’s assets and require an increase in its provisions for the impairment of loans, securities and other credit exposures.

Any failure by Gulf Bank to maintain the quality of its assets through effective risk management policies could lead to higher loan loss provisioning and result in higher levels of defaults and write-offs, which, in turn, could have a material adverse effect on Gulf Bank’s business, financial condition, results of operations and prospects.

A substantial increase in impairment allowances, or incurred losses greater than the level of existing provisions for credit losses, would adversely affect the Bank’s results of operations and financial condition

Credit facilities granted by the Bank comprise loans and advances, letters of credit and financial guarantee contracts, and commitments to grant credit facilities.

The Bank’s overall level of impairment allowances is based upon a wide range of factors, including the volume and type of lending and financing being conducted, the collateral held, applicable regulations, past due facilities, economic conditions and other factors related to the recoverability of various facilities. Although the Bank endeavors to establish an appropriate level of impairment allowances in accordance with applicable requirements, it may have to significantly increase its impairment allowances for credit losses in the future as a result of increases in non-performing assets, deteriorating economic conditions (especially from the aftermath of COVID-19) leading to increases in defaults and bankruptcies, or for other reasons.

Gulf Bank’s gross impaired customer loans and advances amounted to KD 59 million at 31 December 2022, KD 48 million at 31 December 2021, KD 51 million at 31 December 2020, equal to 1.1%, 0.9%, and 1.1%, of its total gross loans and advances to customers portfolio respectively.

Gulf Bank’s collateral principally comprises real estate and shares. There is a risk that any enforcement of the collateral will not generate amounts that match the current fair value of the collateral, particularly given the relative illiquidity of real estate and the volatility of share prices. To the extent that the fair value of its collateral declines in the future, Gulf Bank may need to increase its provisions which could adversely impact its results of operations in future years. In addition, if any of Gulf Bank’s impaired loans default and Gulf Bank is unable to realize the full amount of the outstanding loans through enforcement of collateral, this could result in further losses being recorded by Gulf Bank.

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

By Class of Financial Assets

For the year ended 31 Dec	2022	2021	2020
KD'000			
Cash and cash equivalents (excluding cash in hand)	871,496	883,438	1,054,570
Kuwait Government treasury bonds	22,000	74,000	108,500
Central Bank of Kuwait bonds	337,703	281,197	280,724
Deposits with banks and other financial institutions	131,222	124,642	3,033
Loans and advances to banks	262,786	278,451	192,063
Loans and advances to Customers			
- Corporate lending	2,735,061	2,694,332	2,449,947
- Consumer lending	2,130,833	1,863,754	1,666,590
Debt investment securities	95,599	107,071	136,694
Other assets	65,728	61,273	36,780
Total	6,652,428	6,368,158	5,928,901
Contingent liabilities and commitments	2,673,488	2,404,830	2,361,808
Foreign exchange contracts (including spot contracts)	17,098	35,050	8017
Total	2,690,586	2,439,880	2,369,825
Total Credit Exposure	9,343,014	8,808,038	8,298,726

Security interests or loan guarantees provided in favor of Gulf Bank may not be sufficient to cover any losses and may not be legally enforceable

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

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

Save in the instance of the enforcement by a "Financial Institution" (as defined in the executive regulations (the "CMA Bylaws" to Law No. 7 of 2010) of a pledge of shares listed on Boursa Kuwait granted by a "Professional Investor" (as defined in the CMA Bylaws) in compliance with the requirements set forth in Chapter 9 of Book XI (Dealing in Securities) of the CMA Bylaws for which a self-help mechanism is available), the practice of pledging assets (such as share portfolios and real estate assets) to obtain a bank loan is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security may not be enforced without a court order. As a result, security over certain pledged assets may not be enforced in Kuwaiti courts. Accordingly, Gulf Bank may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when debtors default on their loans and would likely face further such difficulties if any of Gulf Bank's key clients or shareholders were to default on their loans. In addition, even if such security interests are

enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomical for Gulf Bank to pursue such proceedings, adversely affecting Gulf Bank's ability to recover its loan losses.

As of 31 December 2022, 28% (2021: 27%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals. The Bank has procedures to ensure that there is no excessive concentration of any particular asset class within the collaterals.

Any decline in the value or liquidity of such collateral may prevent Gulf Bank from foreclosing on such collateral for its full value or at all in the event that a borrower becomes insolvent and enters bankruptcy and could thereby adversely affect Gulf Bank's ability to recover any losses. The occurrence of any of the foregoing could have a material adverse effect on Gulf Bank's business, results of operations, financial condition and prospects.

Gulf Bank's customer loan portfolios, deposit base and securities portfolios are concentrated in Kuwait

Gulf Bank's loan and securities portfolios are concentrated, geographically, in Kuwait, in accordance with its strategy of achieving a dominant position in Kuwait. As of 31 December 2022, 83.66% of Gulf Bank's maximum exposure to credit risk, composed of both assets and off-balance sheet items, was represented by Kuwait. As of 31 December 2022, Loans and advances to Kuwaiti entities comprised 90.27% of Gulf Bank's customer loan portfolio. Gulf Bank's customer deposits constituted 69.26% of its total liabilities, or KD 4,247 million, as of 31 December 2022.

As a result, any deterioration in general economic conditions in Kuwait or any failure by Gulf Bank to manage effectively its geographic risk concentrations could have a material adverse effect on its business, financial condition, results of operations and prospects. See "Gulf Bank's business, financial condition, results of operations and prospects are and will continue to be affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait and the wider MENA region could materially adversely impact Gulf Bank".

Gulf Bank has significant individual customer and sector concentrations

Gulf Bank's 20 largest gross loan exposures at 31 December 2022 constituted 12.3% of its total credit risk exposures at that date.

Although diversified by industry sector, the Bank's loans and advances to customers have concentrations of exposure to personal loans and the real estate sector. As of 31 December 2022, Personal loans account for the largest 43.85% of the total gross loans and advances to customers while real estate sector accounted for 19.59%.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Bank's large loan customers or issuers of debt securities, or any factors which particularly negatively impacted the real estate sector or other sectors to which the Bank has significant exposure, could result in the Bank making significant additional loan loss provisions and experiencing reduced interest income. Similarly, the withdrawal or non-renewal of its deposits by any one or more of the Bank's large depositors could require the Bank to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive. Either of such eventualities would be likely to have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Gulf Bank has significant credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, Gulf Bank issues guarantees and letters of credit which are accounted for off the Bank's balance sheet until such time as they are actually funded or cancelled. Although these commitments are contingent, they nonetheless subject Gulf Bank to both credit and liquidity risks. As of 31 December 2022, Gulf Bank had KD 2,673 million (including KD 1,127 million unutilized revocable limits) in such contingent liabilities and commitments outstanding. Gulf Bank may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in Gulf Bank needing to obtain additional funding, potentially at relatively short notice, which could have an adverse effect on its financial condition and results of operations.

The Bank is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Bank is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Bank's reputation may also be adversely affected by the conduct of third parties that provide services to the Bank and/or its customers as well as third parties over whom it has no control, including entities to which it lends money or in which it has invested. For example, if one of the Bank's borrowers becomes associated with financial scandals or widely publicized improper behavior, the Bank's own reputation may be affected.

Gulf Bank is exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Bank or questionable ethical conduct by a competitor may taint the reputation of the industry and effect the perception of investors, public opinion and the attitude of regulators. Any damage to the Bank's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Bank. Any of these developments could have an adverse effect on the Bank's business, results of operations and financial condition.

Gulf Bank is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business or results of operations

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

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

In addition, uncertainty or volatility in the capital and credit markets may limit Gulf Bank's ability to refinance maturing liabilities with long-term funding or increase the cost of such funding. Gulf Bank's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and Gulf Bank's financial condition, credit ratings and credit capacity.

Gulf Bank has historically relied on deposits to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside Gulf Bank's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time. As of 31 December 2022, approximately 47.49% of Gulf Bank's funding (which comprises amounts due to banks and financial institutions, customer deposits and other liabilities) had remaining maturities of one month or less or was payable on demand and approximately 91.38% had remaining maturities of one year or less or was payable on demand. In addition, Gulf Bank is reliant on certain large deposits from a limited group of government-related and private sector corporate customers.

If a substantial portion of Gulf Bank's depositors withdraw their demand deposits or do not roll over their time deposits at maturity, Gulf Bank may need to seek other sources of funding or may have to sell assets to meet its funding requirements. There can be no assurance that Gulf Bank will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if Gulf Bank is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if Gulf Bank is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business, financial condition, results of operations and prospects and could, potentially, result in its insolvency.

Gulf Bank is subject to extensive regulation and changes in this regulation, or the interpretation and enforcement of this regulation, or any failure by Gulf Bank to comply with this regulation could have a material adverse effect on Gulf Bank

Gulf Bank is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These controls include laws and regulations promulgated by the CBK, the CMA and Boursa Kuwait.

The regulations to which Gulf Bank is subject may limit its ability to carry on certain parts of its business, to increase its loan portfolio or to raise capital and may impose significant additional costs on Gulf Bank. In addition, increased regulations or changes in applicable laws and regulations and the manner in which they are interpreted or enforced in Kuwait may impose significant additional costs on Gulf Bank and have a material adverse effect on Gulf Bank's business, financial condition, results of operations or prospects. Furthermore, non-compliance by Gulf Bank with any applicable regulations could expose it to potential liabilities and fines, which may be significant.

In order to carry out and expand its businesses, it is necessary for Gulf Bank to maintain or obtain a variety of licenses, permits, approvals and consents from various regulatory, legal, administrative, tax and other governmental authorities and agencies. The processes for obtaining these licenses, permits approvals and consents are often lengthy, complex, unpredictable and

costly. If Gulf Bank is unable to maintain or obtain the relevant licenses, permits, approvals and consents, its ability to achieve its strategic objectives could be impaired.

Gulf Bank is also required to comply with applicable know your customer, anti-money laundering and counter-terrorism financing laws and regulations in Kuwait and other jurisdictions where it operates, including those related to countries subject to sanctions by the United States Office of Foreign Assets Control (OFAC), similar regulations of the European Union (the EU) and other jurisdictions, and applicable anti-corruption laws in the jurisdictions in which it conducts business. To the extent that Gulf Bank fails or is perceived to fail to comply with these and other applicable laws and regulations, its reputation could be materially damaged, with consequent adverse effects on its business, financial condition, results of operations and prospects.

A negative change in Gulf Bank's credit rating could limit its ability to raise funding and may increase its borrowing costs

Gulf Bank has a long-term issuer default rating of A with stable outlook from Fitch Ratings Ltd (Fitch), a long term deposits rating of A3 with stable outlook from Moody's Investors Service (Moody's) and a long-term foreign currency rating of A+ with stable outlook from Capital Intelligence (CI). These ratings, which are intended to measure Gulf Bank's ability to meet its debt obligations as they mature, are an important factor in determining Gulf Bank's cost of borrowing funds.

There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of Gulf Bank's credit ratings, or a negative change in their outlook, may

- limit Gulf Bank's ability to raise funding;
- Increase Gulf Bank's cost of borrowing; and
- limit Gulf Bank's ability to raise capital,

Each of which could adversely affect its business, financial condition, results of operations and prospects. Moreover, actual or anticipated changes in Gulf Bank's credit rating may affect the market value of the shares issued.

According to the credit rating agencies, a significant factor underpinning Gulf Bank's ratings is their assessment that there is an extremely high probability of support for Gulf Bank from the Kuwaiti authorities and any event that causes them to adjust this view would be likely to result in a negative change in Gulf Bank's rating.

In addition, the credit ratings assigned to Gulf Bank may not reflect the potential impact of all risks related to an investment in the Issue Shares, the market, additional factors discussed in this document and other factors that may affect the value of the shares issued. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organization and each rating should be evaluated independently of any other rating.

Although the Kuwaiti government has in the past supported the domestic banking industry (including Gulf Bank), there can be no assurance that it will continue to provide support to the domestic banking industry (including Gulf Bank) in the future.

The banking industry is competitive and, in particular, Gulf Bank is exposed to significant competition in Kuwait

Gulf Bank faces high levels of competition for all of its products and services in Kuwait. In particular, Gulf Bank competes with other domestic banks and such competition may increase.

The Kuwaiti banking sector comprises five locally based conventional commercial banks and branches of eleven other non-Kuwaiti banks. In addition, a specialized bank, five banks operating according to the provisions of Islamic Sharia and a branch of a Saudi Arabian bank are also licensed to operate in Kuwait. The competitive nature of the Kuwaiti banking market and any failure by Gulf Bank to continue to compete successfully in Kuwait may adversely affect Gulf Bank's business, financial condition, results of operations and prospects.

Certain of Gulf Bank's competitors have significantly greater resources and Gulf Bank is, therefore, potentially exposed to any aggressive competitive positions taken by those other banks.

Mergers between conventional and Islamic financial institutions which do not involve Gulf Bank could result in competitors that are significantly bigger than Gulf Bank, have a significantly wider product range and have significantly greater resources with which to compete effectively.

Gulf Bank's financial condition and results of operations could be adversely affected by market risks

Gulf Bank's financial condition and results of operations could be adversely affected by market risks that are outside its control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates. In particular, an increase in interest rates generally may decrease the value of Gulf Bank's fixed-rate loans and the debt securities in its investment securities portfolio and may raise Gulf Bank's funding costs. As a result, Gulf Bank may experience a reduction in its net interest income. Interest rates are sensitive to many factors beyond Gulf Bank's control, including the policies of central banks, such as the CBK and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

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

Currency	2022		2021		2020	
	Change in interest rate in basis points	Impact on Income Statement KD'000	Change in interest rate in basis points	Impact on Income Statement KD'000	Change in interest rate in basis points	Impact on Income Statement KD'000
KWD	[+] 25	1,511	[+] 25	2,154	[+] 25	2,180
USD	[+] 25	505	[+] 25	797	[+] 25	699

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	2022		2021		2020	
	Change in equity price %	Impact on Statement of Comprehensive Income KD'000	Impact on Statement of Comprehensive Income KD'000	Impact on Statement of Comprehensive Income KD'000	Impact on Statement of Comprehensive Income KD'000	Impact on Statement of Comprehensive Income KD'000
Boursa Kuwait	5%	513	552	605		

As a financial intermediary, Gulf Bank is exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that Gulf Bank may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. Gulf Bank attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where Gulf Bank is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect Gulf Bank against such risks.

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

Currency	2022		2021		2020	
	Change in currency rate %	Impact on Income Statement KD'000	Impact on Statement of Comprehensive Income KD'000	Impact on Income Statement KD'000	Impact on Statement of Comprehensive Income KD'000	Impact on Statement of Comprehensive Income KD'000
USD	5	-145	116	-171	107	-178

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of Gulf Bank's depositors and borrowers which, in turn, may impact Gulf Bank's deposit base and the quality of its exposures to certain borrowers.

Gulf Bank is exposed to a range of operational risks. In particular, any failure of Gulf Bank's information technology systems could have a material adverse effect on its business and reputation

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology (IT) failures), natural disasters or the failure of external systems (for example, those of Gulf Bank's counterparties or vendors). Gulf Bank has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that Gulf Bank faces. Losses from the failure of Gulf Bank's system of internal controls could have a material adverse effect on its business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

Gulf Bank depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of Gulf Bank's business and operating data. The proper functioning of Gulf Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centers, are critical to Gulf Bank's business and ability to compete effectively. Gulf Bank's business activities would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside Gulf Bank's control including natural disasters, extended power outages, cyber disruption or attacks, computer viruses and malicious third party intrusions. The proper functioning of Gulf Bank's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing Gulf Bank's transaction data could subject it to claims for losses and regulatory fines and penalties. Gulf Bank has implemented and tested cyber resilience measures, business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective and any failure may have a material adverse effect on Gulf Bank's business and reputation.

Gulf Bank's business is dependent on its information and technology systems which are subject to potential cyber-attack

The threat to the security of the Bank's information and customer data from cyber-attacks is real and continues to grow at pace. Activists, rogue States and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. Failure to adequately manage information and cyber-security risk and failure to continually review and update current processes in response to new threats could disrupt the Bank's business, result in the disclosure of confidential bank or customer information, create significant financial, regulatory and/or legal exposure and damage the Bank's reputation and/or brands, which could have a material adverse effect on the Bank's business, results of operations and financial condition.

Gulf Bank's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks

There can be no assurance that Gulf Bank's risk management and internal control policies and procedures will adequately control, or protect it against, all credit, liquidity, market, operational and other risks. In addition, certain risks may not be accurately quantified by Gulf Bank's risk management systems. Some of Gulf Bank's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis or the Covid-19 pandemic, may not always accurately predict future risk exposures which could be significantly greater than historical measures indicate. In addition, certain risks could be greater than Gulf Bank's empirical data would otherwise indicate.

Other risk management methods depend upon evaluation of information regarding the markets in which Gulf Bank operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in Gulf Bank's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on its business, financial condition, results of operations and prospects.

Gulf Bank's internal compliance systems might not be fully effective in all circumstances

Gulf Bank's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although Gulf Bank is subject to oversight by regulatory authorities, including regular examination activity, and performs regular internal audits and employs an external auditor to monitor and test its compliance systems, Gulf Bank cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with

applicable regulations, Gulf Bank could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages. Any of these factors could have a material adverse effect on Gulf Bank's business, operations, financial condition, and future prospects.

Gulf Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

Gulf Bank's ability to maintain and grow its business will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The Bank is likely to face challenges in recruiting qualified personnel to manage its business. In common with other banks in the GCC, the Bank experiences a shortage of qualified employees residing in Kuwait, which requires it to recruit from outside Kuwait. In addition, even after hiring its employees, the Bank has faced challenges in retaining such employees due to the continued recruitment efforts of its competitors.

In recent years, the Kuwaiti Government has made a number of announcements regarding its intention to encourage a better balance of Kuwaitis and non-Kuwaiti nationals in the private-sector workforce. This process, known as "Kuwaitisation", involves the establishment of suggested ratios for the numbers of Kuwaiti nationals who should be employed by respective industries, with the Government's recommended policy for financial institutions being that 70% of a bank's total personnel as well as executive and middle management cadres should consist of Kuwaiti nationals. If the Bank is not able to meet or exceed the Kuwaiti Government's minimum threshold for Kuwaiti employees, it may be subject to certain penalties, including an exclusion from participation in certain Kuwaiti Government-related tender processes, the imposition of fines by the Ministry of Social Affairs or the imposition of administrative or corrective action by the CBK and other governmental authorities.

The Bank depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Bank from implementing its strategies. The Bank is also not insured against losses which may be incurred in the event of the loss of any member of its key personnel.

While the Bank believes that it has effective staff recruitment, training and incentive programmes in place, its failure to recruit, train and/or retain necessary personnel, its inability to dismiss certain employees or the shortage of qualified Kuwaiti nationals or other nationals prepared to relocate to Kuwait, could have a material adverse effect on its business, results of operations and financial condition.

Gulf Bank is exposed to risk of loss as a result of employee misrepresentation, misconduct and improper practice

The Bank's employees could engage in misrepresentation, misconduct or improper practice that could expose the Bank to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter employee misconduct, and the precautions the Bank takes to detect and prevent misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat employee misconduct will be successful. Such actions by employees could expose the Bank to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Bank's reputation, which would in turn materially adversely affect the Bank's business, results of operations and financial condition.

Gulf Bank strategic plan may be inadequate

Gulf Bank has a 5 year cycle for preparing and implementing strategic plans. However, these strategic plans might be inadequate or poorly executed which would lead to long term financial, business and reputational underperformance.

Future events may be different from those reflected in the management assumptions and estimates used in the preparation of Gulf Bank's financial statements, which may cause unexpected losses in the future

Accounting policies and methods are fundamental to how the Bank records and reports its financial condition and results of operations. Pursuant to IFRS rules and interpretations in effect as at the date of this Prospectus, the Bank is required to make certain estimates in preparing its financial statements, including accounting estimates to determine financial and credit loss reserves and the fair value of certain assets and liabilities, among other items.

Management has identified the most significant judgments and estimates made by it in "Financial Review". These judgments and estimates include, for example, the determination of when certain assets may be impaired, the classification of financial assets, the determination of estimated credit losses and fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or reducing a liability. The Bank has established policies and control procedures that are intended to ensure its significant accounting estimates and judgments are well-controlled and applied consistently. In addition, the policies and procedures are intended to ensure the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Bank's judgments and the estimates pertaining to these matters, the Bank cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future. Should the estimated values for such items prove substantially different to actual values, particularly because of significant and unexpected market movements, or if the methods by which such values were determined are revised in future IFRS rules or interpretations, the Bank may experience unexpected losses.

Capital Adequacy

The Basel Committee on Banking Regulation and Supervisory Practices (the "Basel Committee") has set international standards for the capital adequacy of banks. In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2005 Basel framework (Basel II).

On April 2, 2020, the CBK issued the Circular No. 2/BS/ IBS/454/2020 (the Circular) to provide support measures on Covid-19. The CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. As per the Circular, the Capital Conservation Buffer requirement of 2.5% in the form of CET1 has been released. Accordingly, the minimum capital requirement has been reduced from 14% to 11.5% (including 1% D-SIB); minimum Tier1 capital requirements from 12% to 9.5% (including 1% D-SIB) and minimum CET1 requirements from 10.5% to 8% (including 1% D-SIB). These amendments have been changed effective January, 1 2022.

On October 11, 2021, the CBK announced to unwind support measures imposed to counter Covid-19. As per the announcement, the Capital Conservation Buffer requirement in the form of CET1 has been increased by 1% effective January 1, 2022 and another 1.5% increase effective January 1, 2023. Accordingly as of January 1, 2023, the minimum capital requirement has been increased to 14% (including 1% D-SIB); minimum Tier1 capital requirements increased to 12% (including 1% D-SIB) and minimum CET1 requirements increased to 10.5% (including 1% D-SIB).

As of 30 June 2023, the Bank's regulatory capital ratios remained strong as the Tier 1 ratio of 13.87% was 1.87% above the regulatory minimum of 12% and the Capital Adequacy Ratio (CAR) of 16.08% was 2.08% above the regulatory minimum of 14%.

As mentioned above, the capital adequacy level maintained by the Bank currently exceeds the minimum requirements set out by CBK and the Basel Committee. However, a variety of factors affect Gulf Bank's capital adequacy levels, including, in particular, changes in its risk weighted assets and its profitability from one period to another. If the Bank's loan portfolio continues to grow significantly, or if the level of loan impairments increases, and the Bank fails to generate a sufficient level of profits to ensure consistent growth in equity through retained earnings, the capital adequacy level may come under strain and the Bank would need to inject fresh capital to maintain the minimum capital adequacy ratios set by CBK. Such capital, whether in the form of debt financing or additional equity, may not be available on attractive terms or at all.

Any failure by the Bank to maintain certain capital adequacy ratios could lead to the imposition of sanctions by CBK, such as limitations on the Bank's ability to pay dividends, the issuance by CBK of a directive to increase capital and/or sell or reduce assets, the imposition of fines, as well as to a deterioration in credit ratings and an increase of cost of funding. Any of these outcomes could have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

Gulf Bank's three largest shareholders who are required to disclose shareholdings pursuant to the CMA Rules control 45.41% of its shares and their interests may, in certain circumstances, conflict with other shareholders

Gulf Bank's three largest shareholders who are required to disclose shareholdings pursuant to the CMA Rules are, the Group of Kutayba Youssef Ahmad Alghanim (Alghanim Trading Co. WLL), The Public Institution for Social Security and the Behbehani Investment Company. Together they have beneficial ownership of 45.41% of the shares in Gulf Bank as of 1 October 2023.

As a result, these shareholders, acting together or with other shareholders, may be able to block certain actions or resolutions proposed at Gulf Bank's annual or extraordinary assembly of shareholders. Consequently, investors should note that the interests of Gulf Bank's major shareholders may, in certain circumstances, be different from those of Gulf Bank's other shareholders (including the holders of the Issue Shares) and, in those circumstances, said holders of the shares could be disadvantaged.

RISKS RELATING TO THE REGION IN WHICH THE BANK OPERATES

Kuwait's economy and government revenues are significantly impacted by, and are dependent upon, international oil prices

The oil sector is the principal contributor to Kuwait's economy and oil revenues account for the majority of the Kuwaiti Government's total revenues and export earnings. According to the CSB, the oil sector (including refining) accounted for 47.5%, 45.8%, 34.6% and 44.9% of Kuwait's nominal GDP in 2018, 2019, 2020, and 2021 respectively. The oil sector continues to be the main contributor to Kuwait's annual revenues, accounting for 83.5% of total Government revenues for the fiscal year ended 31 March 2022, according to the Ministry of Finance. Accordingly, Kuwait's economy is significantly impacted by, and is dependent upon, international oil prices.

The impact on Kuwait's economy of prevailing higher oil prices between 2021 and the end of 2022 positively impacted economic sectors which are, in part, dependent on the success of the oil and gas sector. However, the elevated oil prices are not guaranteed to sustain and increased volatility in oil prices could occur in the near future. Additionally, although the CBK has the ability to adjust the components of the Foreign Currency Basket against which the Kuwaiti Dinar is pegged, there can be no assurance that the CBK will maintain the Kuwaiti Dinar Basket at its current level, which could lead to higher inflation and negatively affect confidence in the Kuwaiti economy.

In general, international prices for crude oil are affected by many factors over which the Bank has no control, including:

- economic and political developments in oil-producing regions, particularly in the Middle East (see "Kuwait is located in a region that has been subject to ongoing political and security concerns" below) as well as globally;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products, including the price and availability of new technologies such as renewable energy and unconventional oil and gas extraction methods;
- the impact of the COVID-19 pandemic and associated travel restrictions;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of local and international environmental regulations designed to reduce carbon emissions and/or climate change;
- other actions taken by major crude oil producing or consuming countries; and the attitude and sentiments of and actions by consumers generally globally towards products derived from or based on oil;
- prices and availability of alternative fuels as well as prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

There can be no assurance that these factors, in combination with others, will not result in a future decline (which may be prolonged) in oil prices, which may have an adverse effect on the Kuwaiti economy which, in turn, could have a material adverse effect on the Bank's business, financial condition and results of operations and thereby affect the performance of the Bank's shares.

Kuwait is located in a region that has been subject to ongoing political and security concerns

Majority of the Bank's current operations and interests are located in Kuwait. The Bank's results of operations are, and will continue to be, generally affected by financial, economic and political developments in or affecting Kuwait, in particular, by the level of economic activity in the region which, in turn, is affected by the prevailing level of global crude oil prices. It is not possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of such occurrences, and no assurance can be given that the Bank would be able to sustain the operation of its business if adverse political events or circumstances were to occur. A general downturn or instability in certain sectors of the Kuwaiti or the regional economy could have an adverse effect on the Bank's business, results of operations and financial condition.

Although Kuwait generally enjoys domestic political stability and healthy international relations, it is located in a region that is strategically important and parts of this region have experienced regional geopolitical instability, for example the 1990 invasion of Kuwait by Iraqi forces, 2011 "Arab Spring", which gave rise to several instances of regime change and increased political uncertainty in the MENA region, and the multinational conflict with the Islamic State of Iraq and the Levant ("ISIL"),

also known as Daesh or ISIS founded in 2013. These situations have caused significant disruption to the economies of the affected countries and have had a destabilizing effect on international oil and gas prices.

Tax changes in Kuwait may have an adverse effect on Gulf Bank

As at the date of this Prospectus, the Bank is not currently subject to corporation tax on its earnings within Kuwait and Kuwait does not impose value-added tax ("VAT") on the sale of goods and services. However, investors should be aware that certain GCC states, not including Kuwait, have recently implemented VAT on goods and services as part of a GCC-wide VAT framework. Kuwait is not currently expected to implement VAT during second half of 2023. In addition, the Kuwaiti Government is implementing fiscal reforms which may include introducing a proposed 10% corporate income tax in the future.

It is possible that, once VAT is introduced in Kuwait, the Bank's costs would increase and its future profitability could be negatively affected. In addition, the proposed imposition of a tax on corporate earnings, if implemented and applied to the Bank's operations, would reduce its profits available for distribution to shareholders through dividends.

Kuwait may introduce corporate income tax

The Bank is not currently subject to corporation tax on its earnings within Kuwait. However, on 14 March 2016 the Kuwait Cabinet of Ministers approved plans to implement a corporate tax of 10% on the annual profits of Kuwaiti incorporated entities (the "Proposed Corporate Income Tax"), which may be applicable to the Bank for future financial years. As at the date of this Prospectus, the Proposed Corporate Income Tax does not have the force of law until such time as it has been ratified by the Kuwaiti Parliament, signed by the Emir and published in the Official Gazette. It is currently uncertain as to whether the Proposed Corporate Income Tax will be promulgated into law in the form in which it has been proposed by the Cabinet of Ministers, or at all. If the Kuwaiti authorities impose new tax regimes on the Bank (whether in the form of the Proposed Corporate Income Tax or otherwise), or introduce any other changes in tax laws which make doing business in Kuwait less attractive, this may have a material adverse effect on the Bank's business, results of operations, cash flows and financial condition.

The Kuwait legal system continues to develop and this may create an uncertain environment for investment and business activity

Kuwait is in the process of developing governing institutions and legal and regulatory systems, which are not yet as firmly established as they are in Western Europe and the United States. Kuwait (together with other countries in the GCC region) has enacted measures to promote greater efficiency and certainty within its legal and regulatory systems. Among those measures, Kuwait and countries within the GCC region have assumed obligations under the General Agreement on Tariffs and Trade (the "GATT") (as administered by the World Trade Organization (the "WTO")) and Kuwait has enacted legislation, inter alia, to extend foreign ownership of businesses. However, Kuwait may experience changes in its economy and government policies (including, without limitation, policies relating to the continued extension of the rights of foreign ownership pursuant to Kuwait's GATT/WTO obligations) that may affect the rights of shareholders.

The legal system in Kuwait may not provide the same degree of protection or require the levels of disclosure of information that would be the case in Western Europe or the United States. Any unexpected changes in the legal systems in Kuwait may have a material adverse effect on the rights of the shareholders or the investments that the Bank has made or may make in the future, which may in turn have a material adverse effect on the Bank's business, financial condition and results of operations.

Investing in securities involving emerging markets countries, such as Kuwait, generally involves a higher degree of risk than investments in securities of issuers from more developed countries

Investing in securities involving emerging markets countries, such as Kuwait, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. In the case of Kuwait, these higher risks include those discussed in this section as well as higher volatility and limited liquidity in its markets, a heightened risk of sudden changes in the legal, economic and political environment, instability in neighboring countries, a heightened risk of business dealings in jurisdictions with operating risks relating to fraud, bribery and corruption and lack of adequate infrastructure necessary to accelerate economic growth.

Additionally, emerging markets may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit, or the increased cost of debt, which could result in their experiencing financial difficulty. No assurance can be given that this will not be the case in the future for Kuwait.

As a consequence, an investment in the Issue Shares carries risks that are not typically associated with investing in shares issued by issuers in markets which are more mature. Accordingly, prospective investors should exercise particular care in

evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISK ASSOCIATED WITH THE ISSUE SHARES

RISKS RELATED TO THE ISSUE SHARES

Suitability of investment

Each prospective subscriber to the Issue Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the share, the merits and risks of investing in the shares, and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the shares and the impact the shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of risks of an investment in the shares, including where the currency for principal and interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the shares and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Liquidity and volatility in the Share price

Subscribers may not be able to resell their Shares (including the Issue Shares) at or above the Issue Price, or at all, as the market price of the Shares after the Offering may be adversely affected by factors within and outside the Issuer's control, including, but not limited to, variations in the Issuer's results of operations, market conditions, or changes in Government regulations.

Subscribers should be aware that the value of an investment in the Shares (including the Issue Shares) may go down as well as up. The market price of the Issue Shares could be volatile and subject to significant fluctuations due to a change in sentiment in the market regarding the Issue Shares. Stock markets have, from time to time, experienced significant price and volume fluctuations that have affected market prices for securities and which may be unrelated to the Issuer's performance or prospects. Furthermore, the Issuer's operating results and prospects from time to time may be below the expectation of market analysts and the market generally. Any of these events could result in a decline in the market price of the Shares.

Dividend payments

The Shareholders will be entitled to receive any dividends declared by the Issuer in the future. The Issuer intends to maintain a dividend payout which has due regard to sustainable levels of dividend distribution and which reflects the Issuer's view on the outlook for sustainable recurring earnings. The Issuer does not aim to create reserves that are not available for distribution to Shareholders other than those required by law. The Issuer intends to pay dividends when the Board of Directors considers it appropriate and after obtaining required approvals. Furthermore, the dividend policy of the Issuer may change from time to time.

Dilution of existing shareholdings

If Eligible Shareholders do not take up their rights by the latest date for receipt of applications and payments in full that are set out in this Prospectus, their proportionate ownership and voting interests in the Issuer will be reduced and the percentage that their Issue Shares represent in the share capital of the Issuer immediately following the Offering will be reduced accordingly. In addition, Eligible Shareholders as at the Record Date who take up their rights in full may suffer some dilution of their interest in the Issuer as their entitlement will be rounded down to the nearest whole number of Issue Shares. Such Shareholders may, in the event of availability of unsubscribed Issue Shares, be able to subscribe for Additional Issue Shares, which may enable them to maintain or increase their proportionate interest in the Issuer.

Taxation risks on payments

The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Issue Shares which are “non-GCC corporate entities” may become subject to the Kuwaiti income tax regime in certain limited circumstances.

The application and enforcement of the Kuwaiti income tax regime to holders of the Issue Shares which are “non-GCC corporate entities” (as defined in “**Taxation**”) is uncertain. There is a possibility that any holder of the Issue Shares which is a non-GCC corporate entity may become subject to the Kuwaiti income tax regime in the future, should the Department of Income Tax (the “**DIT**”) at the Kuwaiti Ministry of Finance and/or the Kuwaiti courts determine that the income received by a holder of the Issue Shares in respect of any Issue Shares is taxable notwithstanding the Tax Exemptions (as defined and explained in “**Taxation**”).

To date there has been no official statement made publicly by the DIT regarding its interpretation of, and/ or application of, the Tax Exemptions in the context of a transaction such as the issue of the Issue Shares. Similarly, the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret such requirement to date. Although there has been no precedent of the DIT enforcing the imposition of income tax on non-GCC corporate entity shareholders in the circumstances described above, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Taxation Laws (as defined in “**Taxation**”) and the Tax Exemption in practice. Furthermore, the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally.

If the DIT and/or the Kuwaiti courts were to determine that the income received by a holder of Issue Shares which is a non-GCC corporate entity in respect of any Issue Shares held by it is taxable, then such non-GCC corporate entity would become subject to the Kuwaiti income tax regime, which requires income tax (at a rate of 15 per cent.) to be levied on the net income and possibly capital gains of such non-GCC corporate entities, and imposes certain disclosure and reporting obligations on persons subject to such regime (which would include an obligation to file a tax return in Kuwait). In addition, a deduction of five per cent. of the amount of any payments made by the Issuer directly to the holders of the Issue Shares may be applied in certain circumstances, pending resolution of their tax position. See “Taxation” – Retention for further details.

Whilst the application and enforcement of the Kuwaiti income tax regime remains uncertain, there can be no assurance that holders of Issue Shares which are “non-GCC corporate entities” will not become subject to such regime in the circumstances described above. Prospective subscribers for the Issue Shares are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Issue Shares and receiving payments under the Issue Shares. See “Taxation” for further details.

Change in Law

No assurance can be given as to the impact of any possible change to Kuwaiti law or to administrative practice after the date of the Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments and/or make deliveries under the Issue Shares, as applicable.

Risks Associated with Transfer of Pre-Emptive Rights

A shareholder who disposes of their pre-emptive right may be subject to reduction of percentage of the shareholding they previously held prior to the commencement of subscription in the offering shares in addition to the consequences the alienator may face as regards the change in the value of his current shares if they remain a shareholder.

Eligible Shareholders who do not Subscribe to the Issue Shares

Eligible Shareholders who do not subscribe to the Issue Shares shall be subject to a reduction in the proportion of their equity in the Issuer as well as a reduction in the value of their Issued Shares. Owners of Transferred Pre-emption Rights who do not exercise their right to subscribe to the Issue Shares prescribed for these rights, shall waive the price paid by them in exchange for these rights without having the right of any recourse against the Bank, the Subscription Agents, or the Clearing and Depository Agent for any claim or compensation.

Owners of Transferred Pre-emption Rights in the case of Retraction of Capital Increase

In the event of retracting the capital increase, the Owners of Transferred Pre-emption Rights will not be able to exercise their right to subscribe to the Issue Shares, which will lead to the loss of the price that the Owners of Transferred Pre-emption Rights paid for the Pre-emptive Right without having the right of any recourse against the Bank, the Subscription Agents, or the Clearing and Depository Agent for any claim or compensation.

TAXATION

The following is a summary description of certain Kuwaiti tax considerations relating to the Issue Shares. It does not purport to be a complete analysis of all tax considerations relating to the Issue Shares, whether in Kuwait or elsewhere. Prospective subscribers of Issue Shares should consult their tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of Kuwait of acquiring, holding and disposing of Issue Shares and receiving payments under the Issue Shares and the consequences of such actions under the tax laws of the State of Kuwait. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955 (the Decree), as amended by Law No. 2 of 2008 “Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955” (the “**Amendment**”), the Executive Bylaws of the Amendment (the “**Regulations**”), and various ministerial resolutions and circulars relating thereto issued by the Ministry of Finance (the “**MOF**”) (together, the “**Taxation Laws**”) as interpreted and implemented by the MOF’s Department of Income Tax (“**DIT**”) as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.

Income Tax

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, *inter alia*, the net income and capital gains realized by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as GCC corporate entities) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities.

Notwithstanding the above, the Article 8(1) of the Regulations have exempted capital gains from the trading of listed company shares on Bursa Kuwait (the “**Capital Gain Exemption**”) and the recently implemented Law No. 22 of 2015 amending Law No. 7 of 2010 (the “**CMA Amendment**”) provides that “*yields of securities, bonds, finance sukuk and all other similar securities regardless of the Issuer thereof shall be exempted from tax*” (Article 150 bis of the CMA Amendment) (the “**Dividend Exemption**”, and together with the Capital Gain Exemption, the “**Tax Exemptions**”). Although the Tax Exemptions are yet to be tested, they clearly provide for a tax exemption to the holders of securities such as, for example, the Issue Shares. Notwithstanding the foregoing, the application and enforcement of the Kuwaiti income tax regime remains uncertain, especially as a result of the lack of DIT and/or Kuwaiti court precedent referred to above and as a result of the fact that the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, prospective investors in the Issue Shares are advised that there remains a possibility that any holder of Issue Shares which is a non-GCC corporate entity may become subject to the Kuwaiti income tax regime in the future (which would include an obligation to file an income tax return in Kuwait).

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

Retention

Under the Regulations, a Kuwaiti-based party making such a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct five per cent of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. The payer is not required to transfer the deducted amount to the DIT immediately, but instead retains such amount and releases it either (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realized a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand. According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include dividend payments.

Although payments made by the Issuer would likely not be subject to retention because of the Tax Exemptions, there is a lack of guidance on this issue currently from the DIT, and as such, there is a remote possibility that retention could apply, in the event of which, the Issuer would be required to deduct five per cent. from every payment made by it to the holders of Shares, which amount would be released by the Issuer upon presentation to it by the relevant holder of Shares of a tax clearance certificate from the DIT.

Other taxes

Save as described above, all payments in respect of the Issue Shares may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Issue Shares in connection with the issue or any transfer of the Issue Shares.

MAJOR CONTRACTS

The Bank has not entered into any major contracts outside its area of activities (except as described in the Prospectus description of business).

The Bank has no specific clients or suppliers and patents, intellectual property rights, licenses or private contracts which have a major significance for the Issuer's activity (except as described in the Prospectus description of the business).

GENERAL INFORMATION

The legal form of the issuing Bank and the legislation that governs its establishment and operations:

The Bank was incorporated on 29 October 1960 and is registered with the Central Bank of Kuwait and is registered with the Ministry of Commerce and Industry under Commercial Registration No. 8347. The Bank is a Kuwait Public Shareholding Company.

Share Capital of the Bank:

As of 30 June 2023, the Bank has an authorized share capital of KWD 486,056,100.600 comprising of 4,860,561,006 shares of KWD 0.100 each.

As of 30 June 2023, the Bank has an issued and paid-up share capital of KWD 336,056,100.600 comprising of 3,360,561,006 shares of KWD 0.100 each.

Objectives of the Bank:

In general, the Bank may carry out all banking and commercial operations and services permissible under the law, regulations and statutes adopted in commercial banks. The Bank may acquire interest in, or in any manner associate itself with bodies carrying out activities similar to its own, and which may assist the Bank to realize its objectives in the State of Kuwait or abroad, or it may acquire total equity in or annex such bodies.

Management of the Bank:

Management of the Bank is entrusted to a Board of Directors comprised of eleven members elected by the shareholders general assembly of the Bank. Members of the Board of Directors of the Bank are appointed for a period of three years renewable. Upon the expiry of such period, the total Board of Directors shall stand again for election. Any member of the Board of Directors may be re-elected more than once.

The Board of Directors shall elect by secret ballot a Chairman and a Deputy Chairman. The Chairman shall represent the Bank in its relations with third parties and before courts, in addition to other competences stated in the Bank's Memorandum and Articles of Association. His signature shall be considered as the signature of the board of directors in the Bank's relations with third parties. He shall implement the Board resolutions, and shall adhere to its recommendations. The Deputy Chairman shall replace the Chairman in the absence of the latter, or if his performance of his competences is hindered.

The Board of Directors shall meet at least six times during the financial year of the Bank at the request of the Chairman. A meeting of the Board of Directors shall be deemed valid if attended by the at least three of its members. Attendance by way of proxy shall not be valid.

Resolutions by the Board shall be passed by absolute majority of those present. In case of a tie vote, the Chairman shall have a casting vote. Meetings may be held using modern means of communication, and resolutions may be adopted by circulation, with the approval of all Directors.

The Bank shall have one or more Chief Executive Officers (CEO), to be appointed by the Board of Directors from the Board Members or others, to be assigned to manage the Bank. The Board of Directors shall determine his allocations and signature authority for the Bank. Both posts of the Chairman and CEO may not be combined.

Regulatory Authorities

The Central Bank of Kuwait and the Kuwait Capital Markets Authority, are the regulating authorities in charge of issuing the required licenses and approvals for the issuance of the Issue Shares.

Change in Financial Position

Save as disclosed in this Prospectus, there has been no material adverse change in the financial position of the Bank since 31 December 2022, the date of its latest audited financial statements.

Auditors

The Bank has appointed Deloitte and Touche (Al Wazzan & Co.) and Ernst & Young (Al Aiban, Al Osaimi & Partners) as joint auditors.

The Bank's financial statements as at and for the years ended 31 December 2018, 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 have been jointly audited by Deloitte and Touche (Al Wazzan & Co.) and Ernst & Young (Al Aiban, Al Osaimi & Partners).

The Bank's interim financial statements for the period ended 30 June 2023 have been jointly reviewed by Deloitte and Touche (Al Wazzan & Co.) with license No. 209 A and Ernst & Young (Al Aiban, Al Osaimi & Partners) with license No. 208 A.

Litigation Against Gulf Bank K.S.C.P.

With the exception of lawsuits arising out of the ordinary course of business of the banking sector involving Gulf Bank and its customers which do not present any likely potential impact or implications on Gulf Bank or the Group's financial position, there are no claims, legal action or arbitral proceedings against Gulf Bank or any of its subsidiaries which may have a material impact on its financial position.

Resolution of the General Assembly and Board of Directors

The issuance of the Issue Shares was authorized by resolutions of the General Shareholders Assembly of the Bank passed on 13 May 2023 and by the Board of Directors of the Bank on 09 August 2023.

Official Consent

Approval has been granted for the Bank to issue the Issue Shares by the Central Bank of Kuwait on 28 August 2023. Approval has also been granted by the Kuwait Capital Markets Authority on 14 September 2023 for the Bank to issue the Issue Shares and has granted approval of the Prospectus in respect to the Issue Shares on 9 October 2023.

Clearance

The clearing of the shares transaction shall be completed through the Kuwait Clearing Company K.S.C.

Control/Supervision of the Bank

The Issuer is a bank incorporated in the State of Kuwait pursuant to the Companies Law No. 1 of 2016, as amended and its Executive Regulations. The Bank is subject to the control/supervision of the CBK, the CMA and Ministry of Commerce and Industry in Kuwait.

ARTICLES OF ASSOCIATION AND MEMORANDUM OF ASSOCIATION

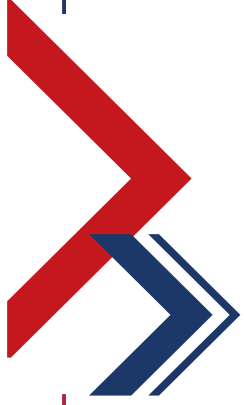
Contents:	Page
Articles of Association and Memorandum of Association	Appendix-1

FINANCIAL STATEMENTS

In the following pages are the financial information and statements set out below:

Page

Interim financial statements for the 6 months ended 30 June 2023	Financial Statements -1
Consolidated financial statements for year ended 31 December 2022	Financial Statements -2
Consolidated financial statements for year ended 31 December 2021	Financial Statements -3
Consolidated financial statements for year ended 31 December 2020	Financial Statements -4



ARTICLES OF ASSOCIATION AND MEMORANDUM OF ASSOCIATION

Appendix-1



Gulf Bank

Memorandum and Articles of Association

Thirteenth Edition
2023



**AMIRI DECREE NO. (44) OF THE YEAR 1960
REGARDING INCORPORATION OF A KUWAITI SHAREHOLDING
COMPANY TO BE CALLED “GULF BANK”**

We, Abdullah Al-Salem Al-Sabah, Amir of Kuwait, having perused the Memorandum and Articles of Association of "GULF BANK", a Kuwaiti Shareholding Company, incorporated on October 29, 1960, and the Commercial Companies Law No. (15) of 1960, and upon the proposal of the Director of Finance and Economy and the approval of the Supreme Council;

We decree the following:

Article - 1

Authorization is hereby given to Messrs. Abdul Aziz Al-Saleh, Ahmed Abdul Karim Abul, Mustafa Al-Sultan, Abdul Wahab Abdul Aziz Al-Qatami, Khalid Yousuf Al-Mutawa, Ahmed Al-Bazee', Ali Abdul Rahman Al-Bahar, Musaed Al-Saleh, Khalid Fulaij Al-Ali Al-Fulaij, Abdul Aziz Al-Sahli, Abdul Wahab Al-Khaleefah Al-Shaheen Al-Ghanim and Abdul Latif Al-Abdullah Al-Mehri, to incorporate at their own risk a shareholding company in Kuwait under the name "GULF BANK", with an authorized capital of I.Rs.24,000,000/- (Twenty Four Million Indian Rupees).

Article - 2

The aforementioned Founders shall abide by the provisions of the Memorandum and Articles of the Company, whereby an official copy of each, signed by them, is to be attached to this Decree. They shall also abide by the provisions of the Commercial Companies Law and other valid laws.

Article – 3

This authorization does not confer on the Company any monopoly or concession, and the Government shall not be liable for any commitments on behalf of the said bank.

Article – 4

The Director of Finance and Economy shall enforce this Decree after its publication in the Official Gazette.

**AMIR OF KUWAIT
ABDULLAH AL-SALEM AL-SABAH**

Issued on 4 Jumaada al-Aakher 1308 H
23rd November, 1960

GULF BANK – A KUWAITI PUBLIC SHAREHOLDING COMPANY MEMORANDUM OF ASSOCIATION

On this day, Saturday, the 29th (Twenty Ninth) of October, 1960, this Memorandum of Association has been agreed upon and signed by and between:

1. Mr. Abdul Aziz Al Saleh
2. Mr. Ahmed Abdul Karim Abul
3. Mr. Mustafa Al-Sultan
4. Mr. Abdul Wahab Abdul Aziz Al-Qatami
5. Mr. Khalid Yousuf Al-Mutawa
6. Mr. Ahmed Bazee'
7. Mr. Ali Abdul Rahman Al-Bahar
8. Mr. Musaed Al-Saleh
9. Mr. Khalid Fulaij Al-Ali Al-Fulaij
10. Mr. Abdul Aziz Al-Sahil
11. Mr. Abdul Wahab Al-Khaleefah Al-Shaheen A1-Ghanim
12. Mr. Abdul Latif Al-Abdullah A1-Mehri.

All of whom are citizens and residents of Kuwait.

First:

The founders signing this Act have agreed to establish a Kuwaiti Public Shareholding Company, to be called "Gulf Bank", in accordance with provisions of the attached Articles of Association¹.

Second:

Company Objects:

1. Conduct all banking and commercial banks business activities, dealing in shares, bonds, and securities, in all aspects of legal disposition, all other business activities which banks and financial institutions are allowed to transact by law.
2. Accept cash deposits, pay against commercial papers and orders drawn on the bank by depositor with the amounts deposited to their account.
3. Obtain funds by issuing lending bonds.
4. Buy and sell gold bullions, foreign currencies, grant advances thereon, and buy and sell their assignments.
5. Issue, purchase, re-issue assignments, bills, lending bonds, coupons, and all commercial and industrial bonds, and invest capitals.
6. Lend, grant advances, credits and all bank facilities.
7. Grant advances on bills of lading, transport notes, and fund delivery notes in Kuwait and abroad.

¹ This article was amended by the bank's extraordinary general assembly resolution, issued on 9.3.2016.

8. Collect amounts of transfers, bills, commercial papers, bills of lading, and other notes, and issue secured or unsecured guarantees.
9. Act as savings and family fund bank.
10. Buy and sell securities for the Bank's own account.
11. Take custody of all types of currencies, precious metals, and other properties, bonds, parcels, bundles, and leasing private metal safe deposit boxes.
12. Purchase and import devices, fittings, and equipment necessary to implement the company's objects.
13. Own movables and real estate properties necessary to proceed on its activity within the limits permitted by law.
14. Utilize the financial surpluses available with the company by investing the same in financial portfolios managed by specialized companies and entities.
15. Investment Portfolio Manager.
16. Investment Advisor.
17. Investment Controller.
18. Subscription Agent.
19. Custodian.
20. Establish or participate in establishing new companies or provide financing to existing companies.
21. In general, to carry out all banking and other commercial works and services permitted by applicable laws, regulations, bylaws, current customs of banks and financial institutions and this Memorandum of Association; as well as all works and services necessary for the attainment of its objects or that are incidental or conducive to or related thereto, whether directly or indirectly.

The company may practice the above activities in the State of Kuwait or abroad, originally or by agency. The company may also have interest in, or participate, in any manner, in the companies or institutions that run similar business activities or cooperate to achieve its objects in Kuwait or abroad, and to merge thereto, acquire or annex those entities, all in accordance with the provisions of the law and these Articles, as it is imperative to obtain CBK's prior approval. In case of merger, it is imperative to obtain a prior license from the Minister of Finance¹.

Third:

The Head Office of the Company will be in the City of Kuwait, and the Board of Directors may establish branches, agencies, or representative offices in Kuwait or abroad.

Fourth:

The Company's authorized capital is KD 486,056,100.600 (Four Hundred and Eighty-Six Million, Fifty-Six Thousand, One Hundred Kuwaiti Dinars and 600 Fils) divided into 4,860,561,006 shares of 100 Fils each.

¹ This article was amended by the bank's extraordinary general assembly resolution, issued on 23.3.2014. Then was amended by the bank's extraordinary general assembly resolution, issued on 8/3/2017. Then was amended by the bank's extraordinary general assembly resolution, issued on 22/3/2022. It was amended by the bank's extraordinary general assembly resolution, issued on 18/3/2023.

The Company's issued and paid-up share capital is KD 336,056,100.600 (Three Hundred and Thirty- Six Million, Fifty- Six Thousand, One Hundred Kuwaiti Dinars and 600 Fils), divided into 3,360,561,006 shares of 100 Fils each, and all shares are in cash¹.

¹ The Bank's share capital, as stated in the Articles of Association, was initially KD 1,800,000/- (24 Million Rupees) divided into 240,000 shares of KD 7/500 each (100 Rupees).

A share capital increase to KD 2,250,000/- was effected on 28.4.1969 by an issue of 60,000 new shares by transferring KD 450,000/- from General Reserve (voluntary), i.e., an issue of bonus shares at the rate of one share per every four shares held.

On 14.3.1971 the share capital was increased from KD 2,250,000/- to KD 2,475,000/- by an issue of 30,000 new shares financed by transferring KD 225,000/- from General Reserve, i.e., an issue of bonus shares at the rate of one share per every ten shares held.

On 18.2.1973 by resolution of the Extraordinary General Meeting, the share capital was increased to KD 2,970,000/- by an issue of 66,000 new shares distributed among shareholders of record as of 31.12.1972 at the rate of one share per every five shares held. This increase of KD 495,000/- was financed from General Reserve whereby the deficit in General Reserve amounting to KD 410,000/- was transferred from Contingencies Reserve. The Board was authorized to dispose of the share fractions remaining after above distribution.

On 19.2.1974 the Extraordinary General Meeting passed a Bank's share capital increase from KD 2,970,000/- to KD 3,267,000/- by an issue of 39,600 new shares to be distributed among shareholders of record as of 31.1.1974 at the rate of one share per every ten shares held.

On 10.3.1975 the Extraordinary General Meeting passed a capital increase by an issue of 108,900 new shares, paid with two installments, the first in June, 1975 bringing the capital up to KD 3,675,375/- and the second in April, 1976 as per resolution of the Extraordinary General Meeting of 30.3.1976 whereby the capital of the Bank was increased to KD 4,083,750/-. At the same meeting, the Bank's capital was increased to KD 4,696,312/500 by an issue of 81,675 bonus shares, i.e. at the rate of 15% of total Bank shares.

On 22.2.1977 the capital was increased to KD 7,044,465/- by an issue of 125,235 bonus shares at the rate of one share per every five shares held. This increase of KD 939,262/500 was financed by a transfer from General Reserve whereby the equivalent amount was transferred from Inner Reserve to General Reserve, and by an issue of 187,852 shares at the rate of 3 shares per every 10 shares held at par KD 7/500 per share plus an issue premium of KD 52/500.

The capital was increased again to KD 9,000,000/- on 22.2.1978 by an issue of 260,738 shares. The increase of KD 1,955,535/- was financed from the General Reserve whereby the equivalent amount was transferred from Inner Reserve to General Reserve.

A capital increase to KD 12,000,000/- was effected on 18.2.1979 by an issue of 1,500,000 bonus shares at the rate of one share per every six shares held, whereby the increase of KD 1,500,000/- was financed by transferring this amount from General Reserve, and the equivalent amount from Inner Reserve to General Reserve, and by a rights issue of 1,500,000 shares at the rate of one share per every six shares held, at par KD 1 / - per share plus an issue premium of KD 7/-.

On 18.2.1980 the capital was increased to KD 15,000,000/- by an issue of 1,200,000 bonus shares equal to 10% of capital, at the rate of one share per every ten shares held. The increase of KD 3,000,000 / - was financed by transferring KD 1,200,000 / - from General Reserve and the equivalent amount from Inner Reserve to General Reserve, and by a rights issue of 1,800,000 shares at the rate of three shares per every 20 shares held at par KD 1 per share plus an issue premium of KD 7/-.

On 16.2.1981, the capital was increased to KD 17,500,000/- by an issue of 2,500,000 bonus shares at 16.6% on the basis of one new share for every six shares held as of 31.12.1980. The cost of the issue was financed by transferring KD 2,500,000 / - from General Reserve to capital and an equivalent amount from

Inner Reserve to General Reserve.

The Share's par value was reduced from KD 7/500 to KD 1/- as per authorization of the Council of Ministers, Meeting No. 15/1978 at the request of the Bank and according to Extraordinary General Meeting Resolution of 22.2.1978. This authorization was conveyed to the Bank in letter No. CI/I-4343 dated 6.4.1978 issued by Ministry of Commerce and Industry-Companies and Insurance Supervision Dept.

On 10.2.1982, the capital was increased to KD 25,500,000/- by an issue of 3,500,000 bonus shares at 20% (i.e. 1 share per every 5 shares held) and by a rights issue of 4,500,000 shares at 25.71% (i.e. 9 shares per every 35 shares held) at par KD 1 plus an issue premium of KD 7/-

On 14.2.1983 the capital was increased to KD 32,500,000/- by an issue of 7,000,000 bonus shares at approximately 27.45% (i.e., 14 shares per every 51 shares held).

On 19.2.1984 the capital was increased to KD 39,000,000/- by an issue of 6,500,000 bonus shares at 20% (i.e., one share per every 5 shares held).

On 12.3.1985 the capital was increased to KD 40,950,000/- by an issue of 1,950,000 bonus shares at 5% (i.e., one share per every 20 shares held).

On 9.4.1986 the capital was increased to KD 43,407,000/- by an issue of 2,457,000 bonus shares at 6%.

On 29.3.1987 the Extraordinary General Meeting approved the increase of capital to KD 58,165,380/- by an issue of 3,906,630 bonus shares at 9% and by a rights issue of 10,851,750 shares to be offered for subscription by shareholders at 25% (i.e. one share per every 4 shares held) at par KD 1/- plus an issue premium of KD 2/-. The Extraordinary General Meeting also agreed to reduce the Bank's shares par value from KD 1/- to 100 fils as per Law Decree No. 132 of 1986 by the issue of 10 new shares per each old share held.

On 6.4.1988 the Extraordinary General Meeting agreed to reduce the Bank's authorized capital from KD 58,165,380/- to KD 57,477,125/-. The decrease of KD 688,255 / - represents that part of the Bank's capital increase for 1986 which was not subscribed to (i.e., 688,255 shares before split).

On 3.4.1989, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 57,477,125/ to KD 61,500,524/- by an issue of 40,233,990 bonus shares at the rate of 7% (i.e., seven shares per every 100 shares held).

On 25.3.1990, the Extraordinary General Meeting approved increasing the Bank's capital to KD 65,805,560/- by an issue of 43,050,360 bonus shares at the rate of 7% (i.e., seven shares per every one hundred shares held).

On 6.7.1993, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 65,805,560/- to ED 71,070,005/- by an issue of 52,644,448 bonus shares at the rate of 8% (i.e., eight shares per every 100 shares held).

On 12.4.1994, the Extraordinary General Meeting agreed to increase the Banks capital from KD 71,070,005/- to KD 78,177,005/- by an issue of 71,070,004 bonus shares at the rate of 10% (i.e., ten shares per every 100 shares held).

On 14.3.1998, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 78,177,005/- to KD 82,085,885/- by an issue of 39,088,502 bonus shares at the rate of 5% (i.e, five shares per every 100 shares held).

On 19.2.2005, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 82,085,885/- to KD 86,190,148/- by an issue of 41,042,930 bonus shares at the rate of 5% (i.e, five shares per every 100 shares held).

Fifth:

The duration of the Company is indefinite. It shall be wound up in any one of the events provided for in the Companies Law.

On 11.3.2006, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 86,190,148/500 to KD 94,809,163/300 by an issue of 86,190,148 bonus shares at the rate of 10% (i.e, ten shares per every 100 shares held).

On 3.3.2007, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 94,809,163/300 to KD 109,030,537/700 by an issue of 142,213,744 bonus shares at the rate of 15% (i.e, fifteen shares per every 100 shares held).

On 8.3.2008, the Extraordinary General Meeting agreed to increase the Bank's capital from KD 109,030,537/700 to KD 125,385,118/300 by an issue of 163,545,806 bonus shares at the rate of 15% (i.e, fifteen shares per every 100 shares held).

On 2.12.2008, the Extraordinary General Meeting agreed to increase the Bank's capital by 100% from KD 125,385,118/300 to KD 250,770,236/600, by a new rights issue of 1,253,851,183 new shares at par 100 fils plus an issue premium of KD 200 fils, to be allocated for shareholders of record as at 26.10.2008, and to be offered for subscription for a period of 15 days from the date of the Board's call of this capital increase. Shareholders right to subscribe to these shares shall expire after the lapse of the mentioned 15-day period.

On 17.3.2012 the Extraordinary General Meeting approved increasing the bank's capital to KD 263,308,748/400 by issuance of 125,385,118 bonus shares, at 5% (i.e., five shares per every one hundred shares held).

On 16.3.2013 the Extraordinary General Meeting approved increasing the bank's capital to KD 267,474,185/800 by issuance of 131,654,374 bonus shares, at 5% (i.e., five shares per every one hundred shares held).

On 23.3.2014 the Extraordinary General Meeting approved increasing the bank's capital to KD 290,297,895/100 by issuance of 138,237,093 bonus shares, at 5% (i.e., five shares per every one hundred shares held).

On 9.3.2015 the Extraordinary General Meeting approved increasing the bank's capital to KD 304,812,789/800 by issuance of 145,148,947 bonus shares, at 5% (i.e., five shares per every one hundred shares held).

On 22.3.2022 the Extraordinary General Meeting approved increasing the bank's capital to KD 320,053,429/200 by issuance of 152,406,395 bonus shares, at 5% (i.e. five shares per every one hundred shares held).

On 18.3.2023 the Extraordinary General Meeting approved increasing the bank's capital to KD 336,056,100/600 by issuance of 160,026,714 bonus shares, at 5% (i.e. five shares per every one hundred shares held).

On 13.5.2023 the Extraordinary General Meeting approved increasing the bank's authorized capital only by KD 150,000,000 (One Hundred and Fifty Million Kuwaiti Dinar) to KD 486,056,100/600.

Sixth:

The Founders shall undertake all the necessary procedures for the legal formation of the Company and its establishment, for which purposes Messrs:

- (1) Ali Abdul Rahman Al-Bahar
- (2) Khalid Fulajj Al-Ali Al-Fulajj
- (3) Mustafa Al-Sultan

Have been delegated to carry out the necessary formalities.

Seventh:

Expenses for the formation and establishment of this Company were estimated at:

1. Printing and publication of the Memorandum of Association	Rs. 45,000
2. Local banks charges for Share Subscriptions	Rs. 24,000
3. Registration Fees	Rs. 3,000
Total:	Rs. 72,000 ¹ .

¹ KD 5,400/-.

**GULF BANK
ARTICLES OF ASSOCIATION
PART ONE - INCORPORATION**

CHAPTER I

(Formation of the Company, Name, Objects, Duration, Registered Office)

Article – 1

A Kuwaiti Public Shareholding Company, to be called "GULF BANK" has been incorporated by and between the Shareholders, in accordance with the Law and these Articles¹.

Article – 2

“Company Objects:

1. Conduct all banking and commercial banks business activities, dealing in shares, bonds, and securities, in all aspects of legal disposal, all other business activities which banks and financial institutions are allowed to transact by law.
2. Accept cash deposits, pay against commercial papers and orders drawn on the bank by depositor with the amounts deposited to their account.
3. Obtain funds by issuing lending bonds.
4. Buy and sell gold bullions, foreign currencies, grant advances thereon, and buy and sell their assignments.
5. Issue, purchase, re-issue assignments, bills, lending bonds, coupons, and all commercial and industrial bonds, and invest capitals.
6. Lend, grant advances, credits and all bank facilities.
7. Grant advances on bills of lading, transport notes, and fund delivery notes in Kuwait and abroad.
8. Collect amounts of transfers, bills, commercial papers, bills of lading, and other notes, and issue secured or unsecured guarantees.
9. Act as savings and family fund bank.
10. Buy and sell securities for the Bank’s own account.
11. Take custody of all types of currencies, precious metals, and other properties, bonds, parcels, bundles, and leasing private metal safe deposit boxes.
12. Purchase and import devices, fittings, and equipment necessary to implement the company’s objects.
13. Own movables and real estate properties necessary to proceed on its activity within the limits permitted by law.
14. Utilize the financial surpluses available with the company by investing the same in financial portfolios managed by specialized companies and entities.
15. Investment Portfolio Manager.
16. Investment Advisor.
17. Investment Controller.

¹ This article was amended by the bank’s extraordinary general assembly resolution, issued on 9.3.2016.

18. Subscription Agent.
19. Custodian.
20. Establish or participate in establishing new companies or provide financing to existing companies.
21. In general, to carry out all banking and other commercial works and services permitted by applicable laws, regulations, bylaws, current customs of banks and financial institutions and this Memorandum of Association; as well as all works and services necessary for the attainment of its objects or that are incidental or conducive to or related thereto, whether directly or indirectly.

The company may practice the above activities in the State of Kuwait or abroad, originally or by agency. The company may also have interest in, or participate, in any manner, in the companies or institutions that run similar business activities or cooperate to achieve its objects in Kuwait or abroad, and to merge thereto, acquire or annex those entities, all in accordance with the provisions of the law and these Articles, as it is imperative to obtain CBK's prior approval. In case of merger, it is imperative to obtain a prior license from the Minister of Finance¹.

Article - 3

The duration of the Company is indefinite.

Article – 4

The domicile of the Head Office of the Company will be in the City of Kuwait, and the Board of Directors may establish branches, agencies, or representative offices in Kuwait and abroad.

¹ Amended by Extraordinary General Meeting Resolution of 23.3.2014 Then was amended by the bank's extraordinary general assembly resolution, issued on 8/3/2017. Then was amended by the bank's extraordinary general assembly resolution, issued on 22/3/2022. It was amended by the bank's extraordinary general assembly resolution, issued on 18/3/2023.

CHAPTER II CAPITAL AND SHARES OF THE COMPANY

Article – 5

The Company's authorized capital is KD 486,056,100.600 (Four Hundred and Eighty-Six Million, Fifty-Six Thousand, One Hundred Kuwaiti Dinars and 600 Fils) divided into 4,860,561,006 shares of 100 Fils each.

The Company's issued and paid-up share capital is KD 336,056,100.600 (Three Hundred and Thirty- Six Million, Fifty- Six Thousand, One Hundred Kuwaiti Dinars and 600 Fils), divided into 3,360,561,006 shares of 100 Fils each, and all shares are in cash¹.

Article – 6

Deleted².

Article – 7

At least twenty percent of the nominal value of shares shall be paid upon subscription, and the remaining within five years from date of the Decree of Incorporation. The Board of Directors shall set dates of calls and amounts of installments³.

Article – 8

Subscription period is one month and shall be closed after 10 days if all shares available for subscription have been subscribed to. If, at close of subscription, the number of original shares available is oversubscribed, these shall be allotted to subscribers in proportion to their subscriptions to the nearest whole share.

Proportionate allotment shall not apply to subscribers to 50 shares or less, neither it shall be permissible to reduce the number of allotted shares to less than 50 shares.

Article – 9

A share is indivisible but may be jointly held by two persons or more who shall be represented vis-a-vis the Company by one person. The holders of the shares shall be jointly liable in respect of this ownership.

Article – 10

If a shareholder fails to pay the calls on the day fixed for payment, the Company may, after serving on him a notice requiring payment, offer his shares at public auction or at the stock exchange. The Company shall have priority over all other creditors in collecting from the sale proceeds the value of calls due on the shares including interest and expenses, and

¹ Refer to capital increase development in the margin of Article 4 of the Articles of Association.

² Deleted by Extraordinary General Meeting Resolution of 16.2.1981.

³ Amended by Extraordinary General Meeting Resolution of 16.2.1981.

refund the balance, if any, to the defaulting shareholders. If, however, the sale proceeds are insufficient to cover calls, due interest and expenses, the Company shall have the right to claim the residue from the shareholder's private funds.

Article – 11

The Board shall determine an interest not exceeding the legal limit on the sums due from the date fixed for payment.⁽¹⁾

Article – 12

The Company may not increase its share capital unless calls on the old shares had been fully paid. The nominal value of new shares equals the nominal value of the original shares. Subscription for the newly issued shares shall be subject to the same provision of subscription for the original shares.

In the event of offering the capital increase rights issue to the public, each shareholder shall have the right of first refusal in subscribing to a number of new shares in proportion to the number of shares held by him. Exercising such rights of first refusal shall be valid for fifteen days from the date of inviting subscriptions. However, the Ordinary General Meeting may relinquish in advance such right. In the event of over or under subscription, the Board may have the right to take appropriate action in each case in the interest of the Company.⁽²⁾

Article – 13

The Company may by resolution of the Extraordinary General Meeting reduce its share capital if it is in excess of its needs. Such reduction shall be made in accordance with the provisions of the Law.⁽³⁾

Article – 14

The Founders may dispose of their shares only after completion of at least three years from the final incorporation of the Company.⁽⁴⁾

Article – 15

The Company shall deliver to subscribers provisional share certificates indicating number of shares subscribed to, amounts paid and calls due. These shall serve as ordinary share certificates until all calls on shares have been paid at which time they shall be replaced by final share certificates.

Article – 16

Shares may be sold or disposed of in accordance with the provisions of the Law.

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 16.6.1981.

⁽²⁾ Amended by Extraordinary General Meeting Resolution of 29.3.1987.

⁽³⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981.

⁽⁴⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981.

Article – 17

The Company may buy, sell or dispose of its own shares, for its own account, in the following events:

- A. If such acts are for the purpose of maintaining stability of share price, without exceeding the ratio identified by regulators, out of the total shares of the Company.
- B. Capital reduction.
- C. Company's recovery of a debt against such shares.
- D. Any other events to be identified by CMA.

Purchased shares shall not be included in the total shares of the Company in the events where the shareholders are required to own a certain percentage of the capital, in all matters relating to the calculation of quorum for correct general assembly meeting, and for voting on the resolutions during the general assembly meeting, as regulated by CBK instructions.

The Ordinary General Assembly shall authorize the Board of Directors to buy, sell or dispose a maximum of 10% of the Company's own shares, in accordance to the Law provisions.⁽¹⁾

Article – 18

Deleted.⁽²⁾

Article – 19

Deleted.⁽³⁾

Article – 20

The shareholders shall be liable only in respect of the subscription value of shares acquired, and claim upon them shall not exceed the same.

Article – 21

All the Company's shares are nominal, and may be owned in accordance with the provisions of the Law, regulating resolutions, and CBK instructions.⁽⁴⁾

Article – 22

The Bank may introduce an employee share option scheme.⁽⁵⁾

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 9.3.2016.

⁽²⁾ Deleted by Extraordinary General Meeting Resolution of 28.1.1969.

⁽³⁾ Deleted by Extraordinary General Meeting Resolution of 16.2.1981.

⁽⁴⁾ Amended by Extraordinary General Meeting Resolution of 9.3.2016.

⁽⁵⁾ Added by Extraordinary General Meeting Resolution of 19.2.2005.

CHAPTER III MEMBERSHIP

Article – 23

Consistent with the provisions of the Law and these Articles, the founding members and subscribers to the shares of the Company shall be deemed members of the Company having equal rights and subject to same obligations.

Article – 24

The shareholders of this Company are entitled to the following rights:

- (1) Cash dividends and benefits approved for distribution among shareholders.
- (2) Participate in the management of the Company, through its General Meetings or the Board of Directors, in accordance with the provisions of these Articles or the Law.
- (3) Dispose of the shares held and the right of first refusal to subscribe for new shares in accordance with the Law.
- (4) All other rights provided for under these Articles or the Law.

Article – 25

The shareholders shall comply with the following:

- (1) Payment of due calls, and interest on overdue calls beginning from the expiry of the date fixed for payment, without the necessity of being served a notice.
- (2) Payment of expenses incurred by the Company in recovery of due calls and sale of shares.
- (3) Refraining from any act intended to cause harm to the Company.
- (4) Implementation of any resolution duly passed by the General Meeting.

Article – 26

Deleted⁽¹⁾.

⁽¹⁾ Deleted by Extraordinary General Meeting Resolution of 26.3.2014.

CHAPTER IV

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

Article – 27

The Extraordinary General Meeting may make any amendments to the Memorandum and Articles of Association.

Any amendments to these Articles shall be subject to the approval of the Ministry of Commerce and Industry. Furthermore, no amendments concerning the name of the Company, its objects or capital – save for capital increase by issue of shares in place of dividends or by carrying applicable reserves to the capital – shall become effective unless a decree is issued to this effect.⁽¹⁾

⁽¹⁾ The second paragraph was added by virtue of Article (6) of Law Decree No. 3/75 of 27.1.1975.

PART TWO - MANAGEMENT OF THE COMPANY
CHAPTER I
THE BOARD OF DIRECTORS

Article – 28

The business of the Company shall be managed by a Board of Directors composed of eleven members, including at least two independent members as of 30/6/2020, and four members as of 30/6/2022 (as stipulated in the regulatory instructions), not exceeding half of the number of Board Members, to be elected by the Ordinary General Meeting by secret ballot. If the election of a new Board of Directors cannot be completed on the specified date, the existing Board shall continue to manage the business of the Company until the reasons thereof are eliminated, and the election of a new Board takes place.⁽¹⁾

Article – 29

In accordance with Article (141) of the Commercial Companies Law, the subscribers of the Memorandum of Association have decided to appoint from amongst themselves the following six members to the first Board of Directors:

1. Mr. Khalid Yousuf Al-Mutawa
2. Mt Ali Abdul-Rahman Al-Bahar
3. Mr. Abdul Aziz Al-Saleh
4. Mr. Mustafa Al-Sultan
5. Mr. Khalid Fulaij Al-Ali Al-Fulaij
6. Mr. Ahmed Al-Bazee'

The other Directors shall be elected by the Constituent General Meeting from amongst all the subscribers of these Articles and the shareholders. The Constituent General Meeting shall pass its resolutions by absolute majority of shares represented, in accordance with Article (156) of the Commercial Companies Law.

Article – 30

Any person nominated for membership of the Board of Directors must meet the following conditions:

1. Must be competent to act.
2. Must not have been previously convicted in a felony by a freedom-restricting punishment, or in a bankruptcy crime by delinquency or fraud, or a crime involving moral turpitude or trust, or a freedom-restricting punishment due to violating the provisions of the Companies Law, unless rehabilitated.
3. Except for independent members of the board, must be holder, in a personal capacity, or by person representing him, of a number of the Company's shares.

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 6.12.1992, amended thereafter by Extraordinary General Meeting Resolution of 23.3.2014 and amended thereafter by Extraordinary General Meeting Resolution of 31.3.2020.

4. Conditions listed in the instructions issued by the regulatory authorities in regard to independent and non-independent members must be met.

If a member dissatisfied any of the said conditions or any other conditions of the companies Law or other laws or regulations applicable in the state of Kuwait, he shall no longer have the capacity of membership from the date of dissatisfying such condition. ⁽¹⁾

Article – 31

Deleted.⁽²⁾

Article – 32

A person may not hold, even when representing a natural or corporate person, membership in boards of directors of more than five shareholding companies whose legal domicile is in Kuwait, nor may he hold the office of the chairman at more than one such company. Violation of this term shall render his membership in companies exceeding the prescribed number null and void, according to the recent appointment therein, as well as the effects thereof, without prejudice to third parties' rights in good faith. The person violating this term shall refund to the company wherein his membership is nullified all remuneration and benefits he may have had.

A member of the Board of Directors also may not, even when representing a corporate body, use any information he has acquired by virtue of his office for his own benefit or the benefit of others; nor may he sell or purchase Company's own shares during the term of his office as Director, unless upon obtaining the approval of the Capital Markets Authority (CMA).⁽³⁾

Article – 33

The term of the members of the Board of Directors shall be three years, renewable. The membership tenure of the independent members shall not exceed two terms. ⁽⁴⁾

Article – 33 (bis)

As an exception from the rule of (33) of these Articles of Association, the office term for the existing board of directors shall expire at the time of announcing the results of the election of a new board of directors, instead of expiring on 31.12.2000. Legal procedures for electing a new board of directors shall be initiated.⁽⁵⁾

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981, and amended thereafter by Extraordinary General Meeting Resolution of 23.3.2014, then by Extraordinary General Meeting Resolution of 9/3/2015. Then amended thereafter by Extraordinary General Meeting Resolution of 31.3.2020.

⁽²⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981, then deleted by Extraordinary General Meeting Resolution of 23.3.2014.

⁽³⁾ Amended by virtue of Law Decree No.3/75 of 27.1.1975, then amended by Extraordinary General Meeting Resolution of 26.3.2014.

⁽⁴⁾ Amended by Extraordinary General Meeting Resolution of 22.2.1977 and amended thereafter by Extraordinary General Meeting Resolution of 31.3.2020.

⁽⁵⁾ Added by Extraordinary General Meeting Resolution of 12.6.1999.

Article – 34

If the post of a member of the Board of Directors becomes vacant, it shall be filled by the candidate who obtains most votes of shareholders who have not won the membership of the Board - and if hindered – he shall be succeeded by the candidate who ranked second. The new member shall only complete the tenor of his predecessor. However, if more than two positions become vacant, the Board of Directors shall call the General Assembly within two months from the date the last position became vacant, to elect those who can fill the vacancies.

Should the vacant posts exceed two, the Board should convene the General Meeting within two months from the date the last post became vacant, in order to fill the vacant posts.

Article – 35

The Board of Directors shall elect by secret ballot a Chairman and a Deputy Chairman. The Chairman shall represent the Company in its relations with third parties and before courts, in addition to other competences stated in the Company's Memorandum and Articles of Association. His signature shall be considered as the signature of the Chairman in the Company's relations with third parties. He shall implement the Board resolutions, and shall adhere to its recommendations. The Deputy Chairman shall replace the Chairman in the absence of the latter, or if his performance of his competences is hindered.

The Company shall have one or more Chief Executive Officers (CEO), to be appointed by the Board of Directors from the Board Members or others, to be assigned to manage the Company. The Board of Directors shall determine his allocations and signature authority for the Company. Both posts of the Chairman and CEO may not be combined.⁽¹⁾

Article – 36

The Board of Directors shall meet within ten days of its election for the purpose of electing the Chairman and the Deputy Chairman whose term of office shall expire with the expiry of their term of office as Directors. They shall be eligible for re-election on proviso they are re-elected as members of the Board.

Article – 37

The Board of Directors meetings shall be deemed duly held if attended by half the number of Directors, provided that at least three members shall attend. Resolutions by the Board shall be passed by absolute majority of those present. In case of a tie vote, the Chairman shall have a casting vote. Meetings may be held using modern means of communication, and resolutions may be adopted by circulation, with the approval of all Directors.

The Board shall meet at least six times during each fiscal year.⁽²⁾

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 29.3.1995, then amended by Extraordinary General Meeting Resolution of 23.3.2014.

⁽²⁾ Amended by Extraordinary General Meeting Resolution of 23.3.2014.

Article – 38

A member of the Board of Directors shall not delegate others to attend meetings of the Board on his behalf.

Article – 39

Consistent with the pertinent legal provisions, especially those stipulated in the Central Bank Law, the Board of Directors may exercise all the tasks of the management of the Company in accordance with its objectives, and the Board may participate in companies or entities that engage in activities similar to those of the Company or that may assist in achieving the Company's objectives in Kuwait or abroad. The Board further may implement the necessary procedures in connection with the management of the Company, appoint employees, purchase movables as well as real estate property and all other transferable or fixed rights. The Board may also lease from and lease to others, allow for the withdrawal of funds and securities owned by the Company and the sale or assignment of the same, allow for the filing of legal claims and defense of the Company's interest before the court, whether the Company is the plaintiff or defendant, arbitrate, execute settlements, waive rights for or without consideration, and decide the methods of utilizing the Company's funds in attaining its objectives. Additionally, the Board of Directors has the widest scope of authority in lending, borrowing, selling or pledging of rights and real estate owned by the Company, executing all forms of guarantees, granting donations, acknowledging and settling, in accordance with terms and restrictions the Board of Directors determines from time to time.⁽¹⁾

Article – 40

The Chairman of the Board of Directors is the president of the Company and shall represent it before other parties. His signature shall be considered as the signature of the Board of Directors as to the Company's relations with third parties. He shall carry out the resolutions of the Board and comply with its recommendations, and the Deputy Chairman shall take the place of the Chairman and assume all his duties in his absence.

Article – 41

The Chairman of the Board of Directors and all members thereof shall be accountable to the Company, shareholders and third parties for all fraudulent acts, abuse of power, violations of the Law or these Articles, and mismanagement.

A vote by the General Meeting to exonerate the Board of Directors shall not preclude the institution of an action for liability.

⁽¹⁾ Amended by Extraordinary General Meeting Resolutions of 16.5.1964, 28.1.1969 and 16.2.1981.

Article – 42

The Board of Directors may determine an emolument for its Chairman and members by not more than 10% of net profit after depreciation, reserves and distribution of a cash dividend of not less than 5% of the share capital to shareholders. In the event the Board of Directors elects its Chairman or any of its members to the office of Delegate Member, or charge any of its members to an executive office, then the Board of Directors shall determine the remuneration for such a Director.⁽¹⁾

Article – 43

The Chairman, Deputy Chairman or any Director shall be entitled to be paid by the Company all expenses incurred in the discharging of any assigned duty or task for the Company.

Article – 44

In accordance with an absolute majority decision of the Board of Directors or a petition signed by a number of shareholders owning not less than 25% of the share capital, the Ordinary General Meeting may remove the Chairman or any other member of the Board.

Article – 45

Neither the Chairman nor any Director may have any interest, whether direct or indirect, in contracts or transactions entered into by the Company or for its account unless by authorization from the General Meeting. However, they may open and maintain accounts with the Company and may - within the confines of the provisions of the Central Bank Law, these Articles or the resolutions of the General Meeting - borrow money and obtain credit facilities from the Company within the guidelines of ordinary banking business and in their capacities as ordinary customers, subject to same terms and regulations applied by the Company. Furthermore, they shall not take part in the management of any similar or competing company.⁽²⁾

Article – 46

The Board of Directors may appoint a general manager for the Company by a contract specifying authorities delegated, responsibilities, salary and remunerations and other conditions as agreed upon. The Board of Directors may also appoint an acting general manager to assume the general manager's duties in his absence.

Article – 47

The General Manager shall implement the Board resolutions, and the Board may grant him the power to sign all documents relating to the business of the Company, contracts, promissory notes, cheques and bills, and to endorse and accept the same within the provisions of articles 146 and 147 of the Commercial Companies Law.

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 6.7.1993.

⁽²⁾ Amended by Extraordinary General Meeting Resolutions of 16.5.1964 and 28.1.1969.

Article – 48

Any Directors failing to attend three consecutive meetings – without an acceptable excuse – shall be deemed as having resigned.

Article – 49

The membership in the Board of Directors shall expire with the death, resignation, removal, bankruptcy or the loss of legal capacity of member.

CHAPTER II GENERAL MEETING

Article – 50

The Founders shall, within 30 days from close of subscription, serve notice to the subscribers to convene as a Constituent General Meeting. The meeting shall be deemed duly held if attended by a number of members holding, in person or by proxy, more than 50% of the subscribed shares. The Meeting shall be presided over by one of the Founders, elected by the General Meeting for this purpose.

Article – 51

The Constituent General Meeting shall elect the first Board of Directors and Auditors.

Article – 52

The Board of Directors shall convene a General Meeting at least once a year. Notices of meetings shall specify the place, the day and the hour of meeting.

Article – 53

Notices convening General Meetings shall be served, including the agenda, date and venue of convening, in one of the following manners:

- a. Dispatch of registered letters to all shareholders at least two weeks prior to the convening of such meeting.
- b. Announcement, twice. The second announcement shall take place at least one week after the date of first announcement, and at least one week prior to the convening.
- c. Hand delivery of invitations to shareholders, or their legal representatives, at least one day prior to the date of the meeting. Copy of the invitation shall be signed received.
- d. Any other modern means of communication, as stated in the Executive Regulations of the Companies Law (Articles 136, 137 of the Executive Regulations), and any future amendments to the Companies Law and Executive Regulations in this respect.⁽¹⁾

Article – 54

Every shareholder shall be deemed a member of the General Meeting having all rights provided for in the Law. He shall be entitled to a number of votes equal to the number of shares held by him.

(¹) Amended by Law Decree No. 9/1978 of 26.3.1978, then amended by Extraordinary General Meeting Resolution of 23.3.2014.

Article – 55

The General Meeting shall be deemed duly held if attended by a number of shareholders holding fifty percent (50%) of the shares. If a quorum is not present, a notice for a second meeting shall be made and any number of shareholders present shall be considered a quorum.

Resolutions at the General Meeting shall be passed by absolute majority of shares represented at that meeting. Delegations can be made to Members of the Board to attend the meeting.⁽¹⁾

Article – 56

The Extraordinary General Meeting shall be deemed duly held if attended by a number of shareholders representing three quarters of the shares of the Company. If a quorum is not present, a second meeting shall be convened and the members representing more than half the number of shares shall be a quorum.

Extraordinary Resolutions shall be passed by a majority vote representing more than half the number of the Company's shares.

Article – 57

The Chairman of the Board of Directors, or his Deputy, or whomever the Board delegates, or shareholders elected by the General Meeting, or others, shall preside as Chairman at every General Meeting. The Chairman, or a person acting in his capacity, shall appoint a secretary and two observers to sort out the votes, provided such appointments are approved by the General Meeting.⁽²⁾

Article – 58

The Ordinary General Meeting may issue resolutions in the matters that fall within its competence, mainly:

1. Report of the Board of Directors on the Company's business and operations and on its financial position throughout the ended financial year.
2. Auditor's Report on the Company's financial statements and its financial position for the ended financial year.
3. Report on any violations observed by the regulators, and the Company is penalized accordingly.
4. The company's financial statements.
5. Board of Directors proposals regarding dividend distribution.
6. Releasing the Board Members.
7. Election, dismissal, or determination of the remuneration of Board Members.

⁽¹⁾ A member was not allowed to hold by proxy more than 4,000 shares, then an amendment was made by a resolution passed by the Extraordinary General Meeting held on 19.2.1974, and proxy became allowed for twenty thousand shares, and after the devaluation of share's nominal value to one Kuwaiti Dinar the proxy limit was expanded as stated in this article.

Present amendment made by a resolution of the Extraordinary General Meeting held on 16.2.1981.

⁽²⁾ Amended by Extraordinary General Meeting Resolution of 23.3.2014.

8. Report on transactions made, or to be made, with related parties; as defined according to International Accounting Standards.
9. Discussion of any other proposal to be listed in the agenda, for resolution in accordance with the law.
10. All matters set forth by law or these articles as competence of the Ordinary General Meeting.⁽¹⁾

Article - 59

The following matters shall not be decided thereon except by the Extraordinary General Meeting:

1. Amending the Memorandum of Association or these Articles.
2. Selling or otherwise disposing of the entire project undertaken by the Company.
3. Dissolving the Company or merging it with another company or entity.
4. Reducing the share capital of the Company.

Article – 60

General Meetings shall be held by invitation of the Board of Directors, or on the requisition of shareholders holding not less than one tenth of the Company's share capital, to discuss particular subjects.

Article – 61

The Extraordinary General Meeting may be convened upon an invitation by the Board of Directors, or upon a causative requisition by shareholders representing at least fifty per cent (50%) of the company's issued capital, or upon request by the Ministry of Commerce and Industry. The Board of Directors, or the Extraordinary General Meeting, shall convene within thirty days from the date of request.⁽²⁾

Article – 62

Minutes of the proceedings at General Meetings shall be recorded in books provided for this purpose, to be signed by the Chairman of the meeting. A list of names of members present and number of shares they represent, shall be attached to the minutes.

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981, then amended by Extraordinary General Meeting Resolution of 23.3.2014.

⁽²⁾ Amended by Extraordinary General Meeting Resolution of 23.3.2014.

CHAPTER III ACCOUNTS

Article – 63

The Company's financial year shall commence on January 1st and end on December 31st of every year. The Company's first fiscal year shall commence on the date of its incorporation and end on December 31st, 1961.

Article – 64

The Board of Directors shall, within the first three months of each financial year, prepare a report, to be signed by the Chairman, exhibiting and explaining the Company's assets and liabilities, all sums of money received and expended, the manner in which net profit shall be distributed and date fixed for its payment.⁽¹⁾

Article – 65

The Board of Directors shall, within one month from the ratification of the balance sheet by the General Meeting, publish a summary of its report, the auditors report and the annual balance sheet of the Company.

Article – 66

The Company shall have one or more auditors who shall be certified accountants. Such auditor shall be appointed and his fees determined by the General Meeting. It shall be his duty to audit the accounts of the financial year for which he has been appointed.

Article – 67

The auditor shall attend the General Meeting and shall submit to the General Meeting a report on all matters related to his assignment, in particular, the balance sheet. The audit report shall show:

1. Whether the Auditor had obtained all information deemed necessary for the performance of his duties satisfactorily.
2. Whether the balance sheet and profit and loss account are consistent with the current state of affairs of the Company, in compliance with the requirements of the Law and these Articles, and reflect fairly and clearly the financial position of the Company.
3. Whether proper books are being kept by the Company.
4. Whether an inventory has been carried out in accordance with the standard practice.
5. Whether the data appearing in the report of the Board of Directors are consistent with the data appearing in the books of the Company.
6. Whether any violations of the provisions of the Law or of these Articles had occurred during the financial year, which may adversely affect the Company's business or its financial position, and whether such violations are continuing, based on information made available to him.

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981.

Article – 68

The Auditor shall be responsible for the correctness of the statements contained in his report in his capacity as representative of all shareholders. Each shareholder shall be entitled during the General Meeting to discuss with the auditor and to ask him for an explanation of any items contained in his report.

Article – 69

A percentage of the gross profits to be determined by the Board of Directors, shall be set aside for depreciation of the assets of the Company or for making provision for the decline in their value. Such amount shall be used for the purchase or maintenance of supplies, equipment and installations, and may not be distributed to the shareholders.

Article – 70

A percentage of no less than 10% (Ten Percent) shall be deducted annually from the net profits in accordance with a resolution issued by the Ordinary General Assembly based on a proposition by the Board of Directors, to be allocated to the statutory reserve.

The statutory reserve may only be utilized to cover the company's losses or to secure the distribution of dividends to shareholders of up to 5% (Five Percent) of the paid-up capital in the years in which the company's profits do not allow the distribution of this percentage, due to the absence of a voluntary reserve that allows the distribution of this percentage of dividends.

The amount which was deducted from the statutory reserve shall be returned to it when the following year's profit is permissible unless this reserve exceeds half of the issued capital.

The General Assembly may suspend this deduction if the statutory reserve exceeds half of the issued capital of the company. It may also approve the use of the amount that exceeded this limit in whichever ways it deems appropriate to the favor of the company and its shareholders.

The Ordinary General Assembly may, upon the proposal of the Board of Directors, distribute dividends to shareholders at the end of the financial year, or semi-annually. It is also permissible, upon a decision from the Ordinary General Assembly, to be renewed annually, to authorize the Board of Directors in advance to distribute dividends on a semi-annual basis and to determine the timetable for this distribution. In order for this distribution to be valid and in accordance with the generally accepted accounting principles, it must be made from actual profits provided this distribution shall have no effect on the paid-up capital of the company.⁽¹⁾

⁽¹⁾ Amended by virtue of Article 9 of Law Decree No. 3/1975 of 27.1.1975. Then amended by Extraordinary General Meeting Resolution of 22.3.2022.

Article – 71

The General Meeting may, upon recommendation of the Board, decide a certain percentage of net profit to be carried to the Voluntary Reserve Account for uses the General Meeting may deem proper.⁽¹⁾

Article – 72

The General Meeting shall determine a certain percentage of the profits to meet the Company's obligations as provided for by the Kuwait Labor Law.

Article – 73

The Board of Directors may establish a pension fund for the benefit of all the Company's personnel.

Article – 74

Expenses incurred in the formation of the company shall be entered into its General Expenses Account.

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 10.3.1975.

GENERAL PROVISIONS

Article – 75

Any and all matters not mentioned in these Articles shall be governed by the provisions of the Law.⁽¹⁾

Article – 76

The Company shall be wound up in accordance with the provisions of the Law.

Article – 77

The Company shall have a special register, to be kept with a clearing agency. The register shall contain the names of shareholders, their nationalities, domicile, number and type of shares held, and the amount paid per share.

Any changes to the information shall be marked in the register, according to the information received by the Company or the clearing agency. Any person of interest may request the Company or clearing agency to provide them with information out of this register.⁽²⁾

Article – 78

Securities issued by the Company shall be subject to the central securities depositing system applicable at the clearing agency. Receipt of securities depositing with the clearing agency shall be deemed a title deed of the security. Each holder shall be handed over with a receipt giving the number of securities held by them.

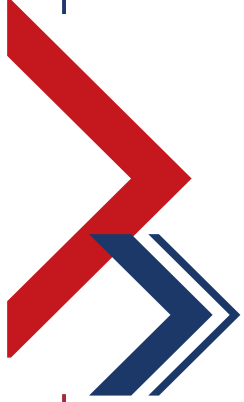
Each share shall entitle its holder to a share equal to the share of other, without discrimination, in the Company's assets, and dividend distributed as stated below. As the Company's shares are nominal, the latest holder thereof, whose name is registered in the Company's register, shall solely be entitled to receive the amounts due on the share, whether in the form of shares in the profit, or stake in the Company's assets.

The Company's shares shall be traded in accordance with the provisions of Law No. 7 of 2010, establishing the Capital Markets Authority, and regulating the securities activity, its executive regulations, as amended, and the rules to be issued by CMA in this respect.⁽³⁾

⁽¹⁾ Amended by Extraordinary General Meeting Resolution of 16.2.1981.

⁽²⁾ Added by Extraordinary General Meeting Resolution of 9.3.2016.

⁽³⁾ Added by Extraordinary General Meeting Resolution of 9.3.2016.



**Interim Condensed Consolidated Financial Information for the 6 months
ended 30 June 2023**

Financial Statements-1



GULF BANK GROUP
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)

30 JUNE 2023



**Building a better
working world**

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

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

Deloitte.

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

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

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

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Gulf Bank K.S.C.P. (the “Bank”) and its subsidiary (collectively the “Group”) as at 30 June 2023, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income for the three months and six months periods then ended and the related interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity for the six months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

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

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank’s Memorandum of Incorporation and Articles of Association, as amended, during the six months period ended 30 June 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 review, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the six months period ended 30 June 2023 that might have had a material effect on the business of the Bank or on its financial position.

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

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

27 July 2023
Kuwait



GULF BANK GROUP
Interim Condensed Consolidated Statement of Income
(Unaudited)

PERIOD ENDED 30 JUNE 2023

	<i>3 months ended</i>	<i>3 months ended</i>	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>
<i>Note</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Interest income	89,843	52,549	175,418	99,205
Interest expense	52,997	19,069	103,762	33,500
Net interest income	36,846	33,480	71,656	65,705
Net fees and commissions	6,050	7,497	13,699	14,238
Net gains from dealing in foreign currencies and derivatives	2,419	2,461	5,045	4,830
Dividend income	225	224	436	224
Other income	337	152	1,420	337
Operating income	45,877	43,814	92,256	85,334
Staff expenses	13,768	14,020	27,252	26,680
Occupancy costs	709	602	1,410	1,213
Depreciation	1,824	1,726	3,568	3,427
Other expenses	5,238	5,120	10,711	9,937
Operating expenses	21,539	21,468	42,941	41,257
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES	24,338	22,346	49,315	44,077
Charge (release) of provisions:				
- specific	6,921	7,502	21,114	12,658
- general	12	3,365	(265)	4,245
Loan recoveries, net of write-off	(2,005)	(4,552)	(9,042)	(4,623)
Net provision on other financial assets	(31)	50	(81)	41
OPERATING PROFIT	19,441	15,981	37,589	31,756
Directors' remuneration	30	21	60	41
Contribution to Kuwait Foundation for the Advancement of Sciences	194	160	376	318
National Labour Support Tax	481	395	931	786
Zakat	194	160	376	318
PROFIT FOR THE PERIOD	18,542	15,245	35,846	30,293
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	6	5	11
		9		

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

GULF BANK GROUP
Interim Condensed Consolidated Statement of Comprehensive Income
(Unaudited)

PERIOD ENDED 30 JUNE 2023

	<i>3 months ended</i> <i>30 June</i> <i>2023</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 June</i> <i>2022</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2023</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2022</i> <i>KD 000's</i>
Profit for the period	18,542	15,245	35,846	30,293
Other comprehensive income				
<i>Items that will not be reclassified subsequently to interim condensed consolidated statement of income :</i>				
Net changes in fair value of investment securities-equity	11	(1,928)	(476)	(214)
Other comprehensive income (loss) for the period	11	(1,928)	(476)	(214)
Total comprehensive income for the period	18,553	13,317	35,370	30,079

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

GULF BANK GROUP
Interim Condensed Consolidated Statement of Financial Position

		<i>(Unaudited)</i> 30 June 2023 KD 000's	<i>(Audited)</i> 31 December 2022 KD 000's	<i>(Unaudited)</i> 30 June 2022 KD 000's
	<i>Notes</i>			
ASSETS				
Cash and cash equivalents		1,078,978	929,888	1,027,727
Kuwait Government treasury bonds		22,000	22,000	48,000
Central Bank of Kuwait bonds		341,878	337,703	299,276
Deposits with banks and other financial institutions		66,014	131,222	57,983
Loans and advances	4	5,173,723	5,128,680	5,181,553
Investment securities		73,443	128,935	111,247
Other assets	5	117,363	134,392	116,257
Premises and equipment		40,179	38,660	35,667
TOTAL ASSETS		6,913,578	6,851,480	6,877,710
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		317,882	489,651	682,220
Deposits from financial institutions		969,850	774,611	598,662
Customer deposits		4,215,606	4,246,837	4,571,389
Other borrowed funds	6	539,484	493,926	245,670
Other liabilities		147,368	126,432	102,673
TOTAL LIABILITIES		6,190,190	6,131,457	6,200,614
EQUITY				
Share capital	7	336,056	320,053	320,053
Proposed bonus shares	8	-	16,003	-
Statutory reserve		53,052	53,052	46,562
Share premium		153,024	153,024	153,024
Property revaluation reserve		18,154	18,154	18,194
Fair valuation reserve		1,073	1,549	2,160
Retained earnings		162,029	158,188	153,245
		723,388	720,023	693,238
Treasury shares	9	-	-	(16,142)
TOTAL EQUITY		723,388	720,023	677,096
TOTAL LIABILITIES AND EQUITY		6,913,578	6,851,480	6,877,710


Ali Morad Benbehani
(Deputy Chairman)


Waleed Mandani
(Acting Chief Executive Officer)

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

GULF BANK GROUP
Interim Condensed Consolidated Statement of Cash Flows
(Unaudited)
PERIOD ENDED 30 JUNE 2023

	<i>Notes</i>	<i>6 months ended 30 June 2023 KD 000's</i>	<i>6 months ended 30 June 2022 KD 000's</i>
OPERATING ACTIVITIES			
Profit for the period		35,846	30,293
Adjustments:			
Dividend income		(436)	(224)
Depreciation		3,568	3,427
Loan loss provisions		20,849	16,903
Net provision on other financial assets		(81)	41
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		59,746	50,440
<i>(Increase)/decrease in operating assets:</i>			
Kuwait Government treasury bonds		-	26,000
Central Bank of Kuwait bonds		(4,175)	(18,079)
Deposits with banks and other financial institutions		65,244	66,653
Loans and advances		(66,802)	(361,427)
Other assets		16,357	4,947
<i>(Decrease)/increase in operating liabilities:</i>			
Due to banks		(171,769)	86,719
Deposits from financial institutions		195,239	(74,507)
Customer deposits		(31,231)	267,394
Other liabilities		21,846	428
NET CASH FLOWS FROM OPERATING ACTIVITIES		84,455	48,568
INVESTING ACTIVITIES			
Purchase of investment securities		(25,695)	(12,527)
Proceeds from sale/maturity of investment securities		81,428	42,473
Purchase of premises and equipment		(5,087)	(4,701)
Dividend income received		436	224
NET CASH FLOWS FROM INVESTING ACTIVITIES		51,082	25,469
FINANCING ACTIVITIES			
Net proceeds from other borrowed funds	6	45,558	30,670
Dividend paid	8	(32,005)	(21,078)
Proceeds from sale of treasury shares		-	1,603
NET CASH FLOWS FROM FINANCING ACTIVITIES		13,553	11,195
NET INCREASE IN CASH AND CASH EQUIVALENTS		149,090	85,232
CASH AND CASH EQUIVALENTS AT 1 JANUARY		929,888	942,495
CASH AND CASH EQUIVALENTS AT 30 JUNE		1,078,978	1,027,727
Additional cash flows information			
Interest received		167,265	102,993
Interest paid		86,170	29,422

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

GULF BANK GROUP
Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)

PERIOD ENDED 30 JUNE 2023

	R E S E R V E S										Treasury shares KD 000's	Total KD 000's
	Share capital KD 000's	Proposed bonus shares KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Sub-total reserves KD 000's	Total			
At 1 January 2022	304,813	15,240	46,562	153,024	18,194	2,374	144,442	364,596	(18,157)	666,492		666,492
Profit for the period	-	-	-	-	-	-	30,293	30,293	-	30,293		30,293
Other comprehensive loss for the period	-	-	-	-	-	(214)	-	(214)	-	(214)		(214)
Total comprehensive (loss) income for the period	-	-	-	-	-	(214)	30,293	30,079	-	30,079		30,079
Dividend paid (Note 8)	-	-	-	-	-	-	(21,078)	(21,078)	-	(21,078)		(21,078)
Issue of bonus shares (Note 8)	15,240	(15,240)	-	-	-	-	-	-	-	-		-
Sale of treasury shares	-	-	-	-	-	-	-	-	2,015	2,015		2,015
Loss on sale of treasury shares	-	-	-	-	-	-	(412)	(412)	-	(412)		(412)
At 30 June 2022	320,053	-	46,562	153,024	18,194	2,160	153,245	373,185	(16,142)	677,096		677,096
At 1 January 2023	320,053	16,003	53,052	153,024	18,154	1,549	158,188	383,967	-	720,023		720,023
Profit for the period	-	-	-	-	-	-	35,846	35,846	-	35,846		35,846
Other comprehensive loss for the period	-	-	-	-	-	(476)	-	(476)	-	(476)		(476)
Total comprehensive (loss) income for the period	-	-	-	-	-	(476)	35,846	35,370	-	35,370		35,370
Dividend paid (Note 8)	-	-	-	-	-	-	(32,005)	(32,005)	-	(32,005)		(32,005)
Issue of bonus shares (Note 8)	16,003	(16,003)	-	-	-	-	-	-	-	-		-
At 30 June 2023	336,056	-	53,052	153,024	18,154	1,073	162,029	387,332	-	723,388		723,388

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)
30 June 2023

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 quarter, 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 interim condensed consolidated financial information.

The interim condensed consolidated financial information of the Group for the six months period ended 30 June 2023 was authorised by the Board of Directors for issue on 13 July 2023.

The principal activities of the Group are described in Note 10.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

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

The annual financial statements for the year ended 31 December 2022 were prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, 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".

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2022. Further, operating results for the six months period ended 30 June 2023 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

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

2.2 New standards, interpretations and amendments and accounting policies adopted by the Group

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2022, except for first application of IFRS 10 "Consolidated Financial Statements".

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)
30 June 2023

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

IFRS 10 Consolidated Financial Statements - 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.

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.

3. BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>3 months ended 30 June 2023 KD 000's</i>	<i>3 months ended 30 June 2022 KD 000's</i>	<i>6 months ended 30 June 2023 KD 000's</i>	<i>6 months ended 30 June 2022 KD 000's</i>
Profit for the period	<u>18,542</u>	<u>15,245</u>	<u>35,846</u>	<u>30,293</u>
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	<u>3,360,561,006</u>	<u>3,321,812,544</u>	<u>3,360,561,006</u>	<u>3,320,796,171</u>
Basic and diluted earnings per share (Fils)	<u>6</u>	<u>5</u>	<u>11</u>	<u>9</u>

Earnings per share calculations for the period ended 30 June 2022 have been adjusted to the account of the bonus shares issued on 13 April 2023 (Note 8). Earnings per share for the six months period ended 30 June 2022 was 10 fils per share before retroactive adjustment to the number of shares following the bonus issue.

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)
30 June 2023

4. LOANS AND ADVANCES

	<i>(Unaudited)</i> 30 June 2023 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2022 <i>KD 000's</i>	<i>(Unaudited)</i> 30 June 2022 <i>KD 000's</i>
Gross loans and advances	5,462,623	5,422,721	5,466,440
Less: Provision for impairment	<u>(288,900)</u>	<u>(294,041)</u>	<u>(284,887)</u>
Loans and advances	<u>5,173,723</u>	<u>5,128,680</u>	<u>5,181,553</u>

Provision for non-cash facilities of **KD 18,470 thousand** (31 December 2022: KD 19,380 thousand and 30 June 2022: KD 19,055 thousand) is included under other liabilities.

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

	<i>(Unaudited)</i> 30 June 2023 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2022 <i>KD 000's</i>	<i>(Unaudited)</i> 30 June 2022 <i>KD 000's</i>
Provision on cash facilities	288,900	294,041	284,887
Provision on non-cash facilities	<u>18,470</u>	<u>19,380</u>	<u>19,055</u>
Total provisions on credit facilities	<u>307,370</u>	<u>313,421</u>	<u>303,942</u>
IFRS 9 ECL on credit facilities	<u>185,398</u>	<u>189,748</u>	<u>189,967</u>
Excess of total provisions over IFRS 9 ECL on credit facilities	<u>121,972</u>	<u>123,673</u>	<u>113,975</u>
Excess provisions as a percentage of total provisions	<u>40%</u>	<u>39%</u>	<u>37%</u>

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

At 30 June 2023:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans and advances	<u>5,148,576</u>	<u>258,702</u>	<u>55,345</u>	<u>5,462,623</u>
Contingent liabilities and commitments (Note 12)	<u>2,442,219</u>	<u>190,700</u>	<u>18,621</u>	<u>2,651,540</u>
IFRS 9 ECL on credit facilities	<u>38,328</u>	<u>82,563</u>	<u>64,507</u>	<u>185,398</u>

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)

30 June 2023

4. LOANS AND ADVANCES (continued)

At 31 December 2022:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans and advances	5,085,594	274,356	62,771	5,422,721
Contingent liabilities and commitments (Note 12)	2,411,911	242,188	19,389	2,673,488
IFRS 9 ECL on credit facilities	38,179	78,970	72,599	189,748

At 30 June 2022:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans and advances	5,149,354	257,832	59,254	5,466,440
Contingent liabilities and commitments (Note 12)	2,559,008	212,548	18,896	2,790,452
IFRS 9 ECL on credit facilities	43,571	86,530	59,866	189,967

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 30 June 2023:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL balance as at 1 January 2023	38,179	78,970	72,599	189,748
Impact due to transfer between stages	5,649	3,381	(9,030)	-
ECL (release)/charge for the period	(5,500)	212	27,838	22,550
ECL release on written off facilities	-	-	(26,900)	(26,900)
ECL balance as at 30 June 2023	38,328	82,563	64,507	185,398

At 30 June 2022:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL balance as at 1 January 2022	41,724	96,272	50,635	188,631
Impact due to transfer between stages	4,192	409	(4,601)	-
ECL (release)/charge for the period	(2,345)	(10,151)	27,899	15,403
ECL release on written off facilities	-	-	(14,067)	(14,067)
ECL balance as at 30 June 2022	43,571	86,530	59,866	189,967

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)

30 June 2023

5. OTHER ASSETS

	<i>(Unaudited)</i> 30 June 2023 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2022 <i>KD 000's</i>	<i>(Unaudited)</i> 30 June 2022 <i>KD 000's</i>
Accrued interest receivable	34,142	25,989	12,367
Sundry debtors and others	14,557	13,655	18,374
Government Grant receivable	-	26,084	26,084
Repossessed collaterals (refer movement below)	68,664	68,664	59,432
	<u>117,363</u>	<u>134,392</u>	<u>116,257</u>

Movement in repossessed collaterals:

	<i>(Unaudited)</i> 30 June 2023 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2022 <i>KD 000's</i>	<i>(Unaudited)</i> 30 June 2022 <i>KD 000's</i>
Beginning balance	68,664	59,432	59,432
Additions	-	9,232	-
Closing balance	<u>68,664</u>	<u>68,664</u>	<u>59,432</u>

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.

6. OTHER BORROWED FUNDS

	<i>(Unaudited)</i> 30 June 2023 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2022 <i>KD 000's</i>	<i>(Unaudited)</i> 30 June 2022 <i>KD 000's</i>
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	4.00% 25,000	25,000	25,000
Subordinated Tier 2 bonds- KWD 2031 (Floating tranche capped at 5%)	CBK+2.25% 25,000	25,000	25,000
Medium term borrowings-Floating	5.00% to 6.83% 489,484	443,926	195,670
	<u>539,484</u>	<u>493,926</u>	<u>245,670</u>

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)

30 June 2023

7. SHARE CAPITAL

The authorised share capital of the Bank comprises 4,860,561,006 shares (31 December 2022: 3,200,534,292 shares and 30 June 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**.

	<i>(Unaudited)</i> 30 June 2023 KD 000's	<i>(Audited)</i> 31 December 2022 KD 000's	<i>(Unaudited)</i> 30 June 2022 KD 000's
Issued and fully paid up 3,360,561,006 (31 December 2022: 3,200,534,292 and 30 June 2022: 3,200,534,292) shares of 100 fils each	336,056	320,053	320,053

8. DIVIDEND

The shareholders at the Annual General Meeting (AGM) 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.

9. TREASURY SHARES

	<i>(Unaudited)</i> 30 June 2023	<i>(Audited)</i> 31 December 2022	<i>(Unaudited)</i> 30 June 2022
Number of treasury shares	-	-	34,539,604
Percentage of treasury shares	0.00%	0.00%	1.08%
Cost of treasury shares (KD 000's)	-	-	16,142
Weighted average market value of treasury shares (KD 000's)	-	-	10,984

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)
30 June 2023

10. SEGMENTAL ANALYSIS

By Business Unit

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

Treasury & Investments Providing money market, trading and treasury services, as well as the management of the 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 six months period ended 30 June is as follows:

	<u>Commercial Banking</u>		<u>Treasury & Investments</u>		<u>Total</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>
Operating income (excluding unallocated income provided below)	<u>70,836</u>	<u>73,598</u>	<u>(228)</u>	<u>2,471</u>	<u>70,608</u>	<u>76,069</u>
Segment result	<u>41,238</u>	<u>44,919</u>	<u>(1,086)</u>	<u>1,467</u>	<u>40,152</u>	<u>46,386</u>
Unallocated income					<u>21,648</u>	<u>9,265</u>
Unallocated expense					<u>(25,954)</u>	<u>(25,358)</u>
Profit for the period					<u>35,846</u>	<u>30,293</u>
Segment assets	<u>5,322,641</u>	<u>5,320,143</u>	<u>1,502,058</u>	<u>1,465,074</u>	<u>6,824,699</u>	<u>6,785,217</u>
Unallocated assets					<u>88,879</u>	<u>92,493</u>
Total Assets					<u>6,913,578</u>	<u>6,877,710</u>
Segment liabilities	<u>3,118,642</u>	<u>3,333,184</u>	<u>2,865,513</u>	<u>2,691,898</u>	<u>5,984,155</u>	<u>6,025,082</u>
Unallocated liabilities and equity					<u>929,423</u>	<u>852,628</u>
Total Liabilities and Equity					<u>6,913,578</u>	<u>6,877,710</u>

GULF BANK GROUP
Notes to the Interim Condensed consolidated Financial Information
(Unaudited)

30 June 2023

11. RELATED PARTY TRANSACTIONS

Certain related parties (major shareholder, Board members and executive management of the Group, their families and companies of which they are 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 interim condensed consolidated statement of income and interim condensed consolidated financial information are as follows:

	<i>Number of Board Members or executive management</i>				<i>Number of related parties</i>				<i>KD 000's</i>	<i>KD 000's</i>
	<i>(Audited)</i>		<i>(Audited)</i>		<i>(Audited)</i>		<i>(Audited)</i>			
	<i>30 June 2023</i>	<i>31 December 2022</i>	<i>30 June 2022</i>	<i>31 December 2022</i>	<i>30 June 2022</i>	<i>31 December 2022</i>	<i>30 June 2023</i>	<i>31 December 2022</i>		
Board members:										
Balances										
Loans and advances	1	1	1	10	6	144,132	166,370	159,017		
Credit cards	3	3	2	5	6	14	18	15		
Deposits	8	8	8	77	73	48,700	42,389	49,504		
Commitments/derivatives										
Guarantees / letters of credit	-	-	-	13	11	43,944	32,742	7,868		
Forward foreign exchange contracts	-	-	-	-	-	71	-	-		
Transactions										
Interest income	1	1	1	18	14	4,164	5,582	2,156		
Interest expense	4	4	4	16	14	360	564	280		
Net fees and commissions	-	-	-	17	12	103	138	50		
Other expenses	-	-	-	12	10	822	1,764	625		
Purchase of equipment	-	-	-	2	2	153	276	154		
Executive management:										
Balances										
Loans and advances	6	7	6	-	-	895	1,158	1,139		
Credit cards	9	11	11	-	-	13	22	19		
Deposits	14	17	15	-	-	3,172	4,229	3,759		
Transactions										
Interest income	6	7	6	-	-	24	41	15		
Interest expense	18	18	16	-	-	89	74	26		

GULF BANK GROUP

Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

30 June 2023

11. RELATED PARTY TRANSACTIONS (continued)

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **5% to 6.25%** (2022: 3.25% 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 30 June 2023 was **KD 66,096 thousand** (31 December 2022: KD 66,821 thousand and 30 June 2022: KD 66,178 thousand).

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

	<i>6 months ended</i> <i>30 June 2023</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June 2022</i> <i>KD 000's</i>
Salaries and other benefits	2,078	2,409
End of service/termination benefits	340	247
	2,418	2,656

12. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited)</i> <i>30 June</i> <i>2023</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2022</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 June</i> <i>2022</i> <i>KD 000's</i>
Guarantees	1,126,446	1,146,960	1,207,590
Letters of credit and acceptances	382,904	366,055	392,330
Undrawn irrevocable commitments	18,345	33,323	19,535
Undrawn revocable commitments	1,123,845	1,127,150	1,170,997
	2,651,540	2,673,488	2,790,452

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

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

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

			<i>Notional amounts by</i> <i>term to maturity</i>		
At 30 June 2023:	<i>Positive</i> <i>fair value</i> <i>KD 000's</i>	<i>Negative</i> <i>fair value</i> <i>KD 000's</i>	<i>Notional</i> <i>amount</i> <i>total</i> <i>KD 000's</i>	<i>Within</i> <i>3 months</i> <i>KD 000's</i>	<i>3-12</i> <i>months</i> <i>KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	63	(173)	143,110	143,030	80
	63	(173)	143,110	143,030	80

GULF BANK GROUP

Notes to the Interim Condensed Consolidated Financial Information (Unaudited)

30 June 2023

13. DERIVATIVES (continued)

At 31 December 2022:	<i>Notional amounts by term to maturity</i>				
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	52	(46)	7,834	7,834	-

At 30 June 2022:	<i>Notional amounts by term to maturity</i>				
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	155	(129)	80,226	69,255	10,971

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

At 30 June 2023:

	<i>Level 1 KD '000</i>	<i>Level 2 KD '000</i>	<i>Level 3 KD '000</i>	<i>Total KD '000</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	12,493	838	21,453	34,784
Debt securities	-	152	-	152
	<u>12,493</u>	<u>990</u>	<u>21,453</u>	<u>34,936</u>

The amortized cost and fair value of investment securities at amortised cost as at 30 June 2023 were **KD 38,507 thousand** (31 December 2022: KD 95,396 thousand; 30 June 2022: KD 76,359 thousand) and **KD 38,281 thousand** (Level 1) (31 December 2022: KD 94,737 thousand; 30 June 2022: KD 75,896 thousand) respectively.

GULF BANK GROUP
Notes to the Interim Condensed Consolidated Financial Information
(Unaudited)
30 June 2023

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2022:

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	10,268	836	22,232	33,336
Debt securities	-	203	-	203
	<u>10,268</u>	<u>1,039</u>	<u>22,232</u>	<u>33,539</u>

At 30 June 2022:

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	10,848	688	23,151	34,687
Debt securities	-	201	-	201
	<u>10,848</u>	<u>889</u>	<u>23,151</u>	<u>34,888</u>

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

	At 1 January KD 000's	Change in fair value KD 000's	Additions/ disposals KD 000's	Exchange rate movements KD 000's	At 30 June KD 000's
<i>Financial assets at FVOCI:</i>					
Equity securities					
2023	22,232	-	(788)	9	21,453
2022	23,146	-	-	5	23,151

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

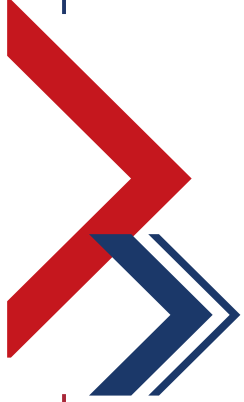
The positive and negative fair values of forward foreign exchange contracts are valued using significant inputs of observable market data (Level 2). Refer Note 13.

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

15. INTEREST RATE BENCHMARK REFORM

The Group's exposure to IBOR linked financial assets is mainly through USD LIBOR.

The Group's exposure to financial assets that are based on USD LIBOR maturing after 30 June 2023 is **KD 397,777 thousand** (31 December 2022: KD 450,181 thousand and 30 June 2022: KD 756,972 thousand). The Group's exposure to USD IBOR linked financial liabilities is relatively insignificant.



Consolidated financial statements for year ended 31 December 2022

Financial Statements-2



GULF BANK K.S.C.P.
FINANCIAL STATEMENTS
31 DECEMBER 2022



**Building a better
working world**
Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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

Deloitte.

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

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

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

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Kuwait ("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 Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Credit losses on loans and advances

The recognition of credit losses on loans and advances ("credit facilities") to customers and banks is the higher of Expected Credit Loss ("ECL") 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 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.

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

Report on the Audit of Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on loans and advances (continued)

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 Bank in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the current inflationary pressure and high interest rate environment, including a focus on rescheduled credit facilities.

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

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

Other information included in the Bank's 2022 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Bank's 2022 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report for the year ended 31 December 2022 after the date of our auditors' report.

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

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

Report on the Audit of Financial Statements (continued)

Other information included in the Bank's 2022 Annual Report (continued)

In connection with our audit of the 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 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as adopted 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

Report on the Audit of Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

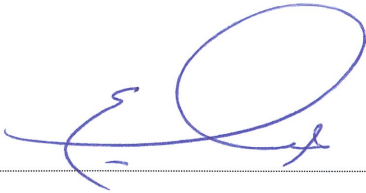
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014, and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, 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 2022 that might have had a material effect on the business of the Bank or on its financial position.

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

Report on Other Legal and Regulatory Requirements (continued)

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 2022 that might have had a material effect on the business of the Bank or on its financial position.



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



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

2 February 2023
Kuwait

GULF BANK K.S.C.P.

Income Statement

Year Ended 31 December 2022

	NOTES	2022 KD 000's	2021 KD 000's
Interest income	4	244,463	185,994
Interest expense	5	(102,272)	(53,681)
Net interest income		142,191	132,313
Net fees and commissions	6	26,498	27,428
Net gains from dealing in foreign currencies and derivatives		10,292	9,058
Dividend income		799	679
Other income		1,277	580
Operating income		181,057	170,058
Staff expenses		55,550	47,712
Occupancy costs		2,718	2,628
Depreciation		6,833	6,823
Other expenses		21,105	21,018
Operating expenses		86,206	78,181
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		94,851	91,877
Charge of provisions:			
- specific	7	32,937	55,833
- general	12,18	4,936	3,603
Loan recoveries, net of write-off	12	(8,008)	(11,943)
Net provision on other financial assets		(42)	110
Impairment loss on other assets	14	131	-
		29,954	47,603
OPERATING PROFIT		64,897	44,274
Directors' remuneration	22	188	179
Contribution to Kuwait Foundation for the Advancement of Sciences		648	446
National Labour Support Tax		1,609	1,098
Zakat		648	446
PROFIT FOR THE YEAR		61,804	42,105
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	19	13

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

GULF BANK K.S.C.P.
Statement of Comprehensive Income
Year Ended 31 December 2022

	2022	2021
	KD 000's	KD 000's
Profit for the year	61,804	42,105
Other comprehensive income		
<i>Items that will not to be reclassified subsequently to the income statement:</i>		
Net changes in fair value of investment securities-equity	(1,040)	(807)
Revaluation of premises and equipment	(40)	25
Other comprehensive loss for the year	(1,080)	(782)
Total comprehensive income for the year	60,724	41,323

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

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

As at 31 December 2022

	NOTES	2022 KD 000's	2021 KD 000's
ASSETS			
Cash and cash equivalents	9	929,888	942,495
Kuwait Government treasury bonds	10	22,000	74,000
Central Bank of Kuwait bonds	11	337,703	281,197
Deposits with banks and other financial institutions	9	131,222	124,642
Loans and advances to banks	12	262,786	278,451
Loans and advances to customers	12	4,865,894	4,558,086
Investment securities	13	128,935	141,941
Other assets	14	134,392	120,705
Premises and equipment		38,660	34,393
TOTAL ASSETS		6,851,480	6,555,910
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	489,651	595,501
Deposits from financial institutions	15	774,611	673,169
Customer deposits	16	4,246,837	4,303,995
Other borrowed funds	17	493,926	215,000
Other liabilities	18	126,432	101,753
TOTAL LIABILITIES		6,131,457	5,889,418
EQUITY			
Share capital	19	320,053	304,813
Proposed bonus shares	22	16,003	15,240
Statutory reserve	20	53,052	46,562
Share premium	20	153,024	153,024
Property revaluation reserve	20	18,154	18,194
Fair valuation reserve		1,549	2,374
Retained earnings		158,188	144,442
		720,023	684,649
Treasury shares	21	-	(18,157)
TOTAL EQUITY		720,023	666,492
TOTAL LIABILITIES AND EQUITY		6,851,480	6,555,910



Jassim Mustafa Boodai
(Chairman)



Antoine Daher
(Chief Executive Officer)

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



GULF BANK K.S.C.P.**Statement of Cash Flows**

Year Ended 31 December 2022

	NOTES	2022 KD 000's	2021 KD 000's
OPERATING ACTIVITIES			
Profit for the year		61,804	42,105
Adjustments:			
Dividend income		(799)	(679)
Depreciation		6,833	6,823
Loan loss provisions	7,12,18	37,873	59,436
Net provision on other financial assets		(42)	110
Impairment loss on other assets		131	-
		<hr/>	<hr/>
<i>CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</i>		105,800	107,795
<i>Decrease/(increase) in operating assets:</i>			
Kuwait Government treasury bonds		52,000	34,500
Central Bank of Kuwait bonds		(56,506)	(473)
Deposits with banks and other financial institutions		(6,614)	(121,612)
Loans and advances to banks		15,011	(86,767)
Loans and advances to customers		(344,210)	(497,449)
Other assets		(13,022)	(21,274)
<i>(Decrease)/increase in operating liabilities:</i>			
Due to banks		(105,850)	44,958
Deposits from financial institutions		101,442	(32,168)
Customer deposits		(57,158)	270,276
Other liabilities		23,862	12,851
		<hr/>	<hr/>
<i>NET CASH FLOWS USED IN OPERATING ACTIVITIES</i>		(285,245)	(289,363)
INVESTING ACTIVITIES			
Purchase of investment securities		(54,262)	(22,498)
Proceeds from sale/maturity of investment securities		65,508	52,085
Purchase of premises and equipment		(11,140)	(7,138)
Dividend income received		799	679
		<hr/>	<hr/>
<i>NET CASH FLOWS FROM INVESTING ACTIVITIES</i>		905	23,128
FINANCING ACTIVITIES			
Net proceeds from other borrowed funds	17	278,926	115,000
Dividend paid	22	(21,078)	(15,056)
Proceeds from sale of treasury shares		13,885	2,861
		<hr/>	<hr/>
<i>NET CASH FLOWS FROM FINANCING ACTIVITIES</i>		271,733	102,805
		<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(12,607)	(163,430)
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 1 JANUARY		942,495	1,105,925
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	929,888	942,495
		<hr/> <hr/>	<hr/> <hr/>
<i>Additional cash flows information</i>			
Interest received		234,629	184,319
Interest paid		82,111	55,739

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

GULF BANK K.S.C.P.

Statement of Changes in Equity

Year Ended 31 December 2022

	RESERVES										Total KD 000's
	Share capital KD 000's	Proposed bonus shares KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Sub-total reserves KD 000's	Treasury shares KD 000's		
At 1 January 2021	304,813	-	42,135	153,024	18,169	3,686	140,073	357,087	(24,536)	637,364	
Profit for the year	-	-	-	-	-	-	42,105	42,105	-	42,105	
Other comprehensive income (loss) for the year	-	-	-	-	25	(807)	-	(782)	-	(782)	
Total comprehensive income (loss) for the year	-	-	-	-	25	(807)	42,105	41,323	-	41,323	
Dividend paid (Note 22)	-	-	-	-	-	-	(15,056)	(15,056)	-	(15,056)	
Realised gain on equity securities at FVOCI	-	-	-	-	-	(505)	505	-	-	-	
Sale of treasury shares	-	-	-	-	-	-	-	-	6,379	6,379	
Loss on sale of treasury shares	-	-	-	-	-	-	(3,518)	(3,518)	-	(3,518)	
Transfer to reserve	-	-	4,427	-	-	-	(4,427)	-	-	-	
Proposed bonus shares (Note 22)	-	15,240	-	-	-	-	(15,240)	(15,240)	-	-	
At 31 December 2021	304,813	15,240	46,562	153,024	18,194	2,374	144,442	364,596	(18,157)	666,492	
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	

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

GULF BANK K.S.C.P.

Notes to the Financial Statements

31 December 2022

1. INCORPORATION AND REGISTRATION

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

The financial statements for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 16 January 2023. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Statement of compliance

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

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

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

Presentation of financial statements

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

2.2 Changes in accounting policies and disclosures

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

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Bank as there were no modifications of the Bank's financial instruments during the period.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2022 did not have any material impact on the accounting policies, financial position or performance of the Bank.

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

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

Business model assessment

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

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

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

SPPI Test

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Recognition/de-recognition

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

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

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

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Measurement of financial instruments

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

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

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

Financial assets carried at amortised cost

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Measurement of financial instruments (continued)

Financial assets carried at amortised cost (continued)

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

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. The Bank subsequently measures all equity instruments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Such classification is determined on an instrument by instrument basis. Equity instruments at FVOCI are not subject to impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in income statement as 'Dividend income' when the Bank's right to receive payments is established.

Financial asset at FVTPL

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

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

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 initially 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.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets

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

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

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

Impairment on credit facilities

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

Impairment on other financial assets (other than credit facilities)

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

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

The Bank recognises a 12-month ECL on current accounts with banks and other financial institutions, placements with banks and other financial institutions and debt securities carried at amortised cost 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 Bank applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets (continued)

Determining the significant increase in credit risk

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

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

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

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

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

Measurement of ECLs

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

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Write off

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

Commitments

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

Modification of loans and advances to customers

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated credit-impaired. When loans and advances to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Provisions for credit losses in accordance with CBK instructions

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 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 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 Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Repurchase and resale agreements

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

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Derivative financial instruments and hedging

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

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

Hedge effectiveness requirements

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

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

At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

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

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

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the discontinued hedge is amortized over the remaining term to maturity.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

c. Repossessed collaterals

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

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

d. Provisions

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

e. End of service indemnity

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

f. Treasury shares

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

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

h. Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

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

i. Revenue recognition

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

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

j. Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest rate method. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses. Once a financial asset categorised as loans and advances is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. When a financial asset becomes credit-impaired, the Bank 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 Bank 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 Bank assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The Bank elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value. Those lease payments are recognized as an operating expense in the income statement on a straight line basis over the lease term.

Right-of-use assets

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

l. Leases (continued)

Lease Liabilities

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

m. Fiduciary assets

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

n. Foreign currencies

Foreign currency transactions are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting date. Any resultant gains or losses are taken to the income statement.

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

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

r. Government grants

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgements, estimates and assumptions

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

Classification of financial instruments

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

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

Impairment losses on financial instruments

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios.

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

Valuation of unquoted financial instruments

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.5 Standards issued but not effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2023 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective. None of these are expected to have a significant impact on the financial statements of the Bank.

3. IMPACT OF COVID-19

During the year 2020 and 2021, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. Below are the measures valid up to 31 December 2022:

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

Above measures are further disclosed in the respective notes to the annual financial statements. Effective from 1 January 2023 all regulatory ratios are restored back to pre-covid period.

During 2021, the CBK issued a circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 regarding the deferral of the financial obligations for a six-month period with cancellation of interest resulting from this deferral. The Bank implemented the scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows amount of KD 26,084 thousand in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant and is included in other assets in the statement of financial position in accordance with the Law (Note 14).

4. INTEREST INCOME

	2022	2021
	KD 000's	KD 000's
Kuwait Government treasury bonds and CBK Bonds	7,364	5,573
Debt investment securities	2,251	3,339
Placements with banks	14,736	2,333
Loans and advances to banks and customers	220,112	174,749
	244,463	185,994

5. INTEREST EXPENSE

	2022	2021
	KD 000's	KD 000's
Sight and savings accounts	3,985	3,711
Time deposits	77,677	39,304
Bank borrowings	10,115	5,077
Other borrowed funds	10,495	5,589
	102,272	53,681

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

6. NET FEES AND COMMISSIONS

	2022	2021
	KD 000's	KD 000's
Total fees and commission income	39,289	38,060
Total fees and commission expense	(12,791)	(10,632)
	26,498	27,428

Total fees and commission income includes **KD 637 thousand** (2021: KD 537 thousand) from fiduciary activities.

7. SPECIFIC PROVISIONS

	2022	2021
	KD 000's	KD 000's
Loans and advances to customers		
– Cash (Note 12)	32,305	52,628
– Non-cash (Note 18)	632	3,205
	32,937	55,833

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 2022.

	2022	2021
	KD 000's	KD 000's
Profit for the year	61,804	42,105
	Shares	Shares
Weighted average number of shares outstanding during the year, net of treasury shares	3,177,363,203	3,159,065,997
	Fils	Fils
Basic and diluted earnings per share	19	13

Earnings per share calculations for the year ended 31 December 2021 have been adjusted to account for the bonus shares issued on 14 April 2022 (Note 22). Earnings per share for the year ended 31 December 2021 was 14 fils per share before retroactive adjustment to the number of shares following the bonus issue.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

9. CASH AND CASH EQUIVALENTS

	2022	2021
	KD 000's	KD 000's
Balances with the Central Bank of Kuwait	378,319	316,277
Cash in hand and in current accounts with other banks and other financial institutions	88,108	74,407
Deposits with banks and other financial institutions maturing within 30 days	463,466	551,878
	<u>929,893</u>	<u>942,562</u>
Less: Provision for ECL	(5)	(67)
	<u>929,888</u>	<u>942,495</u>

At 31 December 2022, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 131,259 thousand** (2021: KD 124,645 thousand) adjusted by ECL provision amount of **KD 37 thousand** (2021: KD 3 thousand).

At 31 December 2022 and 2021, 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.

	2022	2021
	KD 000's	KD 000's
Maturing within one year	5,500	52,000
Maturing after one year	16,500	22,000
	<u>22,000</u>	<u>74,000</u>

At 31 December 2022 and 2021, 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.

	2022	2021
	KD 000's	KD 000's
Central Bank of Kuwait Bonds	337,703	281,197
	<u>337,703</u>	<u>281,197</u>

At 31 December 2022 and 2021, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

At 31 December 2022:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	2,259,720	-	-	-	1,812	2,261,532
Financial	113,594	75,645	-	-	30,630	219,869
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 to customers	<u>4,655,880</u>	<u>454,334</u>	<u>15,089</u>	<u>-</u>	<u>32,442</u>	<u>5,157,745</u>
Less: Provision for impairment						<u>(291,851)</u>
<i>Loans and advances to customers</i>						<u><u>4,865,894</u></u>

B. Loans and advances to banks

Gross loans and advances to banks	<u>57,891</u>	<u>184,112</u>	<u>9,189</u>	<u>4,595</u>	<u>9,189</u>	<u>264,976</u>
Less: Provision for impairment						<u>(2,190)</u>
<i>Loans and advances to banks</i>						<u><u>262,786</u></u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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

At 31 December 2021:

A. Loans and advances to customers

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

Movement in provision for impairment

	2022 KD 000's			2021 KD 000's		
	Specific	General	Total	Specific	General	Total
At 1 January	24,323	257,455	281,778	14,888	253,804	268,692
Amounts written-off	(24,793)	-	(24,793)	(43,193)	-	(43,193)
Charge to income statement	32,305	4,751	37,056	52,628	3,651	56,279
At 31 December	31,835	262,206	294,041	24,323	257,455	281,778

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

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 13,472 thousand** (2021: KD 654 thousand) and recoveries of **KD 21,480 thousand** (2021: KD 12,597 thousand).

	2022 KD 000's			2021 KD 000's		
	Corporate lending	Consumer lending	Total	Corporate lending	Consumer lending	Total
Movement in provisions for impairment of loans and advances by class is as follows:						
At 1 January	254,805	26,973	281,778	251,018	17,674	268,692
Amounts written-off	-	(24,793)	(24,793)	(27,927)	(15,266)	(43,193)
Charge to income statement	6,705	30,351	37,056	31,714	24,565	56,279
At 31 December	261,510	32,531	294,041	254,805	26,973	281,778

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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

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

Provision for non-cash facilities of **KD 19,380 thousand** (2021: KD 18,563 thousand) is included under other liabilities (Note 18).

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

	2022 KD 000's	2021 KD 000's
Provision on cash facilities	294,041	281,778
Provision on non-cash facilities	19,380	18,563
Total provisions on credit facilities	313,421	300,341
IFRS 9 ECL on credit facilities	189,748	188,631
Excess of total provisions over IFRS 9 ECL on credit facilities	123,673	111,710
Excess provisions as a percentage of total provisions	39%	37%

13. INVESTMENT SECURITIES

	2022 KD 000's			2021 KD 000's		
	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
<i>Quoted investments</i>						
Sovereign bonds/sukuk	85,547	-	85,547	71,626	-	71,626
Other bonds	10,005	-	10,005	32,596	-	32,596
Equity securities	-	10,268	10,268	-	11,038	11,038
	<u>95,552</u>	<u>10,268</u>	<u>105,820</u>	<u>104,222</u>	<u>11,038</u>	<u>115,260</u>
<i>Unquoted investments</i>						
Other bonds	-	203	203	-	3,019	3,019
Equity securities/others	-	23,068	23,068	-	23,832	23,832
	<u>-</u>	<u>23,271</u>	<u>23,271</u>	<u>-</u>	<u>26,851</u>	<u>26,851</u>
Less: Provision for ECL	(156)	-	(156)	(166)	(4)	(170)
At 31 December	<u>95,396</u>	<u>33,539</u>	<u>128,935</u>	<u>104,056</u>	<u>37,885</u>	<u>141,941</u>

At 31 December 2022 and 2021, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

14. OTHER ASSETS

	2022	2021
	KD 000's	KD 000's
Accrued interest receivable	25,989	16,155
Sundry debtors and others	14,406	19,654
Less: impairment loss on other receivables	(751)	(620)
Government Grant receivable (Note 3)	26,084	26,084
Repossessed collaterals (refer movement below)	<u>68,664</u>	<u>59,432</u>
	<u>134,392</u>	<u>120,705</u>

Movement in repossessed collaterals:

	2022	2021
	KD 000's	KD 000's
At 1 January	59,432	60,238
Additions	9,232	-
Disposals	-	(806)
At 31 December	<u>68,664</u>	<u>59,432</u>

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

	2022	2021
	KD 000's	KD 000's
Due to banks		
Current accounts and demand deposits	10,991	11,790
Time deposits	<u>478,660</u>	<u>583,711</u>
	<u>489,651</u>	<u>595,501</u>
Deposits from financial institutions		
Current accounts and demand deposits	86,752	100,966
Time deposits	<u>687,859</u>	<u>572,203</u>
	<u>774,611</u>	<u>673,169</u>

16. CUSTOMER DEPOSITS

	2022	2021
	KD 000's	KD 000's
Current accounts	1,298,371	1,404,148
Savings accounts	380,079	410,168
Time deposits	<u>2,568,387</u>	<u>2,489,679</u>
	<u>4,246,837</u>	<u>4,303,995</u>

Customer deposits include **KD 13,589 thousand** (2021: KD 12,756 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

17. OTHER BORROWED FUNDS

	Effective interest rate	2022 KD 000's	2021 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- (2024-2026)	4.00% to 5.70%	443,926	165,000
		<u>493,926</u>	<u>215,000</u>

18. OTHER LIABILITIES

	2022 KD 000's	2021 KD 000's
Accrued interest payable	32,060	11,899
Deferred income	4,115	3,855
Provisions for non-cash facilities (refer movement below)	19,380	18,563
Staff related provisions	30,364	26,607
Lease liabilities	4,182	2,830
Others	36,331	37,999
	<u>126,432</u>	<u>101,753</u>

Movement in provisions for non-cash facilities:

	2022 KD 000's	2021 KD 000's
At 1 January	18,563	15,406
Charge to the income statement	817	3,157
	<u>19,380</u>	<u>18,563</u>

19. SHARE CAPITAL

	2022 KD 000's	2021 KD 000's
Authorised, issued and fully paid shares	<u>320,053</u>	<u>304,813</u>

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2022 is 3,200,534,293 shares (2021: 3,048,127,898 shares).

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2022	2021
Number of treasury shares	-	37,000,000
Percentage of treasury shares	0.00%	1.21%
Cost of treasury shares (KD 000's)	-	18,157
Weighted average market value of treasury shares as at 31 December (KD 000's)	-	8,695

Movement in treasury shares was as follows:

	<i>No. of shares</i>	
	2022	2021
Balance as at 1 January	37,000,000	50,000,000
Bonus shares	1,850,000	-
Sales	(38,850,000)	(13,000,000)
Balance as at 31 December	-	37,000,000

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of 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) on the outstanding issued share capital as at 31 December 2022 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 22 March 2022 approved a cash dividend of 7 fils per share (2020: 5 fils per share) and bonus shares of 5% amounting to KD 15,240 thousand (2020: KD Nil) for the year ended 31 December 2021. The cash dividend was recorded and paid subsequently. The bonus shares was distributed on 14 April 2022.

Directors' remuneration of **KD 188 thousand** (2021: KD 179 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

23. RELATED PARTY TRANSACTIONS

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

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

	<i>Number of Board Members or executive management</i>		<i>Number of related parties</i>		2022	2021
	2022	2021	2022	2021	KD 000's	KD 000's
Board members:						
Balances						
Loans and advances	1	1	10	10	166,370	163,558
Credit cards	3	2	5	4	18	34
Deposits	8	8	77	73	42,389	72,124
Commitments/derivatives						
Guarantees /letters of credit	-	-	13	10	32,742	7,898
Transactions						
Interest income	1	1	18	15	5,582	4,147
Interest expense	4	4	16	13	564	374
Net fees and commissions	-	-	17	12	138	100
Other expenses	-	-	12	13	1,764	1,257
Purchase of equipment	-	-	2	3	276	162
Executive management:						
Balances						
Loans and advances	7	4	-	-	1,158	207
Credit cards	11	14	-	-	22	20
Deposits	17	15	-	-	4,229	2,631
Transactions						
Interest income	7	5	-	-	41	9
Interest expense	18	16	-	-	74	22

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **4.5% to 6.25%** (2021: 2% to 5.5%) 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 2022 was **KD 66,821 thousand** (2021: KD 109,687 thousand).

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

	2022	2021
	KD 000's	KD 000's
Salaries and other short-term benefits	4,845	3,655
End of service/termination benefits	401	312
	<u>5,246</u>	<u>3,967</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

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

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

Risk management

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

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

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

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

A. CREDIT RISK

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

Concentrations of credit risk arise when there is a potential for aggravation of losses owing to correlated exposures, for example, when a number of counterparties have common ownership, or are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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

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

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Independent Credit Departments covering wholesale and consumer risk, reporting to CRO, is responsible for providing centralised management of credit risk. The responsibilities of the teams include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to rank order risk and categorize exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

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

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

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

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

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC and BCIC based on respective delegation. All MCC decisions are periodically reviewed by the CRO.

The CCC meets as required and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically.

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

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

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

The Financial Institutions division regularly reviews the Bank's overall country limits and exposures. The review focuses on the spread of country risk and recommendations to alter individual country risk limits are made where necessary.

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

ECL methodology

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

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

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

- Stage 1: The 12 months ECL is calculated as the loss that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL provision based on the expectation of a default occurring in the 12 months following the reporting date.
- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination due to quantitative and qualitative factors, the Bank records an allowance for the LT ECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For Credit Facility considered credit-impaired i.e, having objective evidence of default, the Bank calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

ECL methodology (continued)

Significant increase in credit risk

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

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

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

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

Staging review

A key indicator of changes in the credit quality of loan portfolio is how much of it has been moved between stages, as this indicates whether the loan portfolio has undergone a significant increase in credit risk. During the year 2020 and 2021 following the Covid crisis, the Bank had performed a qualitative review of the portfolio to reflect the increased credit risk on clients engaged in severely impacted sectors and stage transitioned those identified with increase in risk.

The Bank considers a financial asset as 'cured' (i.e. no longer be impaired) and therefore reclassified out of Stage 3, when it no longer meets any of the credit impaired criteria. In respect of impaired facilities which are classified in Stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Bank for consideration for classifying the facility in Stage 2/Stage 1. The Bank also considers related CBK guidelines before any credit facility is reclassified between stages. One year curing period is not applicable for consumer and instalment facilities.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Probability of default

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors. The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into account operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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

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

For Consumer banking, the payment behaviour of the borrower is monitored on a periodic basis. Consumer loans are generally not secured, but the credit risk is minimized by the 'assignment of salary' condition that requires the customer's employer to pay their salary directly to their Gulf Bank's salary account. If salaries are not credited and there are no funds available in accounts, the related exposures get delinquent. The days past due is used to determine the credit risk of the retail customers. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant. PD used for retail credit facilities has been segmented into pools that share similar risk characteristics.

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

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

Loss given default

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Exposure at default

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

Incorporation of forward looking information

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

Collateral and other credit enhancements

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

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

As of 31 December 2022, **28%** (2021: 27%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

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

BY CLASS OF FINANCIAL ASSETS	Maximum exposure 2022 KD 000's	Maximum exposure 2021 KD 000's
Cash and cash equivalents (excluding cash in hand)	871,496	883,438
Kuwait Government treasury bonds	22,000	74,000
Central Bank of Kuwait bonds	337,703	281,197
Deposits with banks and other financial institutions	131,222	124,642
Loans and advances to banks	262,786	278,451
Loans and advances to customers:		
- Corporate lending	2,735,061	2,694,332
- Consumer lending	2,130,833	1,863,754
Debt investment securities (Note 13)	95,599	107,071
Other assets	65,728	61,273
Total	6,652,428	6,368,158
Contingent liabilities and commitments	2,673,488	2,404,830
Foreign exchange contracts (including spot contracts)	17,098	35,050
Total	2,690,586	2,439,880
Total credit risk exposure	9,343,014	8,808,038

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2022 is **12.3%** (2021: 12.4%).

	2022		2021	
	<i>Assets</i> KD 000's	<i>Off balance</i> <i>sheet items</i> KD 000's	<i>Assets</i> KD 000's	<i>Off balance</i> <i>sheet items</i> KD 000's
<i>Geographic region:</i>				
Domestic (Kuwait)	5,623,556	2,192,686	4,983,925	1,922,166
Other Middle East	829,490	140,520	1,161,217	202,455
Europe	74,072	103,873	131,637	105,329
USA and Canada	59,154	24,498	49,942	24,288
Asia Pacific	24,156	229,009	24,345	185,642
Rest of world	42,000	-	17,092	-
	6,652,428	2,690,586	6,368,158	2,439,880

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

	2022		2021	
	<i>Assets</i> <i>KD 000's</i>	<i>Off balance</i> <i>sheet items</i> <i>KD 000's</i>	<i>Assets</i> <i>KD 000's</i>	<i>Off balance</i> <i>sheet items</i> <i>KD 000's</i>
<i>Industry sector:</i>				
Personal	2,228,055	82,473	2,042,570	46,362
Financial	1,115,694	404,543	1,194,003	494,106
Trade and Commerce	415,268	694,871	446,317	622,861
Crude Oil and Gas	135,037	110,354	125,762	97,450
Construction	156,973	651,437	187,089	621,214
Government	1,197,966	50,001	1,162,555	67,858
Manufacturing	267,104	179,686	311,845	116,887
Real Estate	998,705	204,811	746,350	135,802
Others	137,626	312,410	151,667	237,340
	6,652,428	2,690,586	6,368,158	2,439,880

Internal credit quality rating

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

The Bank uses Moody's CreditLens tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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

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

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

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

Facility Risk Rating

The Bank also has an approved framework for Facility Risk Ratings (FRR). While Obligor Risk Rating does not take into consideration factors like availability of collateral and support, FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in FRR.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Internal credit quality rating (continued)

North American Industry Classification System (NAICS) Code:

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

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

Portfolio Risk Rating

The Bank computes a weighted average Risk Rating through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the ERC as well as in the BRC.

RAROC Model

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

Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has a Credit Application system for dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

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

2022

	Neither past due nor impaired			Past due but not impaired	Total
	High	Standard	Acceptable		
	KD 000's	KD 000's	KD 000's	KD 000's	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 to banks	214,467	50,509	-	-	264,976
Loans and advances to customers:					
- Corporate lending	2,321,870	585,867	53,625	11,923	2,973,285
- 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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

2021

	Neither past due nor impaired			Past due but not impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's	Acceptable KD 000's		
Cash and cash equivalents (excluding cash in hand)	848,715	34,790	-	-	883,505
Kuwait Government treasury bonds	74,000	-	-	-	74,000
Central Bank of Kuwait bonds	281,197	-	-	-	281,197
Deposits with banks and other financial institutions	124,645	-	-	-	124,645
Loans and advances to banks	246,742	33,245	-	-	279,987
Loans and advances to customers:					
- Corporate lending	2,130,475	703,523	78,906	5,640	2,918,544
- Consumer lending	1,683,995	56,646	-	131,330	1,871,971
Debt investment securities (Note 13)	85,176	22,065	-	-	107,241
Other assets	61,273	-	-	-	61,273
	5,536,218	850,269	78,906	136,970	6,602,363

80% (2021: 91%) of the past due but not impaired category is below 60 days and **20%** (2021: 9%) is between 60-90 days.

Financial assets by class individually impaired

2022	<i>Gross exposure KD 000's</i>	<i>Impairment provision KD 000's</i>	<i>Fair value of collateral KD 000's</i>
Loans and advances to customers:			
- Corporate lending	21,096	11,578	8,197
- Consumer lending	38,365	11,616	6,020
	59,461	23,194	14,217
2021	<i>Gross exposure KD 000's</i>	<i>Impairment provision KD 000's</i>	<i>Fair value of collateral KD 000's</i>
Loans and advances to customers:			
- Corporate lending	29,057	4,268	24,089
- Consumer lending	18,756	8,432	339
	47,813	12,700	24,428

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>At 31 December 2022:</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Loans and advances to banks and customers</i>				
- 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
	<u>5,085,594</u>	<u>274,356</u>	<u>62,771</u>	<u>5,422,721</u>
<i>At 31 December 2021:</i>				
<i>Loans and advances to banks and customers</i>				
- High	4,045,828	13,547	-	4,059,375
- Standard	611,039	182,375	-	793,414
- Acceptable	-	78,906	-	78,906
- Past due but not impaired	94,130	42,840	-	136,970
- Impaired	-	-	49,650	49,650
	<u>4,750,997</u>	<u>317,668</u>	<u>49,650</u>	<u>5,118,315</u>
<i>At 31 December 2022:</i>				
<i>Contingent liabilities and commitments</i>				
- 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
	<u>2,411,911</u>	<u>242,188</u>	<u>19,389</u>	<u>2,673,488</u>
<i>At 31 December 2021:</i>				
<i>Contingent liabilities and commitments</i>				
- High	1,953,110	15,120	-	1,968,230
- Standard	234,532	151,009	-	385,541
- Acceptable	-	31,718	-	31,718
- Impaired	-	-	19,341	19,341
	<u>2,187,642</u>	<u>197,847</u>	<u>19,341</u>	<u>2,404,830</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<i>At 31 December 2022:</i>				
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	<u>38,179</u>	<u>78,970</u>	<u>72,599</u>	<u>189,748</u>
<i>At 31 December 2021:</i>				
ECL balance as at 1 January 2021	40,972	75,196	55,810	171,978
Impact due to transfer between stages:				
- Transfer to Stage 1	5,070	(1,483)	(3,587)	-
- Transfer to Stage 2	(2,505)	5,485	(2,980)	-
- Transfer to Stage 3	(234)	(1,845)	2,079	-
ECL (release)/charge for the year	(1,579)	18,919	42,506	59,846
ECL release on written off facilities	-	-	(43,193)	(43,193)
ECL balance as at 31 December 2021	<u>41,724</u>	<u>96,272</u>	<u>50,635</u>	<u>188,631</u>

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Further, the Bank carries an excess of 39% total provisions over ECL on credit facilities (Note 12) for any increase in ECL resulting due to sensitivity.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Normally, the banking business is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

B. INTEREST RATE RISK (continued)

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

Currency	2022			2021		
	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
KWD	(+) 25	1,511	-	(+) 25	2,154	(2)
USD	(+) 25	505	-	(+) 25	797	-

CHANGES IN INTERBANK OFFERED RATES (IBOR)

The Bank's exposure to its floating-rate financial assets and liabilities is mainly through USD LIBOR, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Bank's IBOR project team is managing the transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. Transition away from LIBORs to the risk-free or alternative "reference rate" regime will affect the pricing of loans and floating rate debt securities.

Financial assets and liabilities

The Bank is in the process of transitioning to risk-free benchmark reference rates not later than June 2023. The Bank's exposure to financial assets as of 31 December 2022 that are based on USD LIBOR maturing after June 2023 is KD 450,181 thousand. The Bank's exposure to USD IBOR linked financial liabilities is relatively insignificant. The Bank is in discussion with the counterparties/clients and lead/agent banks to effect an orderly transition of remaining USD exposures to the relevant reference rate.

C. CURRENCY RISK

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Bank complies with all CBK and internally approved limits. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

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

Currency	2022			2021		
	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	+5	(145)	116	+5	(171)	107

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

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

The Bank measures and monitors Basel III short term and long term liquidity ratios of LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The objective of LCR is to improve the short-term liquidity profile of the Bank by ensuring that the Bank has sufficient stock of High Quality Liquid Assets to cover a 30 day period of stressed cash outflows. Similarly, NSFR aims to improve the long-term liquidity profile by ensuring that the Bank has stable funding sources to cover funding requirements over the short and long term period.

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

Liquidity risk is further minimized by adherence to the strict CBK liquidity requirements. In response to the Covid-19, CBK had provided temporary relaxation to the regulatory liquidity ratios until 31 December 2022, namely: minimum LCR of 90% (2021: 80%); minimum NSFR of 90% (2021: 80%); maturity ladder mismatch limits for specific time periods: -15% for 7 days or less (2021: -20%); -25% for 1 month or less (2021: -30%); -35% for 3 months or less (2021: -40%); -45% for 6 months or less (2021: -50%); the requirement to hold 16.5% (2021: 15%) of KD customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 95% (2021: 100%).

The Bank evaluated its liquidity and funding positions by closely monitoring its cash flows and forecasts and strengthening the cash and short-term funds. The Bank also adopted the selective loan disbursements and focused to strengthen the customer deposit base. The Bank continues to monitor its liquidity position and funding risks.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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 2022:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and 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 to banks	-	57	32,070	50,035	165,463	15,161	262,786
Loans and advances to customers	255,913	591,334	274,080	544,651	688,570	2,511,346	4,865,894
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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2021:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	942,495	-	-	-	-	-	942,495
Kuwait Government treasury	11,000	15,000	-	26,000	19,500	2,500	74,000
Central Bank of Kuwait bonds	48,485	123,232	109,480	-	-	-	281,197
Deposits with banks and other financial institutions	-	124,642	-	-	-	-	124,642
Loans and advances to banks	233	5,434	15,001	67,928	189,855	-	278,451
Loans and advances to customers	239,970	597,624	225,010	656,986	603,203	2,235,293	4,558,086
Investment securities	-	13,593	25,684	13,561	50,215	38,888	141,941
Other assets	26,188	935	30,507	2,371	60,319	385	120,705
Premises and equipment	-	-	-	-	-	34,393	34,393
Total assets	1,268,371	880,460	405,682	766,846	923,092	2,311,459	6,555,910
Liabilities:							
Due to banks	59,850	163,934	248,689	123,028	-	-	595,501
Deposits from financial institutions	257,087	201,403	157,335	42,975	14,369	-	673,169
Customer deposits	2,489,572	776,486	498,483	497,863	41,591	-	4,303,995
Other borrowed funds	-	-	-	-	165,000	50,000	215,000
Other liabilities	32,247	30,604	8,934	7,449	22,519	-	101,753
Total liabilities	2,838,756	1,172,427	913,441	671,315	243,479	50,000	5,889,418

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

At 31 December 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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2021:

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Financial liabilities:						
Due to banks	59,999	164,603	373,818	-	-	598,420
Deposits from financial institutions	257,539	202,886	203,170	14,611	-	678,206
Customer deposits	1,879,422	342,428	1,992,173	111,872	-	4,325,895
Other borrowed funds	512	991	4,566	228,277	-	234,346
Other liabilities	32,247	30,604	16,383	22,519	-	101,753
Total undiscounted liabilities	2,229,719	741,512	2,590,110	377,279	-	5,938,620

The table below shows the contractual expiry by maturity of the Bank's contingent 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
At 31 December 2022:						
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
At 31 December 2021:						
Contingent liabilities	18,759	37,240	285,325	440,062	682,276	1,463,662
Commitments	5,756	9,417	113,132	281,053	531,810	941,168
	24,515	46,657	398,457	721,115	1,214,086	2,404,830

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

The table below shows the contractual expiry by maturity of the Bank'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 2022:				
Forward foreign exchange	992	6,842	-	7,834
At 31 December 2021:				
Forward foreign exchange	-	-	6,851	6,851

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are primarily monitored through the Operational & 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 Bank manages this risk through diversification of investments.

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

The effect on equity (as a result of change in the fair value of equity instruments held as FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

<i>Market indices</i>	<i>% Change in equity price</i>	<i>2022 Impact on statement of comprehensive income KD 000's</i>	<i>2021 Impact on statement of comprehensive income KD 000's</i>
Kuwait Stock Exchange	+5%	513	552

G. PREPAYMENT RISK

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

	<i>Level 1</i> <i>KD 000's</i>	<i>Level 2</i> <i>KD 000's</i>	<i>Level 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
At 31 December 2022:				
Financial assets at FVOCI:				
Equity securities	10,268	836	22,232	33,336
Debt securities	-	203	-	203
	<u>10,268</u>	<u>1,039</u>	<u>22,232</u>	<u>33,539</u>
At 31 December 2021:				
Financial assets at FVOCI:				
Equity securities	11,038	686	23,146	34,870
Debt securities	-	3,015	-	3,015
	<u>11,038</u>	<u>3,701</u>	<u>23,146</u>	<u>37,885</u>

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

	At 1 January KD 000's	Change in fair value KD 000's	Additions/ disposals KD 000's	Exchange rate movements KD 000's	At 31 December KD 000's
Financial assets at FVOCI:					
Equity securities					
2022	23,146	(363)	(555)	4	22,232
2021	25,415	(1,627)	(632)	(10)	23,146

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 2022 were **KD 95,396 thousand** (2021: KD 104,056 thousand) and **KD 94,737 thousand** (Level 1) (2021: KD 105,235 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 Bank has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

	2022 KD 000's	2021 KD 000's
Guarantees	1,146,960	1,177,918
Letters of credit and acceptances	366,055	285,744
Undrawn irrevocable commitments	33,323	17,542
Undrawn revocable commitments	1,127,150	923,626
	<u>2,673,488</u>	<u>2,404,830</u>

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

27. SEGMENTAL ANALYSIS

a. By Business Unit

Commercial Banking	Acceptance of deposits from individuals, corporate and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and other credit facilities to corporate and institutional customers.
Treasury & Investments	Providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of Kuwait Government treasury bonds, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the Investments unit.

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

	Commercial Banking		Treasury & Investments		Total	
	2022 KD 000's	2021 KD 000's	2022 KD 000's	2021 KD 000's	2022 KD 000's	2021 KD 000's
Operating income	147,115	143,334	8,140	12,492	155,255	155,826
Segment result	84,091	66,744	6,086	10,708	90,177	77,452
Unallocated income					25,802	14,232
Unallocated expense					(54,175)	(49,579)
Profit for the year					<u>61,804</u>	<u>42,105</u>
Segment assets	5,236,887	4,950,610	1,510,204	1,509,633	6,747,091	6,460,243
Unallocated assets					104,389	95,667
Total Assets					<u>6,851,480</u>	<u>6,555,910</u>
Segment liabilities	3,196,890	3,399,102	2,757,554	2,345,760	5,954,444	5,744,862
Unallocated liabilities and equity					897,036	811,048
Total Liabilities and Equity					<u>6,851,480</u>	<u>6,555,910</u>

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

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2022 or 2021.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

28. DERIVATIVES

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

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

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

At 31 December 2022:	<i>Notional amounts by term to maturity</i>				
	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Within</i>	<i>3-12</i>
	<i>fair value</i>	<i>fair value</i>	<i>amount</i>	<i>3 months</i>	<i>months</i>
Derivatives instruments held as:	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	<u>52</u>	<u>(46)</u>	<u>7,834</u>	<u>7,834</u>	<u>-</u>

At 31 December 2021:	<i>Notional amounts by term to maturity</i>				
	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Within</i>	<i>3-12</i>
	<i>fair value</i>	<i>fair value</i>	<i>amount</i>	<i>3 months</i>	<i>months</i>
Derivatives instruments held as:	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	<u>7</u>	<u>(4)</u>	<u>6,851</u>	<u>-</u>	<u>6,851</u>

Derivative product types

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

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest.

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

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of reducing the market risk. Arbitrage involves identifying and profiting from price differentials between markets or products.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

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

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

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2022 and 31 December 2021 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2022 KD 000's	2021 KD 000's
Risk weighted assets	<u>5,216,454</u>	<u>4,827,656</u>
Capital required: 12.5% (2021: 11.5%)	<u>652,057</u>	<u>555,180</u>
Capital available		
Tier 1 capital	741,129	698,151
Tier 2 capital	<u>114,002</u>	<u>108,912</u>
Total capital	<u>855,131</u>	807,063
Tier 1 capital adequacy ratio	14.21%	14.46%
Total capital adequacy ratio	16.39%	16.72%

Financial leverage ratio

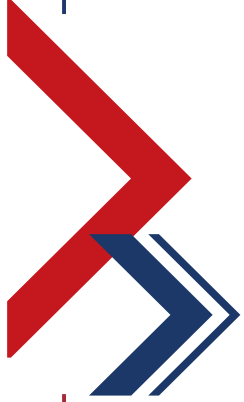
The Bank's financial leverage ratio for the year ended 31 December 2022 and 31 December 2021 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2022 KD 000's	2021 KD 000's
Tier 1 capital	<u>741,129</u>	<u>698,151</u>
Total Exposure	<u>7,659,867</u>	<u>7,351,764</u>
Financial leverage ratio	<u>9.68%</u>	<u>9.50%</u>

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 2022 and 31 December 2021 are included under the 'Risk Management' section of the annual report.

30. FIDUCIARY ASSETS

At 31 December 2022, the aggregate value of assets held or managed in fiduciary capacity by the Bank amounted to **KD 1,101,000 thousand** (2021: KD 907,700 thousand) and the income related to this activity amounted to **KD 637 thousand** (2021: KD 537 thousand) included in net fees and commissions (Note 6).



Consolidated financial statements for year ended 31 December 2021

Financial Statements-3



GULF BANK K.S.C.P.
FINANCIAL STATEMENTS
31 DECEMBER 2021



Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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

Deloitte.

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

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

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

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

Report on the Audit of Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances

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

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

Report on the Audit of Financial Statements (continued)

Credit losses on loans and advances (continued)

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

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

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

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

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

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

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

Report on the Audit of Financial Statements (continued)

Other information included in the Bank's 2021 Annual Report

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Report on the Audit of Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.



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



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

10 February 2022
Kuwait

GULF BANK K.S.C.P.

Income Statement

Year Ended 31 December 2021

	NOTES	2021 KD 000's	2020 KD 000's
Interest income	4	185,994	209,348
Interest expense	5	(53,681)	(84,581)
Net interest income		132,313	124,767
Net fees and commissions	6	27,428	24,136
Net gains from dealing in foreign currencies		9,058	7,443
Dividend income		679	572
Other income		580	1,350
Operating income		170,058	158,268
Staff expenses		47,712	36,873
Occupancy costs		2,628	2,765
Depreciation		6,823	7,618
Other expenses		21,018	16,670
Operating expenses		78,181	63,926
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		91,877	94,342
Charge of provisions:			
- specific	7	55,833	64,476
- general	12,18	3,603	4,218
Loan recoveries, net of write-off	12	(11,943)	(5,512)
Net provision on other financial assets		110	(122)
Impairment loss on other assets	14	-	992
		47,603	64,052
OPERATING PROFIT		44,274	30,290
Directors' remuneration	22	179	135
Contribution to Kuwait Foundation for the Advancement of Sciences		446	302
National Labour Support Tax		1,098	752
Zakat		446	302
PROFIT FOR THE YEAR		42,105	28,799
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	14	10

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

GULF BANK K.S.C.P.
Statement of Comprehensive Income
Year Ended 31 December 2021


	2021 KD 000's	2020 KD 000's
Profit for the year	42,105	28,799
Other comprehensive income		
<i>Items that will not to be reclassified subsequently to the income statement:</i>		
Net changes in fair value of investment securities-equity	(807)	(3,486)
Revaluation of premises and equipment	25	(256)
Other comprehensive loss for the year	(782)	(3,742)
Total comprehensive income for the year	41,323	25,057


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

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

As at 31 December 2021

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


Jassim Mustafa Boodai
(Chairman)


Antoine Daher
(Chief Executive Officer)

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

GULF BANK K.S.C.P.**Statement of Cash Flows**

Year Ended 31 December 2021

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

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

GULF BANK K.S.C.P.

Statement of Changes in Equity

Year Ended 31 December 2021

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

1. INCORPORATION AND REGISTRATION

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

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 13 January 2022. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Statement of compliance

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

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

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

Presentation of financial statements

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

2.2 Changes in accounting policies and disclosures

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

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

The amendments include the following practical expedients:

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

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

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

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

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

Business model assessment

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

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

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

SPPI Test

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Recognition/de-recognition

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

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

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

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Measurement of financial instruments

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

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

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

Financial assets carried at amortised cost

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Measurement of financial instruments (continued)

Financial assets carried at amortised cost (continued)

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

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

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

The Bank subsequently measures all equity instruments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Such classification is determined on an instrument by instrument basis. Equity instruments at FVOCI are not subject to impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in income statement as 'Dividend income' when the Bank's right to receive payments is established.

Financial asset at FVTPL

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets

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

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

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

Impairment on credit facilities

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

Impairment on other financial assets (other than credit facilities)

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

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets (continued)

Determining the significant increase in credit risk

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

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

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

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

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

Measurement of ECLs

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

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Write off

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

Commitments

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

Guarantee contracts and letters of credit

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

Modification of loans and advances to customers

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated credit-impaired. When loans and advances to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Provisions for credit losses in accordance with CBK instructions

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Fair values measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Fair values of quoted instruments are based on quoted closing bid prices. The fair value of investments in managed funds are based on latest published net asset values.

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

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

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

Day 1 profit or loss

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

Repurchase and resale agreements

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

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Derivative financial instruments and hedging

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

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

Hedge effectiveness requirements

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

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

At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

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

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

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the discontinued hedge is amortized over the remaining term to maturity.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

c. Repossessed collaterals

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

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

d. Provisions

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

e. End of service indemnity

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

f. Treasury shares

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

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

h. Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

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

i. Revenue recognition

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

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

j. Interest income and expenses

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

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

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

l. Leases

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

Right-of-use assets

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

l. Leases (continued)

Lease Liabilities

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

m. Fiduciary assets

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

n. Foreign currencies

Foreign currency transactions are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting date. Any resultant gains or losses are taken to the income statement.

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

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

r. Government grants

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

s. Other borrowed funds

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

2.4 Significant accounting judgements, estimates and assumptions

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

Classification of financial instruments

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

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

Impairment losses on financial instruments

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios.

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

Valuation of unquoted financial instruments

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2021

2. ACCOUNTING POLICIES (continued)

2.5 Standards issued but not effective

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

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

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

3. IMPACT OF COVID-19

Covid-19 Pandemic 2020

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

2021-Consumer and instalment loans deferral

Kuwait banks announced postponement of payment of consumer and instalment loans to eligible citizen customers, upon their request, in accordance with the CBK circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 ("the Law") regarding the deferral of the financial obligations for a six-month period with cancellation of interest resulting from this deferral ("the 2021 scheme"). The instalment deferrals are considered as short-term liquidity support to address borrower's potential cash-flow issues, the cost of which is fully borne by the Government of Kuwait in accordance with the Law.

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

2020-Consumer and instalment loans deferral

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

2020-Other impacted non-retail customers

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

3. IMPACT OF COVID-19 (continued)

2020-Government grant

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

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

Support measures on Covid-19

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

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

Business continuity

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

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

4. INTEREST INCOME

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

5. INTEREST EXPENSE

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

6. NET FEES AND COMMISSIONS

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

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

7. SPECIFIC PROVISIONS

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

8. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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

Diluted EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. The Bank does not have outstanding dilutive potential shares as at 31 December 2021.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

9. CASH AND CASH EQUIVALENTS

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

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

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

10. KUWAIT GOVERNMENT TREASURY BONDS

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

	2021	2020
	KD 000's	KD 000's
Maturing within one year	52,000	34,500
Maturing after one year	22,000	74,000
	<u>74,000</u>	<u>108,500</u>

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

11. CENTRAL BANK OF KUWAIT BONDS

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

	2021	2020
	KD 000's	KD 000's
Central Bank of Kuwait Bonds	281,197	280,724
	<u><u>281,197</u></u>	<u><u>280,724</u></u>

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

At 31 December 2021:

A. Loans and advances to customers

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

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

At 31 December 2020:

A. Loans and advances to customers

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

Movement in provision for impairment

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

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

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

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

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

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

13. INVESTMENT SECURITIES

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

14. OTHER ASSETS

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

Movement in repossessed collaterals:

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

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

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

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

16. CUSTOMER DEPOSITS

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

17. OTHER BORROWED FUNDS

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

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

18. OTHER LIABILITIES

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

Movement in provisions for non-cash facilities:

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

19. SHARE CAPITAL

	2021 KD 000's	2020 KD 000's
Authorised, issued and fully paid shares	<u>304,813</u>	<u>304,813</u>

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

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

Movement in treasury shares was as follows:

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

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

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

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

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

Directors' remuneration of **KD 179 thousand** (2020: KD 135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

23. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

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

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

Risk management

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

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

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

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

A. CREDIT RISK

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

Concentrations of credit risk arise when there is a potential for aggravation of losses owing to correlated exposures, for example, when a number of counterparties have common ownership, or are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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

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

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Independent Credit Departments covering wholesale and consumer risk, reporting to CRO, is responsible for providing centralised management of credit risk. The responsibilities of the teams include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to rank order risk and categorize exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

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

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

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

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

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC and BCIC based on respective delegation. All MCC decisions are periodically reviewed by the CRO.

The CCC meets as required and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically.

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

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

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

The Financial Institutions division regularly reviews the Bank's overall country limits and exposures. The review focuses on the spread of country risk and recommendations to alter individual country risk limits are made where necessary.

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

ECL methodology

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

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

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

- Stage 1: The 12 months ECL is calculated as the loss that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL provision based on the expectation of a default occurring in the 12 months following the reporting date.
- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination due to quantitative and qualitative factors, the Bank records an allowance for the LT ECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For Credit Facility considered credit-impaired i.e, having objective evidence of default, the Bank calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

ECL methodology (continued)

Significant increase in credit risk

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

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

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

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

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

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

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

Staging review

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

The Bank considers a financial asset as 'cured' (i.e. no longer be impaired) and therefore reclassified out of Stage 3, when it no longer meets any of the credit impaired criteria. In respect of impaired facilities which are classified in Stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Bank for consideration for classifying the facility in Stage 2/Stage 1. The Bank also considers related CBK guidelines before any credit facility is reclassified between stages. One year curing period is not applicable for consumer and instalment facilities.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Probability of default

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors. The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into account operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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

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

For Consumer banking, the payment behaviour of the borrower is monitored on a periodic basis. Consumer loans are generally not secured, but the credit risk is minimized by the 'assignment of salary' condition that requires the customer's employer to pay their salary directly to their Gulf Bank's salary account. If salaries are not credited and there are no funds available in accounts, the related exposures get delinquent. The days past due is used to determine the credit risk of the retail customers. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant. PD used for retail credit facilities has been segmented into pools that share similar risk characteristics.

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

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

Loss given default

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Exposure at default

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

Incorporation of forward looking information

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

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

Collateral and other credit enhancements

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

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

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

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2021 is 12.4% (2020: 12.2%).

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

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

Internal credit quality rating

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

The Bank uses Moody's CreditLens tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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

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

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

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

Facility Risk Rating

The Bank also has an approved framework for Facility Risk Ratings (FRR). While Obligor Risk Rating does not take into consideration factors like availability of collateral and support, FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in FRR.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Internal credit quality rating (continued)

North American Industry Classification System (NAICS) Code:

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

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

Portfolio Risk Rating

The Bank computes a weighted average Risk Rating through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the ERC as well as in the BRC.

RAROC Model

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

Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has a Credit Application system for dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

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

2021

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

2020

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

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

Financial assets by class individually impaired

2021	<i>Gross exposure KD 000's</i>	<i>Impairment provision KD 000's</i>	<i>Fair value of collateral KD 000's</i>
Loans and advances to customers:			
- Corporate lending	29,057	4,268	24,089
- Consumer lending	18,756	8,432	339
	<u>47,813</u>	<u>12,700</u>	<u>24,428</u>
2020			
Loans and advances to customers:			
- Corporate lending	49,710	7,163	24,226
- Consumer lending	1,769	995	260
	<u>51,479</u>	<u>8,158</u>	<u>24,486</u>

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>At 31 December 2021:</i>				
<i>Loans and advances to banks and customers</i>				
- High	4,045,828	13,547	-	4,059,375
- Standard	611,039	182,375	-	793,414
- Acceptable	-	78,906	-	78,906
- Past due but not impaired	94,130	42,840	-	136,970
- Impaired	-	-	49,650	49,650
	<u>4,750,997</u>	<u>317,668</u>	<u>49,650</u>	<u>5,118,315</u>
<i>At 31 December 2020:</i>				
<i>Loans and advances to banks and customers</i>				
- High	3,678,518	51,742	-	3,730,260
- Standard	476,707	180,140	-	656,847
- Acceptable	-	30,341	-	30,341
- Past due but not impaired	91,439	15,854	-	107,293
- Impaired	-	-	52,551	52,551
	<u>4,246,664</u>	<u>278,077</u>	<u>52,551</u>	<u>4,577,292</u>
<i>At 31 December 2021:</i>				
<i>Contingent liabilities and commitments</i>				
- High	1,953,110	15,120	-	1,968,230
- Standard	234,532	151,009	-	385,541
- Acceptable	-	31,718	-	31,718
- Impaired	-	-	19,341	19,341
	<u>2,187,642</u>	<u>197,847</u>	<u>19,341</u>	<u>2,404,830</u>
<i>At 31 December 2020:</i>				
<i>Contingent liabilities and commitments</i>				
- High	2,022,812	11,034	-	2,033,846
- Standard	198,411	80,615	-	279,026
- Acceptable	-	30,547	-	30,547
- Impaired	-	-	18,389	18,389
	<u>2,221,223</u>	<u>122,196</u>	<u>18,389</u>	<u>2,361,808</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

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:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>At 31 December 2021:</i>				
ECL balance as at 1 January 2021	40,972	75,196	55,810	171,978
Impact due to transfer between stages:				
- Transfer to Stage 1	5,070	(1,483)	(3,587)	-
- Transfer to Stage 2	(2,505)	5,485	(2,980)	-
- Transfer to Stage 3	(234)	(1,845)	2,079	-
ECL (release)/charge for the year	(1,579)	18,919	42,506	59,846
ECL release on written off facilities	-	-	(43,193)	(43,193)
ECL balance as at 31 December 2021	<u>41,724</u>	<u>96,272</u>	<u>50,635</u>	<u>188,631</u>
<i>At 31 December 2020:</i>				
ECL balance as at 1 January 2020	33,692	107,625	48,625	189,942
Impact due to transfer between stages:				
- Transfer to Stage 1	6,108	(1,243)	(4,865)	-
- Transfer to Stage 2	(1,294)	3,719	(2,425)	-
- Transfer to Stage 3	(81)	(36,546)	36,627	-
ECL charge for the year	2,547	1,641	58,612	62,800
ECL release on written off facilities	-	-	(80,764)	(80,764)
ECL balance as at 31 December 2020	<u>40,972</u>	<u>75,196</u>	<u>55,810</u>	<u>171,978</u>

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Given the uncertainties involved and the economic impact of the ongoing pandemic, the Bank on a conservative basis used higher weight for the downside case for the key macroeconomic variables used to estimate the ECL. The weighting is reflected in the measurement of the ECL. Therefore, the Bank is sufficiently covered for any sensitivity analysis if the Bank uses only downward case scenario. Further, the Bank carries an excess of 37% total provisions over ECL on credit facilities (Note 12) for any increase in ECL resulting due to sensitivity.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Normally, the banking business is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk.

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

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

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

C. CURRENCY RISK

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Bank complies with all CBK and internally approved limits. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

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

Currency	2021			2020		
	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	+5	(171)	107	+5	(178)	107

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

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

The Bank measures and monitors Basel III short term and long term liquidity ratios of LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The objective of LCR is to improve the short-term liquidity profile of the Bank by ensuring that the Bank has sufficient stock of High Quality Liquid Assets to cover a 30 day period of stressed cash outflows. Similarly, NSFR aims to improve the long-term liquidity profile by ensuring that the Bank has stable funding sources to cover funding requirements over the short and long term period.

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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

At 31 December 2021:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	942,495	-	-	-	-	-	942,495
Kuwait Government treasury bonds	11,000	15,000	-	26,000	19,500	2,500	74,000
Central Bank of Kuwait bonds	48,485	123,232	109,480	-	-	-	281,197
Deposits with banks and other financial institutions	-	124,642	-	-	-	-	124,642
Loans and advances to banks	233	5,434	15,001	67,928	189,855	-	278,451
Loans and advances to customers	239,970	597,624	225,010	656,986	603,203	2,235,293	4,558,086
Investment securities	-	13,593	25,684	13,561	50,215	38,888	141,941
Other assets	26,188	935	30,507	2,371	60,319	385	120,705
Premises and equipment	-	-	-	-	-	34,393	34,393
Total assets	1,268,371	880,460	405,682	766,846	923,092	2,311,459	6,555,910
Liabilities:							
Due to banks	59,850	163,934	248,689	123,028	-	-	595,501
Deposits from financial institutions	257,087	201,403	157,335	42,975	14,369	-	673,169
Customer deposits	2,489,572	776,486	498,483	497,863	41,591	-	4,303,995
Other borrowed funds	-	-	-	-	165,000	50,000	215,000
Other liabilities	32,247	30,604	8,934	7,449	22,519	-	101,753
Total liabilities	2,838,756	1,172,427	913,441	671,315	243,479	50,000	5,889,418

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2020:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	1,105,925	-	-	-	-	-	1,105,925
Kuwait Government treasury	-	-	17,500	17,000	57,500	16,500	108,500
Central Bank of Kuwait bonds	62,973	123,220	94,531	-	-	-	280,724
Deposits with banks and other financial institutions	-	3,033	-	-	-	-	3,033
Loans and advances to banks	633	442	26	41,171	149,791	-	192,063
Loans and advances to customers	182,428	679,930	239,945	473,023	577,383	1,963,828	4,116,537
Investment securities	8,190	-	15,144	9,001	74,175	68,345	174,855
Other assets	27,464	1,165	5,723	2,511	59,772	383	97,018
Premises and equipment	-	-	-	-	-	34,053	34,053
Total assets	1,387,613	807,790	372,869	542,706	918,621	2,083,109	6,112,708
Liabilities:							
Due to banks	136,934	72,744	218,826	122,039	-	-	550,543
Deposits from financial institutions	260,266	220,557	126,045	98,469	-	-	705,337
Customer deposits	2,197,683	929,904	431,114	463,464	11,554	-	4,033,719
Other borrowed funds	-	-	-	-	100,000	-	100,000
Other liabilities	23,365	23,466	8,355	8,478	22,081	-	85,745
Total liabilities	2,618,248	1,246,671	784,340	692,450	133,635	-	5,475,344

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

At 31 December 2021:

Financial liabilities:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	59,999	164,603	373,818	-	-	598,420
Deposits from financial institutions	257,539	202,886	203,170	14,611	-	678,206
Customer deposits	2,491,250	782,452	1,009,715	42,478	-	4,325,895
Other borrowed funds	512	991	4,566	228,277	-	234,346
Other liabilities	32,247	30,604	16,383	22,519	-	101,753
Total undiscounted liabilities	2,841,547	1,181,536	1,607,652	307,885	-	5,938,620

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2020:

Financial liabilities:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	66,773	5,003	432,713	51,571	-	556,060
Deposits from financial institutions	85,458	202,602	354,670	67,439	-	710,169
Customer deposits	1,742,541	251,169	1,824,113	235,288	-	4,053,111
Other borrowed funds	-	1,479	4,521	102,482	-	108,482
Other liabilities	23,365	23,466	16,833	22,081	-	85,745
Total undiscounted liabilities	1,918,137	483,719	2,632,850	478,861	-	5,513,567

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

At 31 December 2021:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Contingent liabilities	18,759	37,240	285,325	440,062	682,276	1,463,662
Commitments	5,756	9,417	113,132	281,053	531,810	941,168
	24,515	46,657	398,457	721,115	1,214,086	2,404,830

At 31 December 2020:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Contingent liabilities	23,323	13,948	212,903	528,585	601,020	1,379,779
Commitments	6,238	4,131	65,901	298,995	606,764	982,029
	29,561	18,079	278,804	827,580	1,207,784	2,361,808

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

The table below shows the contractual expiry by maturity of the Bank'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 2021:				
Forward foreign exchange	-	-	6,851	6,851
At 31 December 2020:				
Forward foreign exchange	383	2,874	1,978	5,235

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are primarily monitored through the Operational Risk Management Unit in the Risk Management Department. The department has specialized units focusing on Fraud, Policy & Procedures, Business Continuity, Information and Cyber Security. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management. The Operational Risk Management function is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

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

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

The effect on equity (as a result of change in the fair value of equity instruments held as FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

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

G. PREPAYMENT RISK

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

	<i>Level 1</i> <i>KD 000's</i>	<i>Level 2</i> <i>KD 000's</i>	<i>Level 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
At 31 December 2021:				
Financial assets at FVOCI:				
Equity securities	11,038	686	23,146	34,870
Debt securities	-	3,015	-	3,015
	<u>11,038</u>	<u>3,701</u>	<u>23,146</u>	<u>37,885</u>
At 31 December 2020:				
Financial assets at FVOCI:				
Equity securities	12,104	642	25,415	38,161
Debt securities	-	201	-	201
	<u>12,104</u>	<u>843</u>	<u>25,415</u>	<u>38,362</u>

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

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

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

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

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

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

27. SEGMENTAL ANALYSIS

a. By Business Unit

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

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

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

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

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

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2021 or 2020.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

28. DERIVATIVES

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

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

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

At 31 December 2021:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	7	(4)	6,851	-	6,851

At 31 December 2020:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	25	(28)	5,235	3,257	1,978

Derivative product types

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

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest.

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

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of reducing the market risk. Arbitrage involves identifying and profiting from price differentials between markets or products.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2021

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

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

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

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2021 and 31 December 2020 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

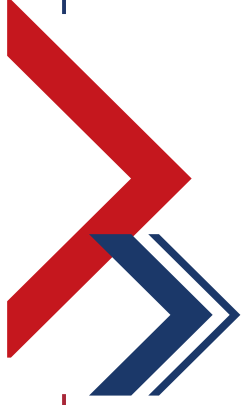
	2021 KD 000's	2020 KD 000's
Risk weighted assets	<u>4,827,656</u>	<u>4,576,070</u>
Capital required: 11.5% (2020: 11.5%) (Note 3)	<u>555,180</u>	<u>526,248</u>
Capital available		
Tier 1 capital	698,151	679,576
Tier 2 capital	<u>108,912</u>	<u>155,537</u>
Total capital	807,063	835,113
Tier 1 capital adequacy ratio	14.46%	14.85%
Total capital adequacy ratio	16.72%	18.25%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2021 and 31 December 2020 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2021 KD 000's	2020 KD 000's
Tier 1 capital	<u>698,151</u>	<u>679,576</u>
Total Exposure	<u>7,351,764</u>	<u>6,848,774</u>
Financial leverage ratio	<u>9.50%</u>	<u>9.92%</u>

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/BS/ 342/2014 dated 21 October 2014 for the year ended 31 December 2021 and 31 December 2020 are included under the 'Risk Management' section of the annual report.



Consolidated financial statements for year ended 31 December 2020

Financial Statements-4



GULF BANK K.S.C.P.
FINANCIAL STATEMENTS
31 DECEMBER 2020



Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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

Deloitte.

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

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

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

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

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International *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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

Credit losses on loans and advances

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

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

Report on the Audit of Financial Statements (continued)

Credit losses on loans and advances (continued)

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

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

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

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

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

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

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

Report on the Audit of Financial Statements (continued)

Other information included in the Bank's 2020 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Bank's 2020 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Report on the Audit of Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.



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



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

10 February 2021
Kuwait

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

Year Ended 31 December 2020

	NOTES	2020 KD 000's	2019 KD 000's
Interest income	4	209,348	275,644
Interest expense	5	(84,581)	(111,240)
Net interest income		124,767	164,404
Net fees and commissions	6	24,136	29,544
Net gains from dealing in foreign currencies		7,443	9,967
Dividend income		572	1,131
Other income		1,350	2,601
Operating income		158,268	207,647
Staff expenses		36,873	47,413
Occupancy costs		2,765	2,839
Depreciation		7,618	7,069
Other expenses		16,670	20,676
Operating expenses		63,926	77,997
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		94,342	129,650
Charge of provisions:			
- specific	7	64,476	70,472
- general	12,18	4,218	2,070
Loan recoveries, net of write-off	12	(5,512)	(10,915)
Net provision on other financial assets		(122)	(2)
Impairment loss on other assets	14	992	1,259
		64,052	62,884
OPERATING PROFIT		30,290	66,766
Directors' remuneration	22	135	135
Contribution to Kuwait Foundation for the Advancement of Sciences		302	668
National Labour Support Tax		752	1,652
Zakat		302	668
PROFIT FOR THE YEAR		28,799	63,643
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	10	22

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

GULF BANK K.S.C.P.
Statement of Comprehensive Income
Year Ended 31 December 2020

	2020	2019
	KD 000's	KD 000's
Profit for the year	28,799	63,643
Other comprehensive income		
<i>Items that will not be reclassified subsequently to the income statement:</i>		
Net changes in fair value of investment securities-equity	(3,486)	549
Revaluation of premises and equipment	(256)	442
<i>Items that are reclassified or may be reclassified subsequently to the income statement:</i>		
Net changes in fair value of debt instruments at FVOCI	-	(23)
Other comprehensive (loss) income for the year	(3,742)	968
Total comprehensive income for the year	25,057	64,611

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

GULF BANK K.S.C.P.
Statement of Financial Position
As at 31 December 2020

	NOTES	2020 KD 000's	2019 KD 000's
ASSETS			
Cash and cash equivalents	9	1,105,925	847,881
Kuwait Government treasury bonds	10	108,500	232,000
Central Bank of Kuwait bonds	11	280,724	278,675
Deposits with banks and other financial institutions	9	3,033	128,368
Loans and advances to banks	12	192,063	212,978
Loans and advances to customers	12	4,116,537	4,224,608
Investment securities	13	174,855	170,694
Other assets	14	97,018	113,549
Premises and equipment		34,053	36,664
TOTAL ASSETS		6,112,708	6,245,417
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	550,543	398,713
Deposits from financial institutions	15	705,337	1,018,487
Customer deposits	16	4,033,719	3,949,901
Subordinated Tier 2 bonds	17	100,000	100,000
Other liabilities	18	85,745	113,993
TOTAL LIABILITIES		5,475,344	5,581,094
EQUITY			
Share capital	19	304,813	304,813
Statutory reserve	20	42,135	39,106
Share premium	20	153,024	153,024
Property revaluation reserve	20	18,169	18,425
Treasury shares reserve	21	-	24,111
Fair valuation reserve		3,686	7,522
Retained earnings		140,073	190,927
Treasury shares	21	(24,536)	(73,605)
TOTAL EQUITY		637,364	664,323
TOTAL LIABILITIES AND EQUITY		6,112,708	6,245,417



Jassim Mustafa Boodai
(Chairman)



Antoine Daher
(Chief Executive Officer)

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

GULF BANK K.S.C.P.
Statement of Cash Flows
Year Ended 31 December 2020

	NOTES	2020 KD 000's	2019 KD 000's
OPERATING ACTIVITIES			
Profit for the year		28,799	63,643
Adjustments:			
Effective interest rate adjustment		(34)	(195)
Dividend income		(572)	(1,131)
Depreciation		7,618	7,069
Loan loss provisions	7,12,18	68,694	72,542
Net provision on other financial assets		(122)	(2)
Impairment loss on other assets		992	1,259
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		105,375	143,185
<i>Decrease/(increase) in operating assets:</i>			
Kuwait Government treasury bonds		123,500	163,736
Central Bank of Kuwait bonds		(2,049)	43,278
Deposits with banks and other financial institutions		125,417	28,203
Loans and advances to banks		20,838	(69,251)
Loans and advances to customers		(1,164)	(349,361)
Other assets		13,495	(7,833)
<i>Increase/(decrease) in operating liabilities:</i>			
Due to banks		151,830	(15,769)
Deposits from financial institutions		(313,150)	12,593
Customer deposits		83,818	215,146
Other liabilities		(29,808)	(21,223)
NET CASH FLOWS FROM OPERATING ACTIVITIES		278,102	142,704
INVESTING ACTIVITIES			
Purchase of investment securities		(14,371)	(31,956)
Proceeds from sale of investment securities		8,808	29,332
Purchase of premises and equipment		(5,263)	(6,458)
Dividend income received		572	1,131
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(10,254)	(7,951)
FINANCING ACTIVITIES			
Dividend paid	22	(31,947)	(28,981)
Proceeds from sale of treasury shares		22,143	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(9,804)	(28,981)
NET INCREASE IN CASH AND CASH EQUIVALENTS		258,044	105,772
CASH AND CASH EQUIVALENTS AT 1 JANUARY		847,881	742,109
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	1,105,925	847,881
<i>Additional cash flows information</i>			
Interest received		217,055	274,998
Interest paid		101,520	109,794

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

GULF BANK K.S.C.P.

Statement of Changes in Equity

Year Ended 31 December 2020

	RESERVES							Treasury shares KD 000's	Total KD 000's	
	Share capital KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury shares reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's			Subtotal reserves KD 000's
At 1 January 2019	304,813	32,429	153,024	17,983	24,111	7,382	162,556	397,485	(73,605)	628,693
Profit for the year	-	-	-	-	-	-	63,643	63,643	-	63,643
Other comprehensive income for the year	-	-	-	442	-	526	-	968	-	968
Total comprehensive income for the year	-	-	-	442	-	526	63,643	64,611	-	64,611
Dividend paid (Note 22)	-	-	-	-	-	-	(28,981)	(28,981)	-	(28,981)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(386)	386	-	-	-
Transfer to reserve	-	6,677	-	-	-	-	(6,677)	-	-	-
At 31 December 2019	304,813	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
At 1 January 2020	304,813	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
Profit for the year	-	-	-	-	-	-	28,799	28,799	-	28,799
Other comprehensive loss for the year	-	-	-	(256)	-	(3,486)	-	(3,742)	-	(3,742)
Total comprehensive (loss) income for the year	-	-	-	(256)	-	(3,486)	28,799	25,057	-	25,057
Dividend paid (Note 22)	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Modification loss on consumer lending (Note 3)	-	-	-	-	-	-	(42,212)	(42,212)	-	(42,212)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(350)	350	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	49,069	49,069
Loss on sale of treasury shares	-	-	-	-	(24,111)	-	(2,815)	(26,926)	-	(26,926)
Transfer to reserve	-	3,029	-	-	-	-	(3,029)	-	-	-
At 31 December 2020	304,813	42,135	153,024	18,169	-	3,686	140,073	357,087	(24,536)	637,364

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2020

1. INCORPORATION AND REGISTRATION

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

The financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Bank’s Board of Directors on 24 January 2021. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Statement of compliance

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

- Expected credit loss (“ECL”) on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- Modification losses on financial assets (consumer and instalment loans and credit cards receivables) arising from payment holidays to customers in response to Covid-19 to be recognized in retained earnings, instead of income statement as required by IFRS 9 (note 3).

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

Presentation of financial statements

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

2.2 Changes in accounting policies and disclosures

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

IBOR Transition (Interest Rate Benchmark Reforms Phase 1)

Effective from 1 January 2020, the Bank has adopted amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase I of IBOR transition project) address the hedge accounting requirements arising before IBOR and proposed a hedging relief for such hedges. The Bank does not currently have any hedging instruments. Hence, the IBOR reform Phase 1 do not have any significant impact on Bank’s financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Bank has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

GULF BANK K.S.C.P.

Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

Amendments to IAS 1 and IAS 8 Definition of material

The Bank has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

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

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

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

Business model assessment

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

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

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

SPPI Test

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Recognition/de-recognition

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

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

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

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Measurement of financial instruments

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

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

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

Financial assets carried at amortised cost

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Measurement of financial instruments (continued)

Financial assets carried at amortised cost (continued)

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

Debt instruments at FVOCI

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

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

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

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

Equity instruments at FVOCI

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

The Bank subsequently measures all equity instruments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Such classification is determined on an instrument by instrument basis. Equity instruments at FVOCI are not subject to impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in income statement as 'Dividend income' when the Bank's right to receive payments is established.

Financial asset at FVTPL

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets

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

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

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

Impairment on credit facilities

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

Impairment on other financial assets (other than credit facilities)

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

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets (continued)

Determining the significant increase in credit risk

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

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

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

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

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

Measurement of ECLs

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

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Write off

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

Commitments

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

Guarantee contracts and letters of credit

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

Modification of loans and advances to customers

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated credit-impaired. When loans and advances to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Provisions for credit losses in accordance with CBK instructions

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Fair values measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Fair values of quoted instruments are based on quoted closing bid prices. The fair value of investments in managed funds are based on latest published net asset values.

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

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

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

Day 1 profit or loss

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

Repurchase and resale agreements

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

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

b. Derivative financial instruments and hedging

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

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

Hedge effectiveness requirements

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

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

At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

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

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

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the discontinued hedge is amortized over the remaining term to maturity.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

c. Repossessed collaterals

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

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

d. Provisions

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

e. End of service indemnity

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

f. Treasury shares

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

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

h. Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

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

i. Revenue recognition

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

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

j. Interest income and expenses

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

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

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

l. Leases

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

Right-of-use assets

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

l. Leases (continued)

Lease Liabilities

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

m. Fiduciary assets

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

n. Foreign currencies

Foreign currency transactions are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting date. Any resultant gains or losses are taken to the income statement.

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

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

r. Government grants

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgements, estimates and assumptions

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

Classification of financial instruments

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

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

Impairment losses on financial instruments

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios.

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

Valuation of unquoted financial instruments

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

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

2. ACCOUNTING POLICIES (continued)

2.5 Standards issued but not effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2021 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective.

IBOR Transition (Interest Rate Benchmark Reforms Phase 2)

On 27 August 2020 the IASB published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

The impact of the replacement of interbank offered rates ('IBORs') with alternative risk-free rates on the Bank's products and services remains a key area of focus. The Bank has exposure to contracts referencing IBORs, such as Libor, extending past FY2021, when it is likely that these IBORs will cease being published. The Bank is currently assessing the impact of the transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

3. IMPACT OF COVID-19

Covid-19 Pandemic 2020

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

Consumer and instalment loans deferral

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

Other impacted non-retail customers

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

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

Government grant

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

3. IMPACT OF COVID-19 (continued)

Support measures on Covid-19

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

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

Business continuity

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

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

4. INTEREST INCOME

	2020	2019
	KD 000's	KD 000's
Kuwait Government treasury bonds and CBK Bonds	9,425	17,498
Debt investment securities	4,692	4,990
Placements with banks	5,902	14,852
Loans and advances to banks and customers*	189,329	238,304
	209,348	275,644
	209,348	275,644

*Prior year includes KD 19,714 thousand from an impaired credit facility, based on a judgement rendered by the Court of Appeals.

5. INTEREST EXPENSE

	2020	2019
	KD 000's	KD 000's
Sight and savings accounts	3,483	3,251
Time deposits	65,293	88,594
Bank borrowings	9,208	12,330
Subordinated Tier 2 bonds	6,597	7,065
	84,581	111,240
	84,581	111,240

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2020

6. NET FEES AND COMMISSIONS

	2020	2019
	KD 000's	KD 000's
Total fees and commission income	31,715	38,884
Total fees and commission expense	(7,579)	(9,340)
	24,136	29,544

Total fees and commission income includes **KD 366 thousand** (2019: KD 338 thousand) from fiduciary activities.

7. SPECIFIC PROVISIONS

	2020	2019
	KD 000's	KD 000's
Loans and advances to customers		
– Cash (Note 12)	62,360	73,137
– Non-cash (Note 18)	2,116	(2,665)
	64,476	70,472

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 2020.

	2020	2019
	KD 000's	KD 000's
Profit for the year	28,799	63,643
	Shares	Shares
Weighted average number of shares outstanding during the year, net of treasury shares	2,927,815,660	2,898,133,288
	Fils	Fils
Basic and diluted earnings per share	10	22

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2020

9. CASH AND CASH EQUIVALENTS

	2020	2019
	KD 000's	KD 000's
Balances with the Central Bank of Kuwait	303,156	186,022
Cash in hand and in current accounts with other banks and other financial institutions	220,517	156,392
Deposits with banks and other financial institutions maturing within 30 days	582,301	505,520
	<u>1,105,974</u>	<u>847,934</u>
Less: Provision for ECL	(49)	(53)
	<u>1,105,925</u>	<u>847,881</u>

At 31 December 2020, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 3,033 thousand** (2019: KD 128,450 thousand) adjusted by ECL provision amount of **KD Nil** (2019: KD 82 thousand).

At 31 December 2020 and 2019, 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.

	2020	2019
	KD 000's	KD 000's
Maturing within one year	34,500	123,500
Maturing after one year	74,000	108,500
	<u>108,500</u>	<u>232,000</u>

At 31 December 2020 and 2019, 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.

	2020	2019
	KD 000's	KD 000's
Central Bank of Kuwait Bonds	280,724	278,675
	<u>280,724</u>	<u>278,675</u>

At 31 December 2020 and 2019, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

At 31 December 2020:

A. Loans and advances to customers

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2020

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

At 31 December 2019:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	1,771,305	-	-	-	8,210	1,779,515
Financial	145,274	107,859	-	-	-	253,133
Trade and commerce	445,875	10,455	-	-	-	456,330
Crude oil and gas	235,897	15,490	-	-	-	251,387
Construction	281,246	9,189	-	-	-	290,435
Manufacturing	296,627	7,728	-	-	-	304,355
Real estate	687,342	9,822	-	-	-	697,164
Others	199,146	274,385	-	-	-	473,531
Gross loans and advances to customers	4,062,712	434,928	-	-	8,210	4,505,850
Less: Provision for impairment						(281,242)
<i>Loans and advances to customers</i>						<u>4,224,608</u>
B. Loans and advances to banks						
Gross loans and advances to banks	43,011	120,993	4,546	18,941	26,567	214,058
Less: Provision for impairment						(1,080)
<i>Loans and advances to banks</i>						<u>212,978</u>

Movement in provision for impairment

	2020 KD 000's			2019 KD 000's		
	Specific	General	Total	Specific	General	Total
At 1 January	33,292	249,030	282,322	48,418	247,225	295,643
Amounts written-off	(80,764)	-	(80,764)	(88,263)	-	(88,263)
Charge to income statement	62,360	4,774	67,134	73,137	1,805	74,942
At 31 December	<u>14,888</u>	<u>253,804</u>	<u>268,692</u>	<u>33,292</u>	<u>249,030</u>	<u>282,322</u>

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

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 5,846 thousand** (2019: KD 2,762 thousand) and recoveries of **KD 11,358 thousand** (2019: KD 13,677 thousand).

	2020 KD 000's			2019 KD 000's		
	Corporate lending	Consumer lending	Total	Corporate lending	Consumer lending	Total
Movement in provisions for impairment of loans and advances by class is as follows:						
At 1 January	259,905	22,417	282,322	270,827	24,816	295,643
Amounts written-off	(57,483)	(23,281)	(80,764)	(70,801)	(17,462)	(88,263)
Charge to income statement	48,596	18,538	67,134	59,879	15,063	74,942
At 31 December	<u>251,018</u>	<u>17,674</u>	<u>268,692</u>	<u>259,905</u>	<u>22,417</u>	<u>282,322</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

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

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

Provision for non-cash facilities of **KD 15,406 thousand** (2019: KD 13,846 thousand) is included under other liabilities (Note 18).

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

	2020 KD 000's	2019 KD 000's
Provision on cash facilities	268,692	282,322
Provision on non-cash facilities	<u>15,406</u>	<u>13,846</u>
Total provisions on credit facilities	<u>284,098</u>	<u>296,168</u>
IFRS 9 ECL on credit facilities	<u>171,978</u>	<u>189,942</u>
Excess of total provisions over IFRS 9 ECL on credit facilities	<u>112,120</u>	<u>106,226</u>
Excess provisions as a percentage of total provisions	<u>39%</u>	<u>36%</u>

13. INVESTMENT SECURITIES

	2020 KD 000's			2019 KD 000's		
	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
<i>Quoted investments</i>						
Sovereign bonds/sukuk	81,620	-	81,620	83,539	-	83,539
Other bonds	34,147	-	34,147	32,496	-	32,496
Equity securities	-	12,104	12,104	-	15,868	15,868
	<u>115,767</u>	<u>12,104</u>	<u>127,871</u>	<u>116,035</u>	<u>15,868</u>	<u>131,903</u>
<i>Unquoted investments</i>						
Other bonds	20,807	201	21,008	20,809	201	21,010
Equity securities/others	-	26,057	26,057	-	17,898	17,898
	<u>20,807</u>	<u>26,258</u>	<u>47,065</u>	<u>20,809</u>	<u>18,099</u>	<u>38,908</u>
Less: Provision for ECL	<u>(81)</u>	<u>-</u>	<u>(81)</u>	<u>(117)</u>	<u>-</u>	<u>(117)</u>
At 31 December	<u>136,493</u>	<u>38,362</u>	<u>174,855</u>	<u>136,727</u>	<u>33,967</u>	<u>170,694</u>

At 31 December 2020 and 2019, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

14. OTHER ASSETS

	2020 KD 000's	2019 KD 000's
Accrued interest receivable	14,480	22,187
Sundry debtors and others	22,920	18,536
Less: impairment loss on other receivables	(620)	-
Repossessed collaterals (refer movement below)	<u>60,238</u>	<u>72,826</u>
	<u><u>97,018</u></u>	<u><u>113,549</u></u>

Movement in repossessed collaterals:

	2020 KD 000's	2019 KD 000's
At 1 January	72,826	71,031
Additions		
- Listed equity securities	-	8,432
Disposals	(12,216)	(5,378)
Impairment loss	<u>(372)</u>	<u>(1,259)</u>
At 31 December	<u><u>60,238</u></u>	<u><u>72,826</u></u>

Investment securities amounting to **KD 806 thousand** (2019: KD 2,894 thousand) are fair valued using quoted market prices (Level 1). The fair values of the real estate properties are not materially different from their carrying values.

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on real estate properties amounting to **KD 59,432 thousand** (2019: KD Nil).

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2020 KD 000's	2019 KD 000's
Due to banks		
Current accounts and demand deposits	39,207	22,912
Time deposits	<u>511,336</u>	<u>375,801</u>
	<u><u>550,543</u></u>	<u><u>398,713</u></u>
Deposits from financial institutions		
Current accounts and demand deposits	80,909	69,953
Time deposits	<u>624,428</u>	<u>948,534</u>
	<u><u>705,337</u></u>	<u><u>1,018,487</u></u>

16. CUSTOMER DEPOSITS

	2020 KD 000's	2019 KD 000's
Current accounts	1,301,226	1,206,523
Savings accounts	390,823	336,314
Time deposits	<u>2,341,670</u>	<u>2,407,064</u>
	<u><u>4,033,719</u></u>	<u><u>3,949,901</u></u>

Customer deposits include **KD 12,787 thousand** (2019: KD 13,617 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2020

17. SUBORDINATED TIER 2 BONDS

During the year 2016, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 100,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 6.50% per annum, payable quarterly in arrears, for the first five years and will be reset for the subsequent period at the rate of 4.25% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 4.00% per annum over the Central Bank of Kuwait discount rate, reset quarterly, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable quarterly in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions being satisfied and prior written approval of the CBK.

18. OTHER LIABILITIES

	2020 KD 000's	2019 KD 000's
Accrued interest payable	13,957	30,896
Deferred income	4,118	4,980
Provisions for non-cash facilities (refer movement below)	15,406	13,846
Staff related provisions	22,969	25,960
Lease liabilities	4,170	4,025
Others	25,125	34,286
	85,745	113,993

Movement in provisions for non-cash facilities:

	2020 KD 000's	2019 KD 000's
At 1 January	13,846	16,246
Charge (release) to the income statement	1,560	(2,400)
At 31 December	15,406	13,846

19. SHARE CAPITAL

	2020 KD 000's	2019 KD 000's
Authorised, issued and fully paid shares	304,813	304,813

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2020 is 3,048,127,898 (2019: 3,048,127,898).

20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

20. RESERVES (continued)

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2020	2019
Number of treasury shares	50,000,000	149,994,610
Percentage of treasury shares	1.64%	4.92%
Cost of treasury shares (KD 000's)	24,536	73,605
Weighted average market value of treasury shares as at 31 December (KD 000's)	11,450	44,098

Movement in treasury shares was as follows:

	<i>No. of shares</i>	
	2020	2019
Balance as at 1 January	149,994,610	149,994,610
Sales	(99,994,610)	-
Balance as at 31 December	50,000,000	149,994,610

The balance in the treasury share reserve of **KD Nil** (2019: KD 24,111 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings through out the holding period of treasury shares.

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **5 fils** per share (2019: 11 fils) on the outstanding issued share capital as at 31 December 2020. The Cash dividend is subject to the approval of the shareholders at the Annual General Meeting.

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

Directors' remuneration of **KD 135 thousand** (2019: KD 135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

23. RELATED PARTY TRANSACTIONS

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

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

	<i>Number of Board Members or executive management</i>		<i>Number of related parties</i>		2020 KD 000's	2019 KD 000's
	2020	2019	2020	2019		
Board members:						
Balances						
Loans and advances	1	1	12	14	152,896	176,918
Credit cards	2	6	4	7	19	86
Deposits	7	8	72	60	30,774	25,560
Commitments/derivatives						
Guarantees /letters of credit	-	1	9	5	7,454	5,388
Transactions						
Interest income	2	1	22	19	5,783	7,025
Interest expense	5	5	20	21	412	9,512
Net fees and commissions	-	-	11	12	51	120
Other expenses	-	-	12	12	1,654	2,655
Purchase of equipment	-	-	3	2	231	173
Executive management:						
Balances						
Loans and advances	3	2	-	-	83	47
Credit cards	10	11	-	-	19	28
Deposits	14	12	-	-	1,695	1,491
Transactions						
Interest income	3	2	-	-	3	3
Interest expense	16	13	-	-	21	28

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2% to 6%** (2019: 3.5% to 6%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 31 December 2020 was **KD 106,708 thousand** (2019: KD 116,820 thousand).

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

	2020 KD 000's	2019 KD 000's
Salaries and other benefits	2,708	4,065
End of service/termination benefits	636	396
	3,344	4,461

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

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

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

Risk management

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

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

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

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

A. CREDIT RISK

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

Concentrations of credit risk arise when there is a potential for aggravation of losses owing to correlated exposures, for example, when a number of counterparties have common ownership, or are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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

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

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Independent Credit Departments covering wholesale and consumer risk, reporting to CRO, is responsible for providing centralised management of credit risk. The responsibilities of the teams include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to rank order risk and categorize exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

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

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

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

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

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC and BCIC based on respective delegation. All MCC decisions are periodically reviewed by the CRO.

The CCC meets as required and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically.

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

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

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

The Financial Institutions division regularly reviews the Bank's overall country limits and exposures. The review focuses on the spread of country risk and recommendations to alter individual country risk limits are made where necessary.

Risk appetite document approved by Board provides a consistent framework for understanding risk through the organization and provides a means to ensure that risk considerations are ingrained in the day-to-day operation of the Bank. The risk appetite set by the bank is monitored and mitigation, if any, carried out at the appropriate time. The risk appetite threshold at a macro level is defined for Corporate, International, Treasury and Consumer Banking. Risk appetite is further drilled down into industry segments which are important for Bank's business.

ECL methodology

The Bank is equipped with an internal credit rating system and has developed models to arrive at the ECL based on the requirements of IFRS 9. IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition wherein if a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Refer to note 2.3.a impairment of financial instruments for more information related to stage classification.

The Bank calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

ECL is arrived at on the basis of Probability of Default (PD) for the corresponding rating grade of the facility, Loss Given Default (LGD) and Exposure at Default (EAD). Further details are provided in the ensuing paragraphs of the Section on ECL Methodology. The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc. The ECL methodology is summarised below:

- Stage 1: The 12 months ECL is calculated as the loss that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL provision based on the expectation of a default occurring in the 12 months following the reporting date.
- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination due to quantitative and qualitative factors, the Bank records an allowance for the LT ECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For Credit Facility considered credit-impaired i.e, having objective evidence of default, the Bank calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

ECL methodology (continued)

Significant increase in credit risk

The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally accepted definition of 'investment grade'. Credit facilities (other than consumer/ installment facilities) are classified under Stage 2 when there has been a downgrade in the obligor risk rating by 2 grades for the credit facilities with investment grade and by 1 grade for those with non-investment grade.

The Bank applies consistent quantitative criteria for internally rated portfolio to assess significant increase in credit risk. In the absence of ratings at inception, the Bank considers current rating at reporting date, the account conduct and past dues, to determine the stage in which the facilities to be classified. In addition, the Bank considers all restructured credit facilities which are not credit impaired as stage 2.

Covid-19 updates: The Bank takes into account their historic experience of losses updated to reflect current conditions as well as forecasts of future economic conditions to assess if there is significant increase in credit risk or objective evidence of impairment in the light of Covid-19 situation. Key areas that the Bank has given focus for ECL computation for the year ended 31 December 2020 to reflect the increased level of risk are as under:

- Staging review based on sector impact
- PD and LGD model update with macroeconomic scenarios
- Temporary financial difficulties of the borrowers versus longer-term or permanent impact
- Sector analysis of retail loans that have increase likelihood of job losses and pay cuts; Expatriates unable to return to the country and some cases where their residency expired
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available
- Deferral of instalments will not automatically trigger significant increase in credit risk

The above assessment has resulted in staging downgrade of certain exposures and corresponding increase in ECL.

The Bank considers expected maturity period of 7 years for credit facilities to corporate customers classified in stage 2 unless these facilities have non-extendable contractual maturity date and periodic schedule of repayments with final repayment amount not exceeding 50% of the original credit facilities. The expected maturity period of minimum of 5 years is considered for consumer financing and credit cards and 15 years for housing loans and financing.

The Bank considers all facilities which are in default and rated 8 to 10 as Stage 3 accounts.

Staging review

A key indicator of changes in the credit quality of loan portfolio is how much of it has been moved between stages, as this indicates whether the loan portfolio has undergone a significant increase in credit risk. With this view in mind, the Bank performed a qualitative review of the portfolio to reflect the increased credit risk on clients engaged in the severely impacted sectors. A qualitative review of clients in the grade '6' and where the sector impact is severe has been identified and moved to Stage 2 to reflect the increased credit risk.

The Bank considers a financial asset as 'cured' (i.e. no longer be impaired) and therefore reclassified out of Stage 3, when it no longer meets any of the credit impaired criteria. In respect of impaired facilities which are classified in Stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Bank for consideration for classifying the facility in Stage 2/Stage 1. The Bank also considers related CBK guidelines before any credit facility is reclassified between stages. One year curing period is not applicable for consumer and instalment facilities.

ECL on loans and advances to banks and loans and advances to customers is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Probability of default

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors. The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into account operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

The framework adopted by the Bank for calculating the PD is based upon obligor risk rating, internal default and macro-economic data. Under macro-economic data, three scenarios (a base case, upside case, and a downside case) has been considered. The Bank uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Bank also uses external ratings by recognised rating agencies for externally rated portfolios.

The PD is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Bank's estimate of the future asset quality. The through the cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Bank converts the TTC PD to a point in time (PIT) PD term structure using appropriate models and techniques.

For Consumer banking, the payment behaviour of the borrower is monitored on a periodic basis. Consumer loans are generally not secured, but the credit risk is minimized by the 'assignment of salary' condition that requires the customer's employer to pay their salary directly to their Gulf Bank's salary account. If salaries are not credited and there are no funds available in accounts, the related exposures get delinquent. The days past due is used to determine the credit risk of the retail customers. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant. PD used for retail credit facilities has been segmented into pools that share similar risk characteristics.

For financial instruments in Treasury, Investment securities, money market instruments and other assets portfolios, external rating agency credit grades are used. These published grades are continuously monitored and updated.

The Bank applies minimum thresholds for 12 months PD at 1% for non-investment grade credit facilities and 0.75% for investment grade credit facilities. However, these minimum thresholds are not applicable for consumer and housing loans and financing and also to credit facilities to governments and banks with external credit rating of investment grade.

Loss given default

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. For secured facilities, the Bank applies a minimum haircut to its collateral values as prescribed by CBK guidelines. For all unsecured credit facilities, the Bank considers a minimum of 50% LGD for senior debt and 75% LGD for subordinated debt as prescribed by CBK guidelines.

Covid-19 updates: The Bank has undertaken the exercise of updating the PD and LGD models used for ECL calculation with historical experience to derive links between changes in economic conditions and customer behaviour. The Bank has applied the latest macroeconomic overlays to reflect the present economic conditions in the PD and LGD model. The Bank has also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays are reflected in the ECL requirements for the year ended 31 December 2020.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Exposure at default

EAD represents the amount which the obligor will owe to the Bank at the time of default. The Bank considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values in accordance with credit conversion factor prescribed by CBK guidelines.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, consumer price index and government expenditure, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Covid-19 updates: As the IFRS 9 impairment model is forward-looking, the Bank is required to consider a range of possible future economic scenarios and their probability to calculate ECL. During the year 2020, the economies were impacted due to shutdowns and with uncertainties creeping into economic activities, the Bank faced challenges to quantify the impact with the existing forward-looking models in place. Therefore, based on expert credit judgement, adjustments to models as appropriate were carried out.

Collateral and other credit enhancements

The Bank employs a range of tools to reduce credit risk. The Bank seeks collateral coverage, assignment of contract proceeds and other forms of protection to secure lending and minimize credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are secured by collateral, wherever required, consisting primarily of: equities listed on the Kuwait Stock Exchange; unquoted equities, real estate (land and buildings); fixed term deposits and cash balances with the Bank that are blocked and legally pledged in its favor; and direct, explicit, irrevocable and unconditional bank guarantees.

As of 31 December 2020, **26%** (2019: 24%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals.

The Bank has procedures to ensure that there is no excessive concentration of any particular asset class within the collaterals.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

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 statement of financial position, including positive fair value of derivatives without taking into account any collateral and other credit enhancements. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Bank's comprehensive capital as determined by the regulatory guidelines.

BY CLASS OF FINANCIAL ASSETS	Maximum exposure 2020 KD 000's	Maximum exposure 2019 KD 000's
Cash and cash equivalents (excluding cash in hand)	1,054,570	778,325
Kuwait Government treasury bonds	108,500	232,000
Central Bank of Kuwait bonds	280,724	278,675
Deposits with banks and other financial institutions	3,033	128,368
Loans and advances to banks	192,063	212,978
Loans and advances to customers:		
- Corporate lending	2,449,947	2,656,614
- Consumer lending	1,666,590	1,567,994
Debt investment securities (Note 13)	136,694	136,928
Other assets	36,780	40,723
Total	5,928,901	6,032,605
Contingent liabilities and commitments	1,680,429	1,753,185
Foreign exchange contracts (including spot contracts)	8,017	100,425
Total	1,688,446	1,853,610
Total credit risk exposure	7,617,347	7,886,215

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2020 is 13.3% (2019: 13.3%).

	2020		2019	
	<i>Assets</i> KD 000's	<i>Off balance sheet items</i> KD 000's	<i>Assets</i> KD 000's	<i>Off balance sheet items</i> KD 000's
<i>Geographic region:</i>				
Domestic (Kuwait)	4,692,855	1,282,774	4,770,090	1,350,038
Other Middle East	785,261	73,385	903,520	178,860
Europe	378,116	99,087	238,878	96,963
USA and Canada	26,723	24,501	28,542	19,048
Asia Pacific	18,309	208,699	57,028	208,701
Rest of world	27,637	-	34,547	-
	5,928,901	1,688,446	6,032,605	1,853,610

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

	2020		2019	
	<i>Assets</i> <i>KD 000's</i>	<i>Off balance sheet</i> <i>items</i> <i>KD 000's</i>	<i>Assets</i> <i>KD 000's</i>	<i>Off balance</i> <i>sheet items</i> <i>KD 000's</i>
<i>Industry sector:</i>				
Personal	1,843,041	1,486	1,755,379	30,837
Financial	1,140,810	434,922	1,217,984	555,152
Trade and Commerce	414,557	392,928	451,493	378,575
Crude Oil and Gas	103,365	71,181	74,766	36,578
Construction	228,849	495,627	287,428	558,112
Government	1,030,747	13,339	1,080,490	7
Manufacturing	265,089	75,794	299,292	64,014
Real Estate	703,384	40,422	690,398	48,080
Others	199,059	162,747	175,375	182,255
	5,928,901	1,688,446	6,032,605	1,853,610

Internal credit quality rating

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors.

The Bank uses Moody's 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 operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

The Risk Rating Process derives the Obligor Risk Ratings (ORRs) and Facility Risk Ratings (FRRs). The rating methodology focuses on factors such as: operating performance, liquidity, debt service and capital structure. The ratio analysis includes assessment of each ratio's trend across multiple periods, both in terms of rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessment of the operations, liquidity and capital structure are also included in the assessment.

For new ventures or project finance transactions, Obligor Risk Ratings are generated through the use of projections covering the period of the loan.

Obligor Risk Rating (ORR) reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility.

The Obligor Risk Ratings of performing assets are broadly classified into 3 categories, viz, 'High', 'Standard' and 'Acceptable' quality. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. Credit exposures classified as 'Standard' quality comprise facilities whose financial condition, and risk indicators and repayment capacity are satisfactory. Credit exposures classified as 'Acceptable' quality are performing accounts, and payment performance is fully compliant with contractual conditions. The ultimate risk of financial loss on 'Acceptable' quality is assessed to be higher than that for the exposures classified within 'High' and 'Standard' quality range.

Facility Risk Rating

The Bank also has an approved framework for Facility Risk Ratings (FRR). While Obligor Risk Rating does not take into consideration factors like availability of collateral and support, FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in FRR.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Internal credit quality rating (continued)

North American Industry Classification System (NAICS) Code:

The Bank classifies the Bank's exposure as per NAICS Code. Such classifications are in addition to the classification based on purpose codes as defined by the CBK.

The Bank classifies its loans and advances to customers mainly into two categories; corporate lending and consumer lending. Corporate lending includes credit facilities and trade finance products to its corporate and institutional customers. Consumer lending includes consumer and instalment facilities, credit cards and other credit facilities to high net worth individuals and SMEs. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any.

Portfolio Risk Rating

The Bank computes a weighted average Risk Rating through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the ERC as well as in the BRC.

RAROC Model

RAROC (Risk Adjusted Return on Capital) model is in use in the Bank to assess the net value created in the account after taking into account the cost of capital. The Models help to make right credit decisions and create shareholder value.

Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has a system for real time electronic dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

2020

	<u>Neither past due nor impaired</u>			Past due but not impaired	Total
	High	Standard	Acceptable		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	1,009,132	45,487	-	-	1,054,619
Kuwait Government treasury bonds	108,500	-	-	-	108,500
Central Bank of Kuwait bonds	280,724	-	-	-	280,724
Deposits with banks and other financial institutions	3,033	-	-	-	3,033
Loans and advances to banks	170,262	22,958	-	-	193,220
Loans and advances to customers:					
- Corporate lending	2,005,890	591,203	30,341	22,664	2,650,098
- Consumer lending	1,555,180	42,686	-	84,629	1,682,495
Debt investment securities (Note 13)	136,775	-	-	-	136,775
Other assets	36,780	-	-	-	36,780
	<u>5,306,276</u>	<u>702,334</u>	<u>30,341</u>	<u>107,293</u>	<u>6,146,244</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

2019

	Neither past due nor impaired			Past due but not impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's	Acceptable KD 000's		
Cash and cash equivalents (excluding cash in hand)	778,378	-	-	-	778,378
Kuwait Government treasury bonds	232,000	-	-	-	232,000
Central Bank of Kuwait bonds	278,675	-	-	-	278,675
Deposits with banks and other financial institutions	128,450	-	-	-	128,450
Loans and advances to banks	214,058	-	-	-	214,058
Loans and advances to customers:					
- Corporate lending	2,039,320	739,308	94,624	9,546	2,882,798
- Consumer lending	1,480,326	16,654	-	74,008	1,570,988
Debt investment securities (Note 13)	137,045	-	-	-	137,045
Other assets	40,723	-	-	-	40,723
	5,328,975	755,962	94,624	83,554	6,263,115

70% (2019: 93%) of the past due but not impaired category is below 60 days and 30% (2019: 7%) is between 60-90 days.

Financial assets by class individually impaired

2020

	<i>Gross exposure</i> KD 000's	<i>Impairment provision</i> KD 000's	<i>Fair value of collateral</i> KD 000's
Loans and advances to customers:			
- Corporate lending	49,710	7,163	24,226
- Consumer lending	1,769	995	260
	51,479	8,158	24,486

2019

	<i>Gross exposure</i> KD 000's	<i>Impairment provision</i> KD 000's	<i>Fair value of collateral</i> KD 000's
Loans and advances to customers:			
- Corporate lending	32,641	374	31,252
- Consumer lending	19,423	6,870	294
	52,064	7,244	31,546

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 Bank and its customers to transfer, modify or reduce their foreign exchange risk. Foreign exchange contracts are subject to credit risk and are limited to the current replacement value of instruments that are favorable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding.

These instruments are disclosed in Note 28. This credit risk exposure was managed as part of the overall borrowing limits granted to customers.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Normally, the banking business is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk.

The interest rate sensitivity of the income statement measures the effect of assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and liabilities held at year end. The interest rate sensitivity on equity (comprehensive income) is the impact of changes in interest rates on the fair value of FVOCI fixed/floating rate bonds held at year end.

The following table reflects the effects of 25 basis points change in interest rates on the income statement and equity (comprehensive income), with all other variables held constant:

Currency	2020			2019		
	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
KWD	(+) 25	2,180	-	(+) 25	2,117	-
USD	(+) 25	699	-	(+) 25	605	-

C. CURRENCY RISK

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Bank complies with all CBK and internally approved limits. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

Based on the Bank's financial assets and liabilities held at the statement of financial position date, in case of a change in currency movements with all other variables held constant, the effect on the Bank's income statement and other comprehensive income is as follows:

Currency	2020			2019		
	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	+5	(178)	107	+5	(80)	115

Bank's investments are held in well diversified portfolio of equity, debt instruments and funds which invest in a variety of securities and products which are denominated in different currencies whose performance cannot necessarily be measured with relation to movement in any particular currency rate. Only the impact on the carrying amount of these securities has been considered in the sensitivity analysis.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of the Bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manages the liquidity and funding of the Bank to ensure that sufficient funds are available to meet the Bank's known cash funding requirements and any unanticipated needs that may arise. At all times, the Bank holds what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The Bank measures and monitors Basel III short term and long term liquidity ratios of LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The objective of LCR is to improve the short-term liquidity profile of the Bank by ensuring that the Bank has sufficient stock of High Quality Liquid Assets to cover a 30 day period of stressed cash outflows. Similarly, NSFR aims to improve the long-term liquidity profile by ensuring that the Bank has stable funding sources to cover funding requirements over the short and long term period.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position, liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further minimized by adherence to the strict CBK liquidity requirements. In response to the Covid-19, CBK had provided temporary relaxation to the regulatory liquidity ratios until 31 December 2020, namely: minimum LCR of 80% (2019: 100%); minimum NSFR of 80% (2019: 100%); maturity ladder mismatch limits for specific time periods: -20% for 7 days or less (2019: -10%); -30% for 1 month or less (2019: -20%); -40% for 3 months or less (2019: -30%); -50% for 6 months or less (2019: -40%); the requirement to hold 15% (2019: 18%) of KD customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 100% (2019: 90%).

In response to the Covid-19 outbreak, the Bank evaluated its liquidity and funding positions by closely monitoring its cash flows and forecasts and strengthening the cash and short-term funds. The Bank also adopted the selective loan disbursements and focused to strengthen the customer deposit base. The Bank continues to monitor its liquidity position and funding risks arising due to the COVID-19 crisis.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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 2020:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	1,105,925	-	-	-	-	-	1,105,925
Kuwait Government treasury bonds	-	-	17,500	17,000	57,500	16,500	108,500
Central Bank of Kuwait bonds	62,973	123,220	94,531	-	-	-	280,724
Deposits with banks and other financial institutions	-	3,033	-	-	-	-	3,033
Loans and advances to banks	633	442	26	41,171	149,791	-	192,063
Loans and advances to customers	182,428	679,930	239,945	473,023	577,383	1,963,828	4,116,537
Investment securities	8,190	-	15,144	9,001	74,175	68,345	174,855
Other assets	27,464	1,165	5,723	2,511	59,772	383	97,018
Premises and equipment	-	-	-	-	-	34,053	34,053
Total assets	1,387,613	807,790	372,869	542,706	918,621	2,083,109	6,112,708
Liabilities:							
Due to banks	136,934	72,744	218,826	122,039	-	-	550,543
Deposits from financial institutions	260,266	220,557	126,045	98,469	-	-	705,337
Customer deposits	2,197,683	929,904	431,114	463,464	11,554	-	4,033,719
Subordinated Tier 2 bonds	-	-	-	-	100,000	-	100,000
Other liabilities	23,365	23,466	8,355	8,478	22,081	-	85,745
Total liabilities	2,618,248	1,246,671	784,340	692,450	133,635	-	5,475,344

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2019:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	847,881	-	-	-	-	-	847,881
Kuwait Government treasury	29,500	15,000	37,000	42,000	86,500	22,000	232,000
Central Bank of Kuwait bonds	61,927	91,060	125,688	-	-	-	278,675
Deposits with banks and other financial institutions	-	72,347	40,868	15,153	-	-	128,368
Loans and advances to banks	445	13,568	22,230	21,077	140,657	15,001	212,978
Loans and advances to customers	244,826	400,314	526,421	551,050	498,136	2,003,861	4,224,608
Investment securities	-	-	7,589	-	91,273	71,832	170,694
Other assets	28,483	3,087	4,933	3,414	73,260	372	113,549
Premises and equipment	-	-	-	-	-	36,664	36,664
Total assets	1,213,062	595,376	764,729	632,694	889,826	2,149,730	6,245,417
Liabilities:							
Due to banks	120,399	69,064	108,033	101,217	-	-	398,713
Deposits from financial institutions	344,085	162,351	267,765	243,508	778	-	1,018,487
Customer deposits	2,170,013	598,970	568,210	590,205	22,503	-	3,949,901
Subordinated Tier 2 bonds	-	-	-	-	100,000	-	100,000
Other liabilities	39,088	24,180	11,375	17,705	21,645	-	113,993
Total liabilities	2,673,585	854,565	955,383	952,635	144,926	-	5,581,094

The tables below summarize the maturity profile of the Bank's financial liabilities and contingent liabilities, commitments and non-derivative financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

At 31 December 2020:

Financial liabilities:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	66,773	5,003	432,713	51,571	-	556,060
Deposits from financial institutions	85,458	202,602	354,670	67,439	-	710,169
Customer deposits	1,742,541	251,169	1,824,113	235,288	-	4,053,111
Subordinated Tier 2 bonds	-	1,479	4,521	102,482	-	108,482
Other liabilities	23,365	23,466	16,833	22,081	-	85,745
Total undiscounted liabilities	1,918,137	483,719	2,632,850	478,861	-	5,513,567

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2019:

Financial liabilities:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	59,010	47,203	189,133	109,496	-	404,842
Deposits from financial institutions	89,796	169,672	584,652	195,507	-	1,039,627
Customer deposits	1,581,477	271,689	1,536,583	603,307	-	3,993,056
Subordinated Tier 2 bonds	-	1,634	4,991	102,741	-	109,366
Other liabilities	39,088	24,180	29,080	21,645	-	113,993
Total undiscounted liabilities	1,769,371	514,378	2,344,439	1,032,696	-	5,660,884

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

At 31 December 2020:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Contingent liabilities	23,323	13,948	212,903	528,585	601,020	1,379,779
Commitments	6,238	4,131	20,739	59,471	210,071	300,650
	29,561	18,079	233,642	588,056	811,091	1,680,429

At 31 December 2019:	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	27,275	58,179	198,070	616,078	561,979	1,461,581
Commitments	5,194	5,552	29,095	48,820	202,943	291,604
	32,469	63,731	227,165	664,898	764,922	1,753,185

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

The table below shows the contractual expiry by maturity of the Bank'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 2020:				
Forward foreign exchange	383	2,874	1,978	5,235
At 31 December 2019:				
Forward foreign exchange	70,848	174	3,108	74,130

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are monitored through the Operational Risk Management Unit in the Risk Management Department. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management. The Operational Risk Management function is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

This is a risk that the value of equity investments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

A portion of the Bank's investments are held in well diversified portfolio of managed funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

The effect on equity (as a result of change in the fair value of equity instruments held as FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

<i>Market indices</i>	<i>% Change in equity price</i>	<i>2020 Impact on statement of comprehensive income KD 000's</i>	<i>2019 Impact on statement of comprehensive income KD 000's</i>
Kuwait Stock Exchange	+5%	605	793

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interest bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i> <i>KD 000's</i>	<i>Level 2</i> <i>KD 000's</i>	<i>Level 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
At 31 December 2020:				
Financial assets at FVOCI:				
Equity securities	12,104	642	25,415	38,161
Debt securities	-	201	-	201
	<u>12,104</u>	<u>843</u>	<u>25,415</u>	<u>38,362</u>
At 31 December 2019:				
Financial assets at FVOCI:				
Equity securities	15,868	770	17,128	33,766
Debt securities	-	201	-	201
	<u>15,868</u>	<u>971</u>	<u>17,128</u>	<u>33,967</u>

The following table analyses the movement in level 3 of financial assets:

	At 1 January KD 000's	Change in fair value KD 000's	Additions KD 000's	Exchange rate movements KD 000's	At 31 December KD 000's
Financial assets at FVOCI:					
Equity securities					
2020	17,128	(648)	8,919	16	25,415
2019	18,114	(994)	-	8	17,128

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 2020 were **KD 136,493 thousand** (2019: KD 136,727 thousand) and **KD 118,551 thousand** (Level 1) (2019: KD 118,235 thousand) and **KD 20,800 thousand** (Level 2) (2019: KD 20,800 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 Bank has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact.

The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

26. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various contingent liabilities and irrevocable commitments. Even though these obligations may not be reflected in the statement of financial position, they do contain credit risk and therefore form part of the overall risk of the Bank.

The total outstanding contingent liabilities and commitments are as follows:

	2020 KD 000's	2019 KD 000's
Guarantees	1,135,900	1,213,861
Letters of credit and acceptances	243,879	247,720
	1,379,779	1,461,581

As at the reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD 300,650 thousand** (2019: KD 291,604 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

27. SEGMENTAL ANALYSIS

a. By Business Unit

Commercial Banking	Acceptance of deposits from individuals, corporate and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and other credit facilities to corporate and institutional customers.
Treasury & Investments	Providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of Kuwait Government treasury bonds, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the Investments unit.

Segmental information for the year ended 31 December is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2020	2019	2020	2019	2020	2019
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Operating income (loss)	137,109	166,869	(239)	7,754	136,870	174,623
Segment result	52,015	76,487	(1,646)	6,610	50,369	83,097
Unallocated income					21,398	33,024
Unallocated expense					(42,968)	(52,478)
Profit for the year					28,799	63,643
Segment assets	4,399,677	4,562,162	1,642,198	1,605,868	6,041,875	6,168,030
Unallocated assets					70,833	77,387
Total Assets					6,112,708	6,245,417
Segment liabilities	3,133,593	2,740,335	2,207,827	2,688,145	5,341,420	5,428,480
Unallocated liabilities and equity					771,288	816,937
Total Liabilities and Equity					6,112,708	6,245,417

b. Geographic segment information relating to location of assets, liabilities and off balance sheet are given in Note 24A.

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2020 or 2019.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

28. DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 31 December 2020:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
				Derivatives instruments held as:	
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	<u>25</u>	<u>(28)</u>	<u>5,235</u>	<u>3,257</u>	<u>1,978</u>

At 31 December 2019:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>	
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
				Derivatives instruments held as:	
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	<u>13</u>	<u>(215)</u>	<u>74,130</u>	<u>71,022</u>	<u>3,108</u>

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest.

For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2020

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Bank.

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2020 and 31 December 2019 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2020	2019
	KD 000's	KD 000's
Risk weighted assets	<u>4,576,070</u>	<u>4,809,253</u>
Capital required: 11.5% (2019: 14%) (Note 3)	<u>526,248</u>	<u>673,295</u>
Capital available		
Tier 1 capital	679,576	664,323
Tier 2 capital	<u>155,537</u>	<u>158,164</u>
Total capital	835,113	822,487
Tier 1 capital adequacy ratio	14.85%	13.81%
Total capital adequacy ratio	18.25%	17.10%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2020 and 31 December 2019 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2020	2019
	KD 000's	KD 000's
Tier 1 capital	<u>679,576</u>	<u>664,323</u>
Total Exposure	<u>6,848,774</u>	<u>7,110,158</u>
Financial leverage ratio	<u>9.92%</u>	<u>9.34%</u>

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 2020 and 31 December 2019 are included under the 'Risk Management' section of the annual report.

Issuer

Gulf Bank K.S.C.P. (“Gulf Bank”)
Mubarak Al Kabeer Street,
Kuwait City
P. O. Box 3200, Safat 13032, Kuwait
State of Kuwait

**Joint Lead Issuance Manager and
Subscription Agent**

Kamco Investment Company K.S.C.P.
 (“Kamco Invest”)
Al-Shaheed Tower,
Khaled Ibn Al-Waleed Street, Sharq
P.O. Box 28873, Safat 13149
State of Kuwait

**Joint Lead Issuance Manager and
Subscription Agent**

Gulf Bank K.S.C.P. (“Gulf Bank”)
Mubarak Al Kabeer Street,
Kuwait City
P. O. Box 3200, Safat 13032 Kuwait
State of Kuwait

Clearing and Depository Agent

Kuwait Clearing Company K.S.C.
Mubarak Al Kabeer Street, Boursa
Kuwait Building, 6th Floor
P.O. Box 22077
Safat 13081
State of Kuwait

Legal Advisors to the Bank

ASAR – Al Ruwayeh & Partners
Mohammad Thunayan Al-Ghanim Street,
Salhiya Complex, Gate 1, 3rd Floor
P.O. Box 447
Safat 13005
State of Kuwait