ANNUAL REPORT 2018

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بنك الخليج
GULF BANK

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

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

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

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Head Office:
Mubarak Al Kabeer Street, P. O. Box 3200, Safat 13032, Kuwait, Tel: 22449501

ABOUT GULF BANK

Gulf Bank is one of the largest banks in Kuwait with a broad offering of consumer banking, wholesale banking, treasury, and financial services. The Bank was founded in 1960, and was listed as Gulf Bank (GBK) on the Kuwait Stock Exchange (KSE) in 1984.

Gulf Bank has a large network of 58 branches and total assets over KD 6 billion for year ended 31 December 2018. The Bank is currently ranked 'A' by the four leading international credit rating agencies.

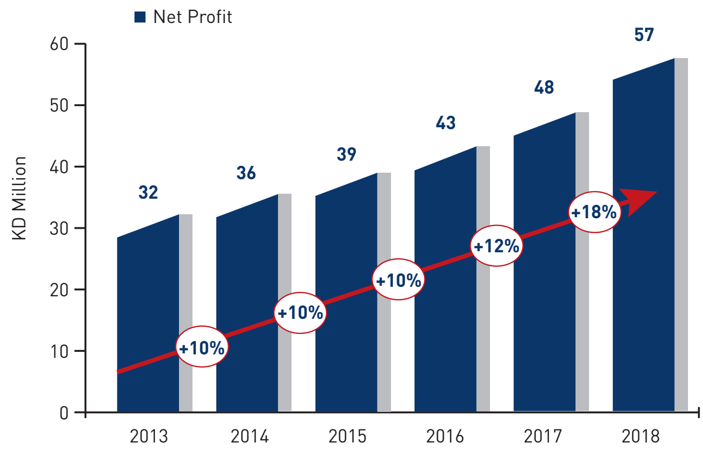
Gulf Bank has been recognized with numerous awards, spread over different sectors, including consumer banking, wholesale banking, marketing, human resources, and its corporate social responsibility program. These include awards from respected international publications such as The Asian Banker, International Finance Magazine (IFM); International Banker; Banker Middle East, and Arabian Business Magazine.

Gulf Bank is strongly committed to giving back to Kuwait and society through its corporate social responsibility program. The Bank supports numerous events focusing on youth, education, health and fitness; helping the underprivileged: empowering women; and promoting Kuwait's heritage and culture.

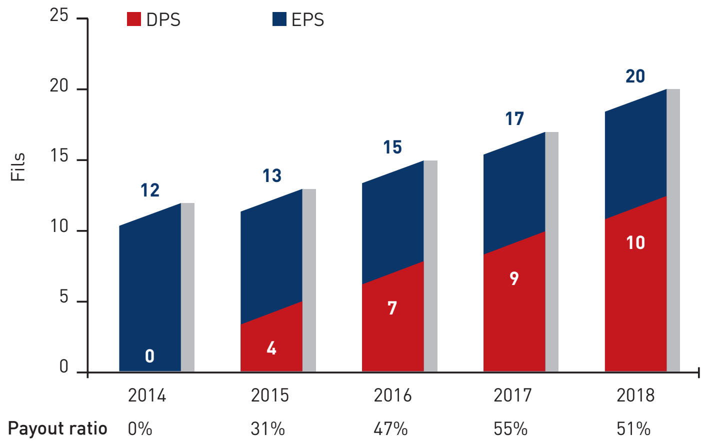
2018 KEY HIGHLIGHTS

2018 KEY HIGHLIGHTS

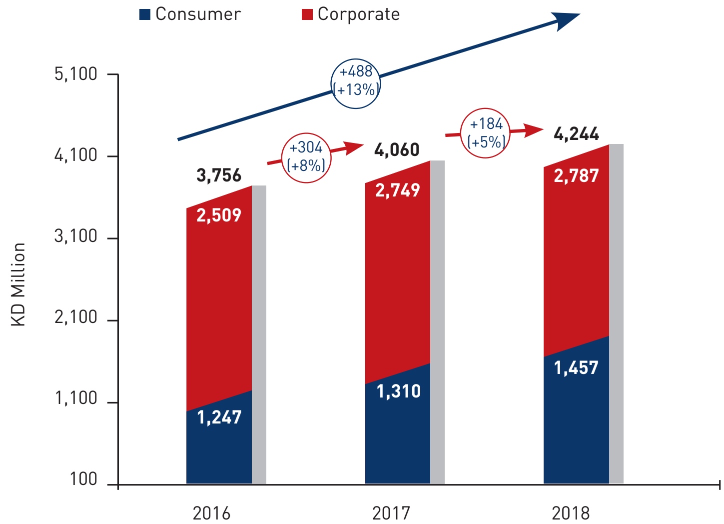
1. **Net profit up 18%, fifth straight year of accelerating double digit net profit growth.**



2. **Earnings per share up to 20 fils. Recommending dividend of 10 fils per share (51% payout ratio)*.**

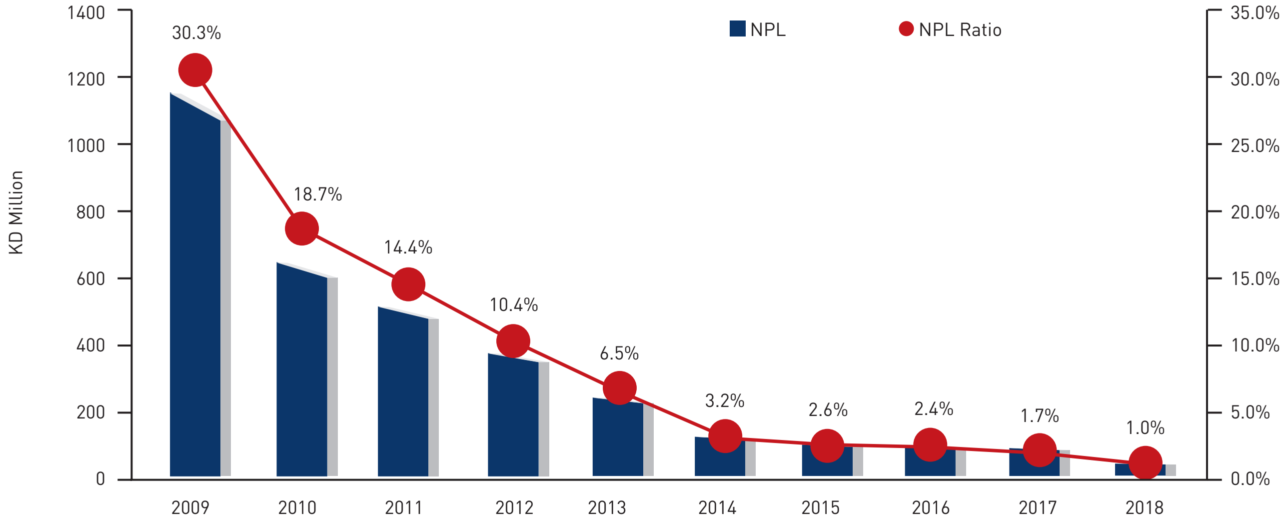


3. **Customer Loans reached an all-time high of KD 4.2 billion.**



* 2018 dividends are subject to the approval of the annual general meeting

4. **Non-Performing Loan ratio reached an all-time low of 1%.**



5. **Achieved 'A' ratings from all four major credit rating agencies.**

Agency	Rating	2018
Moody's	**Long Term**	**A3**
	Outlook	Positive
S&P Global Ratings	**Long Term**	**A-**
	Outlook	Stable
Fitch Ratings	**Long Term**	**A+**
	Outlook	Stable
CI Capital Intelligence	**Long Term**	**A-**
	Outlook	Stable

CHAIRMAN'S MESSAGE

Omar Kutayba Alghanim
Chairman

CHAIRMAN'S MESSAGE

Omar Kutayba Alghanim
Chairman

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you Gulf Bank's Annual Report for 2018. The Bank's commitment towards its core strategy of customer service excellence in the Kuwaiti market continues to accelerate and drive the performance and profitability of Gulf Bank.

Accelerated Profitability

Net profit increased from KD 48 million in 2017 to KD 57 million in 2018, an increase of 18%. This is the fifth straight year of double digit growth in net profit for the Bank.

Earnings per share increased to 20 fils per share and the Board of Directors is recommending a cash dividend of 10 fils per share for shareholders' approval at the Annual General Meeting to be held in March, 2019.

Strong Assets Base

Loans and Advances to customers reached an all-time high of KD 4.2 billion at the end of 2018, an increase of nearly KD 0.5 billion or 13% over the last two years. This growth was well balanced as 57% came from the Bank's Corporate segment and 43% came from the Bank's Consumer segment.

Non-Performing Loans (NPL's) reached an all-time low of 1%. This was driven mainly by the settlement of two legacy corporate loans in the second half of 2018, one of which led to a recovery of KD 36 million recorded in the fourth quarter of 2018.

The ***IFRS9 accounting standard*** on credit facilities was implemented by the Central Bank of Kuwait in 2018 and, as of year-end 2018, the Bank's total credit provisions of KD 312 million were greater than the IFRS9 requirements by KD 112 million.

The Bank's ***regulatory capital ratios*** remained strong as the Tier 1 ratio of 14.1% was 2.1% above the regulatory minimum of 12%, and the Capital Adequacy Ratio (CAR) of 17.5% was 3.5% above the regulatory minimum of 14%.

Business Environment & Growth

With a focused strategy to deliver excellent service and innovation to our retail and corporate customers, Gulf Bank has enabled both business segments to grow and maintain their market share.

To serve its retail customers, the Bank now has 58 branches in Kuwait and has plans to open more in 2019 and beyond. In addition, the Bank has enhanced its credit card offering by introducing a new range of credit cards with benefits tailored to each of its customer segments and a new cashback card to supplement the Bank's popular rewards program. In addition, the Bank signed agreements with several retailers in Kuwait to offer an interest-free program to their customers to drive more sales for them and more customers for the Bank. Gulf Bank also launched the "WISE" investment platform for its wealth and priority customers, and a new state-of-the art website.

On the corporate side, Gulf Bank continued to deliver loan growth despite the challenging market environment during 2018. The Bank is actively financing government projects, particularly in the oil & gas and construction sectors. As an example, Gulf Bank participated in financing KNPC's Clean Fuels Project and the resultant new refinery at Al-Zour as well as the Jaber Al Ahmad causeway and the Sabah Al Ahmad housing project, to name just a few. The Bank has also financed the contractors building some of the iconic projects in Kuwait such as the Jaber Al Ahmad Cultural Center and the Abdullah Al Salem Museum. To focus on our corporate customer experience, Gulf Bank launched the Corporate Partner initiative, which provides a one-stop shop catering to clients' needs in a holistic approach. This initiative aims to build long-term partnerships by enhancing the overall customer experience through improved services and product offerings, thereby increasing customer satisfaction and retention.

Kuwait Capital Market Development

During the year 2018, Kuwait witnessed major milestones in terms of developing its capital markets. Boursa Kuwait has completed its second stage of market development by classifying the market into three classes; Premier Market, Main Market and Over the Counter Market. Gulf Bank is classified under the Premier Market segment, the elite segment that is occupied by large companies in terms of liquidity and market capitalization. Being part of this segment provides our shareholders and investors with ample transparency and an increased level of disclosure, including quarterly conference calls with analysts and bilingual regulatory disclosures.

Another milestone is the inclusion of Gulf Bank shares in the MSCI Frontier Markets Index during its May, 2018 semiannual review. This event and similar international index inclusions will attract regional and international investors to support the liquidity and attractiveness of Gulf Bank's shares.

During 2018, two additional sell-side equity research houses initiated coverage on Gulf Bank. In addition to Arqaam Capital, Gulf Bank is now covered by EFG Hermes and QNB Financial Services, both of which are well respected research houses that service reputable international and regional investors. For the first time in its history, Gulf Bank obtained 'buy' recommendations from all three of those research companies covering the bank during the year 2018.

"A" Ratings from the Four Major Credit Rating Agencies

The Bank maintained its 'A' ratings from the four major credit rating agencies. Moody's Investor Service maintained a rating of A3 and upgraded the outlook of the Bank to 'Positive' from 'Stable' while Capital Intelligence upgraded the rating to 'A-'from 'BBB+'. Fitch Ratings have also affirmed their ratings at 'A+' with a `stable` outlook and S&P Global Ratings also affirmed the Bank rating at 'A- ', with a 'Stable' outlook.

Sustainability

Sustainability has taken a lead in Gulf Bank's success, playing an integral role in its corporate social responsibility initiatives. Gulf Bank's social responsibility program supports events focusing on youth and education; women's empowerment; health and fitness and Kuwait's heritage. We aim to engage with our partners to promote social and economic prosperity that drive sustainable growth and invest in our communities.

Appreciation

On behalf of the Board of Directors, we would like to express our gratitude to HH the Amir Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, HH the Crown Prince, Sheikh Nawaf Al-Ahmed Al-Jaber Al Sabah, and HH the Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah for their wise leadership and vision for Kuwait. We would also like to extend our appreciation to the Central Bank of Kuwait and the Capital Markets Authority for their dedicated efforts in supporting and promoting Kuwait's Banking sector.

I would like also to offer our sincere thanks to our valued customers for their continued trust in Gulf Bank as their business and loyalty is at the core of our success. Finally, I would like to thank the entire Gulf Bank team for their dedicated service. Our growing success is down to their commitment as part of the Gulf Bank family.

Omar Kutayba Alghanim
Chairman

SUSTAINABILITY

SUSTAINABILITY

Sustainability has taken the lead in Gulf Bank's success, playing an integral role in its annual corporate social responsibility (CSR) initiatives. Globally and regionally, sustainability has become a cornerstone of companies, highlighting the need for initiatives to retain a focus on long term sustainability. The bank's robust CSR program has targeted creating a lasting, sustainable impact for our beloved Kuwait and its people, in line with the New Kuwait Vision 2035. Corporate social responsibility forms an important component of Gulf Bank's mission and goals. The Bank was founded in the heart of Kuwait in 1960, and its CSR program is dedicated to giving back to our country.

Gulf Bank's social responsibility program supports events focusing on youth and education; women empowerment; health and fitness; promoting Kuwait's heritage and Human Capital.

Youth & Education

INJAZ

INJAZ Kuwait is a private non-profit organization dedicated to the advancement of young business talent and emphasizing their important role at the business level. To address one of the main strategic challenges facing our country specifically and the region in general, Gulf Bank sponsors several educational and entrepreneurial programs for youth. Our partnership with INJAZ-Kuwait is the key in driving this agenda forward, it delivers educational and entrepreneurial skills training programs for high school (both public and private) and university students.

The bank continues to sponsor INJAZ-Kuwait as part of its commitment to encourage and develop professional business skills amongst youth. To date, Gulf Bank has participated in four INJAZ Al-Arab programs, 47 INJAZ Kuwait Job Shadow Days, 69 INJAZ Kuwait Innovation Camps and 120 INJAZ Kuwait Entrepreneurship Master Class workshops. More than 230 employees from Gulf Bank volunteered at different schools across Kuwait, positively impacting over 1,800 students.

Fikra Program

To further empower Kuwait's new generation of entrepreneurs, the Bank also sponsors Fikra Program, to develop successful businesses and to help diversify our economy. The main goal of Fikra is to prepare aspiring entrepreneurs with the skill sets and knowledge needed to succeed, by providing them with the support and guidance to develop their ideas into businesses. Gulf Bank is involved in the judging panel to help select the participants in the program and also offers training and consultation to the selected entrepreneurs throughout the program. To date, Fikra Program has trained 73 participants and has held 50 training sessions.

Women Empowerment

The Bank believes that gender parity and the empowerment of women is a key local and global challenge. Gulf Bank continues to strive to ensure that it has a balanced level of men and women that work arduously throughout the organization to deliver on the Bank's mandate. Currently there are 42.8% female staff in comparison to 57.2% male staff. Across all levels, the Bank continues to promote both men and women based on their competencies, abilities to deliver, and their performance. To that aim, the Bank sponsors women's groups and events that advances the United Nations Sustainable Development Goals of working (SDGs) to achieve gender equality and empowering women and girls of all ages. This includes partnering with local non-governmental organizations and educational institutions.

GB WOW

A Bank initiative by the name of "GB WOW" or "Gulf Bank's Women of Wisdom", was created internally in 2017. This initiative stemmed from the Management's vision to empower and support women in the corporate world with a particular focus on the challenges working women face at difference stages of their career.

GB WOW offers an opportunity for these women to network through a monthly gathering held in groups of 10 to 12 different women each time. The discussions are led by the General Manager of HR- Mrs. Salma Al-Hajjaj, focusing on sharing and exchanging experiences on topics related to work-life balance, the needs of women throughout different career stages and life cycles, managing social expectations, and overcoming challenges among other topics. The Bank's ultimate goal is to help shape and support more women in their journey to reach leadership positions in the future. Through its firm belief in the value this will add to the organization, the Bank, through GB WOW, hopes to reach out and collaborate with other initiatives in this journey. As such, in 2018, the bank has become a signatory of the United Nations' "Women's Empowerment Principles (WEPs)" initiative to promote gender equality and women's economic empowerment.

Health & Fitness

Gulf Bank 642 Marathon'

One of the key pillars of the bank's CSR programs is health and fitness. As a country with high obesity and diabetes levels, Gulf Bank has committed to raising awareness of the issue as well as increasing the sporting culture and participation levels. The 'Gulf Bank 642 Marathon' has become one of Kuwait's leading events, putting our country on the international sporting map. This event appeals to all age groups and fitness levels and is the only such internationally accredited event in the country. Record-breaking 7,500 runners took part in the marathon in 2018, made of 66 nationalities and 1,500 runners attending the race from abroad. The Marathon also includes a humanitarian component; each year the Marathon partners with a leading group to raise awareness of an important issue. In 2018, Gulf Bank Marathon 642 partnered with Kuwait Red Crescent Society to bring medical aid to those who are unable to afford medical treatment. All donations made will go towards the provision of medical devices such as, pacemakers, cochlear devices, hearing aids, electric wheelchairs and stents. The largest sporting event in Kuwait, the 'Gulf Bank 642 Marathon' is also an opportunity for Gulf Bank to inspire their employees. This year's race saw 400 employees take part in the day, with over 245 total volunteers. Volunteers included employees, as well as the general public.

Kuwait's Heritage

Memorial Pearl Diving Journey

The Bank also believes in the importance of supporting and promoting Kuwait's heritage and traditions, as well as community service. The Pearl Diving Memorial Journey is one of the initiatives that Gulf Bank sponsors on an annual basis and forms a key part of its long-term commitment to preserving the heritage and continuing the traditions of Kuwait's unique past. The Journey aims to remind young Kuwaiti generations of the difficulties and challenges faced by their forefathers in earning a living, along with a message urging this generation to uphold the traditions and values their ancestors developed during that time. Gulf Bank continues to maintain and strengthen its position as an integral part of the Kuwaiti society. The Bank supports and emphasizes the true Kuwaiti identity and the importance of the Kuwaiti traditions and customs, through sponsoring different social activities and events.

Human Capital

The Bank's human capital initiatives comprise of training and educating our future generations to develop their skills, lending itself to the vision of a knowledge-led economy.

AJYAL

The Bank has a strong focus on sourcing, hiring, training, and developing Kuwaiti talents. In terms of human capital initiatives, the Bank's graduate development program 'AJYAL' is widely recognized for its intensive training to shape the future of banking in Kuwait. The program, carried out in cooperation with the Institute of Banking Studies (IBS), nurtures young Kuwaitis early in their careers to develop them for future leadership positions. AJYAL is building a large cadre of Kuwaiti bankers for the benefit of both the Bank and for Kuwait. In 2018, the Arabian Society for Human Resources Management (ASHRM) announced Gulf Bank as the winner of the 2018 Youth Empowerment Award, presented for the bank's outstanding AJYAL Development Program. The program's inception was in 2014; to date, five generations have graduated with a total of 82 employees.

Training and Development

In 2018, over 12 Inductions were held, with 204 newly hired staff being trained. Furthermore, the bank ran 6 internal certifications and 132 staff got certified. A total of 172 staff attended 47 general programs at Institute of Banking Studies, atop of which 44 staff received various certifications from IBS, 56 underwent English language training, and 35 benefited from different specialized courses. The year also saw the launch of several bank wide initiatives. From the frontline mandatory Customer Service Excellence (CSE) training that covers all frontline staff by the end of 2019, to a new program that saw all managers undergo a two-day Performance Management (PM) course aimed at helping for them understand how to maximize their team's effectiveness.

More recently Q4 saw two specialized sessions for management; one which was geared towards a CBK-mandated requirement to enhance the bank's leadership understanding of the various cybersecurity threats, the other was a branding session delivered by the world-renowned Brand Strategist Steve Brazell. The bank also partners with the Kuwaiti Foundation for the Advancement of Sciences (KFAS) to provide the private sector with innovative courses.

Appreciation

Gulf Bank is a major contributor to Kuwait and through its programs, is moving significant steps closer to a more sustainable community. The Bank thanks our valued partners at these events, as well as members of the Gulf Bank family who are always ready to volunteer their time to ensure the bank's sustainability-focused initiatives are successful. Together we are making a difference and helping build a brighter, healthier future for Kuwait's future generations.

AWARDS

Loyalty and Commitment Call Center Award –
Avaya International

Call Center Excellency Award – CCW
Excellence Award

Best Retail Bank
The International Finance Magazine

Best Mobile Banking
Application
The International Finance Magazine

The Best Retail Bank
in Kuwait – 3rd Time
The Bankers Middle East

2018 Youth
Empowerment Award
The Arabian Society for Human
Resources
Management (ASHRM)

BOARD OF DIRECTORS

Omar Kutayba Alghanim
Chairman

Ali Morad Behbehani
Deputy Chairman

Sayer Bader AlSayer
Board Member

Basel AlRashied AlBader
Board Member

Omar Hamad AlEssa
Board Member

Jasem Mustafa Boodai
Board Member

Khalid Faisal AlMutawa
Board Member

Bader Nasser AlKharafi
Board Member

Bader Abdulmohsen ElJeaan
Board Member

Omar Kutayba Alghanim

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

Date of Appointment:

Chairman: 16 March, 2013 – present
Deputy Chairman: 17 March, 2012 – 15 March, 2013
Board Member: 11 April, 2009 - 16 March, 2012

Academic Qualifications:

- Bachelor of Science in Business Commerce, June, 1997, Stern School of Business, New York University, NY, USA
- Master of Business Administration, June, 2002, Harvard Business School, Harvard University, Boston, MA, USA

Experience:

- **Alghanim Industries, Kuwait**
  Chief Executive Officer, 2005 – present
  Executive Director, 2003 – 2005
  General Manager, 2002 – 2003
- **Asiya Investments, Kuwait**
  Chairman, 2009 – 2013
- **AI International, New York**
  Board Member, 2002 – present
- **Perella Weinberg Partners, New York**
  Founding Member, 2006 – present
- **Morgan Stanley, London**
  Financial Analyst, ME Coverage, 1999 – 2000
  Financial Analyst, M&A, 1998 – 1999
- **Family Business Council – Gulf (FBCG)**
  Chairman of the Board, 2018 – present
  Founding Board Member, 2014 – 2018
- **INJAZ, Kuwait**
  Founder and Chairman of the Board, 2005 – present
- **INJAZ AL-ARAB, Jordan**
  Board Member, 2009 – present
  Co-Founder and First Chairman of the Board, 2005 – 2008
- **Harvard Business School**
  Member of the Board of Dean's Advisors, 2018 – present
  Member of the MENA Advisory Board (MENAAB), 2015 – present
- **Harvard Kennedy School**
  Member of the Leadership Council at the Center for Public Leadership, 2018 – present
- **UNHCR**
  MENA Advisory Council Member, 2016 – 2018
- **World Economic Forum**
  Member of the 'Stewardship Board of the Education, Gender, and Work System' initiative 2017 – present
  Chair of the 'A New Vision for Arab Employment' initiative, 2014 – present
  Chair of the MENA Regional Business Council, 2014 – 2015
  Member of the International Business Council

Ali Morad Behbehani

Deputy Chairman of Board of Directors
Deputy Chairman, Board Risk Committee

Date of Appointment:
Deputy Chairman: 15 March, 2013
Board Member: 11 April, 2009

Academic Qualifications:
- BA, English Literature, Kuwait University

Experience:

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

Sayer Bader AlSayer

Board Member
Member of Board Corporate Governance Committee
Member of Board Audit Committee

Date of Appointment:
17 March, 2012

Academic Qualifications:
- Degree in Engineering, Scotland

Experience:

- Executive Deputy Vice Chairman of Al Sayer Group of Companies, Kuwait 1978 to date

  Member of the Board of Kuwait Chamber of Commerce and Industry, Kuwait
- 2010 to date
- Member of the Board of Miami International Holdings, Inc., Miami-USA
- 2012 to date
- Formerly Member of the Board of FIM Bank, Malta
- 1994 - 2002
- Formerly Member of the Board of Lebanon Invest, Lebanon
- 1994 – 2002
- Formerly Member of the Board of Bank of Kuwait and Middle East, Kuwait
- 2002 – 2003
- Formerly Advisor to the Board of Audi Bank, Lebanon
- 2003 – 2013

Basel Yousef AlRashied AlBader

Board Member
Deputy Chairman, Board Audit Committee

Date of Appointment:
11 September, 2017

Academic Qualifications:
- Bachelor in Accounting, College of Business Administration. Kuwait University
- Certified Management Accountant (CMA), Institute of Management Accountants, USA,
- Certified Financial Manager (CFM), Institute of Management Accountants, USA,
- Certified Investments and Derivatives Auditor (CIDA) Investment Training and Consulting Institute, USA,
- Diploma in International Financial Reporting Standards (IFRS) E&Y Academy of Business, Kuwait
- Registered Auditor, Ministry of Commerce and Industry, Kuwait, (Non-practitioner)

Experience:
- Kuwait Investment Authority,
  - Division Manager, Future Generations Fund Accounts, Investment Accounts Dept. (Dec 2018 – Present)
  - Chief Investment Accountant, Head of Recon. & Monitoring. Investment Accounts Dept. (Jan 2015 – Nov 2018)
- Kuwait Telecommunication Company –VIVA,
  Internal Audit Senior Manager, in-charge of Internal Audit Dept. (Mar 2013 – Dec 2014)
- Gulf Investment House,
  Accountant till Senior Manager, Financial Control Dept. (May, 2003 – Feb 2013)

Omar Hamad AlEssa

Board Member
Member of Board Nomination & Remuneration Committee
Member of Board Credit & Investment Committee

Date of Appointment:
11 April, 2009

Academic Qualifications:
- BA in Law, Faculty of Law, Kuwait University, Kuwait

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

Jassim Mustafa Boodai

Board Member
Chairman, Board Nomination & Remuneration Committee

Date of Appointment:
17 March, 2012

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

Khalid Faisal AlMutawa

Board Member
Chairman, Board Audit Committee
Member of Board Risk Committee

Date of Appointment:
9 March, 2015

Academic Qualifications:

- Bachelor of Science in Political Sciences and Business Administration, Northeastern University, Boston, Massachusetts, USA

Experience:

- Deputy CEO of Ali Abdulwahab Al Mutawa Commercial Co. (AAW)
- Board Member of INJAZ-Kuwait (part of Injaz Al-Arab, JA WORLDWIDE)
- Formerly Vice Chairman of the International Franchise Advisory Council in Nexcen Franchising
- Formerly Chairman and Managing Director of Bonyan Real Estate Company
- Formerly Board Member of Bayan Investment Company
- Formerly Board Member of Metal and Recycling Company
- Formerly Board Member of Villa Moda Lifestyle
- Formerly Chairman and Managing Director of Dar Al Dhabi Holding (DAD Holding)

Bader Nasser AlKharafi

Board Member
Chairman, Board Risk Committee
Deputy Chairman, Board Corporate Governance 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, England

Experience:

- Vice Chairman & Group CEO of Mobile Telecommunications Company K.S.C (Zain Group), Kuwait
- Member of the Board of Atheer Telecom Iraq Limited (Zain Iraq), Iraq
- Managing Director of Al-Khatem (Zain Iraq)
- Vice Chairman of Sudanese Mobile Telephone Co (Zain Sudan), Sudan
- Chairman of Mobile Interim Com (MIC2) S.A.L Lebanon
- Director of Group Executive Committee of Mohammed Abdulmohsin AlKharafi & Sons W.L.L. , Kuwait
- Chairman and Head of Investment Committee of Gulf Cables and Electrical Industries Company, Kuwait
- Middle East Advisory Board Member of Coutts & Co.
- Member of the Board of Refreshment Trading Company (Coca-Cola), Kuwait
- Member of the Board of Foulath Holding B.S.C., Bahrain
- Member of the Board of Bahrain Steel B.S.C. (EC), Bahrain
- Member of the Board of United Stainless Steel Company (USCO), Bahrain
- Vice Chairman of Diamond International Motors Company (Mitsubishi cars), Egypt
- Chairman of EMAK-Paper Manufacturing, Egypt
- Chairman of Arab Aluminum Company SAE, Egypt
- Chairman of MAK Holding Industry, Egypt
- Chairman of EMAK Brake Systems, Egypt
- Chairman of National Paper Company, Egypt
- Member of the Board of Kuwait-British Friendship Society
- Vice Chairman of Injaz Kuwait, Kuwait
- Member of Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait

Bader Abdulmohsen ElJeaan

Board Member
Deputy Chairman, Board Credit and Investment Committee
Deputy Chairman, Board Nomination & Remuneration Committee

Date of Appointment:
16 March, 2013

Academic Qualifications:
- Bachelor's in Economics, Harvard University, United States
- Master of Art in Law, Oxford University, United Kingdom

Experience:
- Founder and Senior Partner, Meysan Partners, Kuwait
- Member, Board of Directors of the Kuwait Investment Authority
- Member, Board of Directors of National Real Estate Company
- Formerly, Director and Senior Executive Officer, Carlyle MENA Investment Advisors, United Arab Emirates
- Formerly, Group General Counsel and Member of Senior Management Board, Agility Logistics, Kuwait
- Formerly, Attorney, Shearman & Sterling, New York/Abu Dhabi
- Formerly, Vice President, Private Equity, Kuwait Investment Office, London

EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT

Back Row from left to right: Ms. Mona Mansour - GM Customer Service Delivery, Mr. Vikram Issar – GM Consumer Banking, Mr. Ahmed AlDuwaisan – GM Corporate Banking Group, Mr. Sami Mahfouz – GM Treasury, Mr. Hussam Mustafa – GM Chief Internal Auditor, Mr. Raghunandan S Menon – GM Chief Risk Officer

Front Row from left to right: Mr. Nabil Abdel-Malek – GM Legal Affairs and General Counsel, Mr. Kevin Smith – GM Chief Financial Officer, Mrs. Salma AlHajjaj – GM Human Resources, Mr. Antoine Daher – Chief Executive Officer, Mr. Waleed AlHasawi – Chief Information Officer & GM Information Technology

Executive Management Responsibility Statement

Gulf Bank's Executive Management is responsible for ensuring the Bank's activities are in line with its corporate strategy, risk appetite and policies approved by the Board of Directors. The Executive Management team is appointed by the Board of Directors to carry out their respective roles in running the operations of the Bank.

The Bank ensures that all members of the Executive Management have suitable academic credentials, professional qualifications and relevant experience.

Executive Management is responsible for contributing to sound corporate governance of the Bank and provided with ongoing training to ensure they remain up-to-date with the best practices in the banking and finance industry.

Executive Management also ensures that the Bank's Audit Compliance and Risk functions have adequate autonomy and that separation of tasks is practiced without causing any conflicts. The Board relies on the expertise of Executive Management in implementing of the Board's resolutions.

Executive Management ensures staff receive adequate direction to fulfill their role in carrying out the day- to-day activities of the Bank in a safe and prudent manner. This includes ensuring suitable policies and procedures are in place and are communicated to all relevant staff. Executive Management has established, as part of the Bank's governance practices, a rigorous management framework to ensure that regulatory compliance and risk management form an embedded part of the assessment of the Bank's decision making process.

Antoine Daher

Chief Executive Officer

Date of Joining Gulf Bank:
7 July, 2013

Academic Qualifications:

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

Experience:

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

Kevin Smith

General Manager - Chief Financial Officer

Date of Joining Gulf Bank:
12 August, 2015

Academic Qualifications:

- B.S. in Finance from University of Maryland USA
- M.S. in Management from Purdue University USA

Experience:

- 30+ years in Finance.
- Previously worked as CFO at GE, Novartis, Citibank, Tokyo Star Bank, and Standard Chartered Bank.

Ahmed AlDuwaisan

General Manager - Corporate Banking Group

Date of Joining Gulf Bank:
1 September, 2001

Academic Qualifications:

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

Experience:

- 17+ years in Corporate Banking.
- Previously Deputy GM of remedial and structured workouts and Deputy GM of financial markets at Gulf Bank.

Vikram Issar

General Manager - Consumer Banking

Date of Joining Gulf Bank:
24 March, 2013

Academic Qualifications:

- B. Com (Honours), S.R.C.C., Delhi University
- Chartered Accountant from India
- Leadership Program, Said Business School, Oxford University, U.K.

Experience:

- 27 + years in retail and Consumer Banking.
- Previously served in senior positions related to Consumer Banking at Standard Chartered Bank in Singapore, Thailand & India

Raghunandan S Menon

General Manager - Chief Risk Officer

Date of Joining Gulf Bank:
15 May, 2016

Academic Qualifications:

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

Experience:

- 30+ years in Banking.
- Previously served in senior risk and related positions at Standard Chartered Bank in London, New York, Singapore and Mumbai.

Hussam Mustafa

General Manager - Chief Internal Auditor

Date of Joining Gulf Bank:
10 August, 2014

Academic Qualifications:

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

Experience:

- 24+ years in Audit & Risk Management.
- Previously worked at the Central Bank of Jordan, UAE Sovereign Fund and banks.

Mona Mansour

General Manager - Customer Service Delivery

Date of Joining Gulf Bank:
15 August, 2004

Academic Qualifications:

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

Experience:

- 30+ years in Banking.
- Previously worked at NBK for 20 years with diversified experience in IT, cards, customer services & operations.
- A Board member at KNET.

Waleed AlHasawi

Chief Information Officer & General Manager - Information Technology

Date of Joining Gulf Bank:
28 October, 2018

Academic Qualifications:

- BSc in Electrical and Electronics Engineering, Worcestor Polytechnics University, Massachusetts, USA
- MSc in Computer Engineering, Lehigh University, Pennyselvania, USA
- PhD in Computer Engineering, Loughborough University, Leicestershire, UK

Experience:

- Over 25 years of experience, with an extensive focus on banking and fintech companies.
- Held the position of General Manager of Information Technology Group at Boubyan Bank.
- Held the role of AGM Information Technology Sector at Kuwait Finance House.

Nabil B. Abdel-Malek

General Manager - Legal Affairs and General Counsel

Date of Joining Gulf Bank:
1 February, 2015

Academic Qualifications:

- BA and MA in Economics. EMBA, the American University of Beirut
- Masters of Law, the Lebanese University.
- Ph. D program in Economics at North Carolina State University, USA.

Experience:

- 30+ years in law.
- Previously worked as General Counsel with Agility Public Warehousing Company. He has a law firm in Lebanon that is retained by international banks and represented the Lebanese Government and banks in major arbitrations.

Salma AlHajjaj

General Manager - Human Resources

Date of Joining Gulf Bank:
1 February, 2013

Academic Qualifications:

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

Experience:

- 30+ years in Human Resources.
- 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.

Sami Mahfouz

General Manager – Treasury

Date of Joining Gulf Bank:

6 March, 2018

Academic Qualifications:

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

Experience:

- 25+ years 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

KEY FINANCIAL METRICS

	2018	2017	% change
Net interest income	**153**	132	15%
Operating income	**194**	181	7%
Net profit	**57**	48	18%
Gross loans and advances to customers	**4,244**	4,060	5%
General provisions	**247**	198	25%
Total assets	**6,016**	5,683	6%
Deposits	**4,741**	4,459	6%
Total stockholders' equity	**629**	601	5%
Ending number of net outstanding shares (millions)	**2,898**	2,910	0%
Earnings per share (fils)	**20**	17	18%
Dividends per share (fils)	**10***	9	11%
Cost to income ratio	**34.5%**	35.4%	-3%
Pre-provision return on beginning equity	**21.2%**	20.4%	4%
Return on average equity	**9.4%**	8.3%	13%
Return on average assets	**0.97%**	0.86%	13%
Net interest margin	**2.61%**	2.36%	11%
Non performing loan ratio	**1.0%**	1.7%	-41%
Tier 1 capital ratio	**14.1%**	14.2%	-1%
Capital adequacy ratio	**17.5%**	17.8%	-1%

* Subject to approval by the shareholders' assembly

MAJOR FINANCIAL HIGHLIGHTS

Net profit increased from KD 48.0 million in 2017 to KD 56.7 million in 2018, an increase of 18%. This is the fifth straight year of double digit net profit growth.

Earnings per share increased to 20 fils per share and the Board of Directors has recommended a cash dividend of 10 fils per share for shareholders' approval at the Annual General Meeting to be held in March, 2019.

Loans and Advances to customers reached an all-time high of KD 4.2 billion at the end of 2018, nearly KD 0.2 billion or 5% higher than 2017 year-end and an increase of nearly KD 0.5 billion or 13% over the last two years. The growth over the last two years was well balanced as 57% came from the Bank's Corporate segment and 43% came from the Bank's Consumer segment.

Shown below are the major variances in net profit from 2017 to 2018 (KD millions):

2018 Net profit	**56.7**
2017 Net profit	**48.0**
Increase in net profit	**8.7**

Increase / (Decrease) in 2018 vs 2017

Net Interest Income	20.4
Net fees & commissions	(0.8)
Other Income	(6.5)
Operating income	13.1
Operating expenses	(2.7)
Operating profit	10.3
Provisions / Impairment losses	**(1.2)**
Others	**(0.4)**
Increase in Net Profit	**8.7**

The Bank's 2018 net profit growth of KD 8.7 million was mainly driven by higher net interest income of KD 20.4 million (+15%) offset partially by non-recurring other income earned in 2017, higher operating expenses, slightly higher provisions/impairment losses, and slightly lower net fees and commissions.

Net interest margin improved 25 basis points from 2.36% in 2017 to 2.61% in 2018.

Return on average assets improved 11 basis points to 0.97% and return on equity improved from 8.3% to 9.4%.

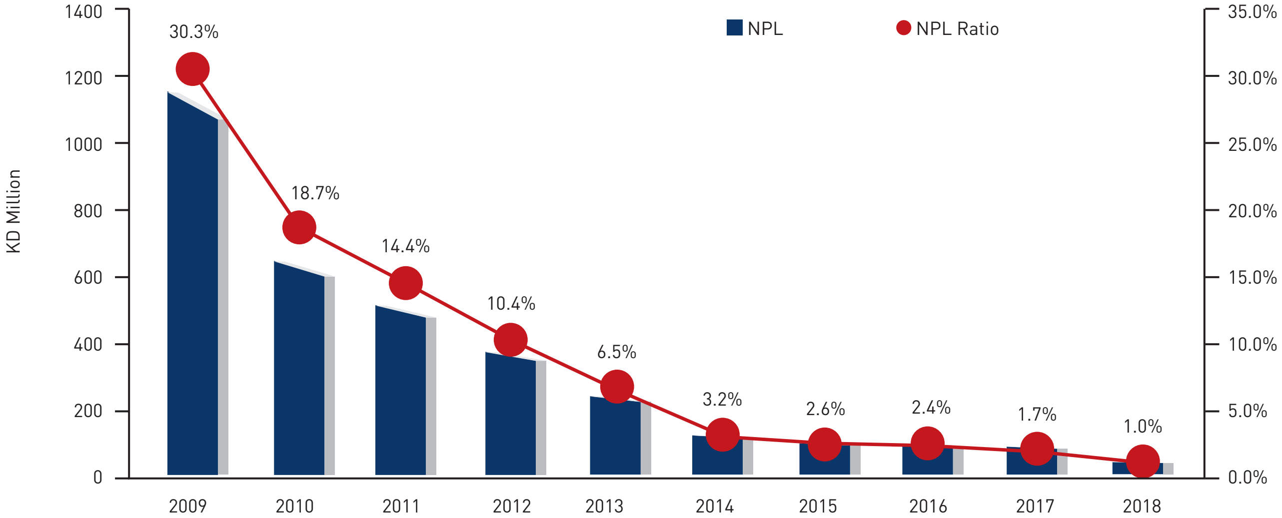
The Bank's cost to income ratio improved to 34.5% in 2018 compared with 35.4% in 2017.

The Bank's regulatory capital ratios remained strong as follows:

- Tier 1 ratio of 14.1%, 2.1% above the regulatory minimum of 12%.
- Capital adequacy ratio of 17.5%, 3.5% above the regulatory minimum of 14%

NON PERFORMING LOANS

Non-Performing Loans reached an all-time low of 1%. This was driven mainly by the settlement of two corporate loans in the second half of 2018, one of which led to a recovery of KD 36.5 million recorded in the fourth quarter of 2018 and KD 19.7 million in potential interest income pending a final court judgement.



IFRS9 IMPLEMENTATION

The ***IFRS9 accounting standard*** on credit facilities was implemented by the Central Bank of Kuwait in 2018 and, as of year-end 2018, the Bank's total credit provisions of KD 312 million were greater than the IFRS9 requirements by KD 112 million.

KD Millions

Comparison between total provisions and IFRS 9 ECL on credit facilities:	2018
Provision on cash facilities	296
Provision on non-cash facilities	16
Total provisions on credit facilities (A)	**312**
IFRS 9 ECL on credit facilities (B)	**200**
Excess of total provisions over IFRS 9 ECL on credit facilities (A-B)	**112**

ASSET QUALITY

Gross credit costs in 2018, defined as specific provisions plus write-offs, were KD 17 million lower (-19%) than 2017.

Total credit costs plus impairments were KD 18 million in 2018, KD 67 million or 79% lower than the amount of KD 86 million incurred in 2017.

Total provisions and impairment losses of KD 68 million were incurred in 2018, which represented 1.2% of average total assets, the same ratio as 2017.

The Bank's general provisions on the Balance Sheet stood at KD 247 million at the end of 2018, an increase of KD 50 million or 25% compared to the end of 2017. This represents 5.8% of total gross customer loans (4.9% at the end of 2017) and 39% of total book equity (33% of total book equity at the end of 2017).

PROVISIONS / IMPAIRMENT LOSSES (KD Millions)	2018	2017	Change
Specific provisions	**59**	89	(30)
Write-offs	**13**	0	12
Gross credit costs	**72**	89	(17)
Recoveries	**(71)**	(7)	(64)
Impairment losses	**17**	3	13
Total credit costs/ impairment losses	**18**	86	(67)
% of average assets	**0.31%**	1.53%	
General provisions	**50**	(19)	69
Total provisions/ impairment losses	**68**	67	1
Provisions/ impairment losses (as a % of average total assets)	**1.2%**	1.2%	

CORPORATE GOVERNANCE

Gulf Bank believes that a strong and explicit corporate governance structure is a key requirement for an effective decision-making process. Strong Corporate Governance also enhances and consolidates the relationship between the Bank and its stakeholders through improved transparency and clear checks and balances.

The Bank is committed to uphold strict standards of corporate governance and business integrity at all levels. The corporate governance structure in place is proactive and aligned with the Bank's strategic objectives. The structure is based on the prevailing laws and regulations from the Central Bank of Kuwait and other regulators. The structure is operated in conjunction with a robust risk management mechanism which is conducive to an effective decision making process. In doing that, the Bank enhances the protection of the stakeholders' interests and strengthens confidence in the soundness and quality of its operations.

The Bank's corporate management 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.

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 practice's 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.

Corporate Governance Compliance with CBK Instructions

In June, 2012, CBK issued instructions relating to Corporate Governance. The instructions set out nine pillars for a sound Corporate Governance:

1. Board of Directors;
2. Corporate values, conflict of interest and group structure;
3. Executive management;
4. Risk management and internal controls;
5. Remuneration system and policy;
6. Disclosure and transparency;
7. Banks with Complex Structures;
8. Protection of Shareholders' rights; and
9. Protection of Stakeholders' rights.

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

In carrying out the above, the Bank ensures a continuous compliance with all applicable laws and CBK instructions pertaining to Corporate Governance.

The Bank also endeavors to adopt and implement best international practices in this field, which the Bank believes are critical for its financial performance and role in the community where it operates.

In addition, the Corporate Governance principles are promoted with the various stakeholders, including regulators, shareholders and business community.

Stakeholder Definition

In line with best practice, the following entities/ persons are deemed Bank's key stakeholders:

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

Corporate Governance - Policies and Procedures

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

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

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

Gulf Bank Corporate Governance Manual – Roles and Responsibilities

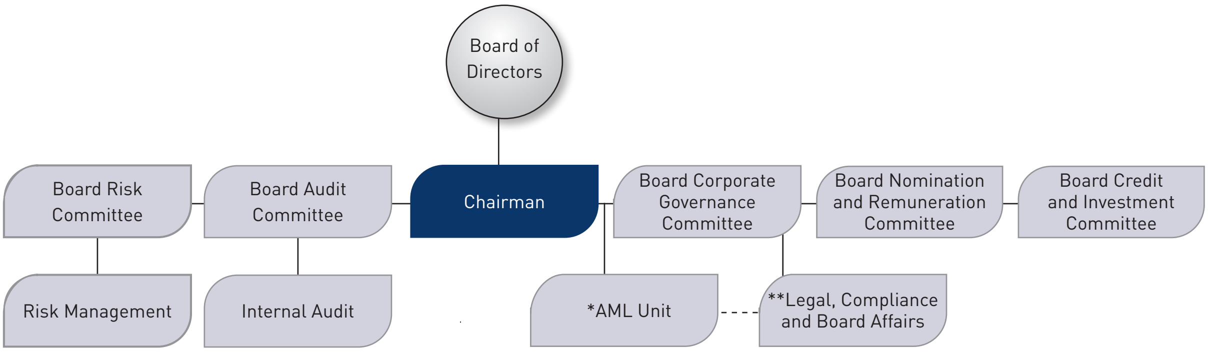
The Corporate Governance Manual defines the Board and Executive Management's respective roles. The overlap between the two roles is precluded. The Manual clearly defines the role of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Counsel, Board Affairs Division, Chief Internal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

Governance Structure

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

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

a. The Board - Governance Organization



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

** Reports to CEO on legal affairs

In 2018, the Annual General Assembly elected eight of the Board members and Kuwait Investment Authority (KIA) appointed its representative on the Board for the three-year board mandate (from 2018 to 2020). The Board members have diverse academic and professional backgrounds. The role of the Board is to monitor constructively the performance of management and help develop proposals on strategy.

The Board aims to promote the Bank's long – term success, deliver sustainable value to shareholders and promote a culture of openness and debate.

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

Performance Evaluation

The Board undergoes a comprehensive performance evaluation annually. An independent external consultant is retained to conduct a performance evaluation of the Board and Board Committees' effectiveness. The external consultant conducted the performance appraisal and carried out an individual interview with the Board Members for this purpose. The appraisal's outcome was very satisfactory regarding the composition and performance of the Board.

Board Overall Responsibilities

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

The Board's core responsibilities include the following:

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

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

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

- Ensure that Board decisions are made on a sound and well-informed basis;
- Oversee the implementation of the Whistle Blowing Policy and Program for the Bank;

- Build a constructive relationship between the Board and Executive Management;
- Ensure a high level of corporate governance in the Bank and
- Create a culture during Board meetings promoting constructive critique in case of divergent views, and encourage discussion and voting in such cases.

Organization of the Board's Business

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

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

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

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

Board Meetings and Attendance

During 2018, the Board of Directors met regularly and Directors received information between meetings about the Bank's activities and the activities of the Management Committees. 6 Board meetings and 29 Board Committees meetings were held in 2018 detailed as follows:

	Board Meeting	Audit Committee	Risk Committee	Corporate Governance Committee	Nomination and Remuneration Committee	Credit and Investment Committee
Number of meetings in 2018	6	7	4	2	3	13
Omar Kutayba Alghanim	6	*	*	2	*	7
Ali Morad Behbehani	5	*	4	*	*	*
Bader Abdulmohsen ElJeaan	4	*	1***	*	1	13
Bader Nasser AlKharafi	5	*	2	2	*	*
Jassem Mustafa Boodai	6	*	*	*	3	*
Khalid Faisel Ali AlMutawa	6	7	2**	*	*	*
Sayer Bader AlSayer	4	3**	*	2	*	*
Omar Hamad Youssef AlEssa	6	4***	*	*	3	13
Basel AlRashied AlBader	6	7	*	*	*	*

* Not a member of the committee
** Joined the Committee in May, 2018
*** Left the Committee in May, 2018

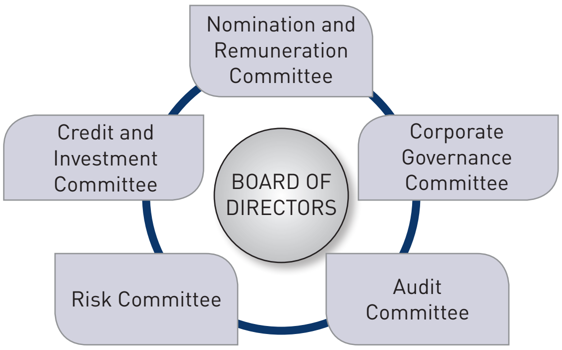
The minutes of each meeting are part of the Bank's records.
All Board Committees have submitted quarterly updates to the Chairman about their respective activity.

Board Remuneration

The Board Nomination and Remuneration Committee recommended to the Board of Directors, subject to the approval of the shareholders at the Annual General Assembly Meeting, that the total remuneration of the Board of Directors for 2018 be equal to KD 135 thousand (2017: KD 135 thousand).

Board Committees' Structure

In line with the Governance regulations issued by the CBK, the Bank has in place five committees to oversee and monitor the Bank's overall activity. The committees are the following:



1. Board Corporate Governance Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination and Remuneration Committee
5. Board Credit and Investment Committee

Each of the above committees has its own bylaws, Chairman, Deputy Chairman, Members and Secretary.

Board Committees

I. Board Corporate Governance Committee (BCGC)

a. Committee's Scope of Activity

The Board Corporate Governance Committee 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.

b. Composition of the Committee

- Mr. Omar Kutayba Alghanim, Committee Chairman
- Mr. Bader Nasser Al Kharafi, Committee Deputy Chairman
- Mr. Sayer Bader Al Sayer, Committee Member
- Mr. Nabil Abdel-Malek, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2018

- Conducted a comprehensive Corporate Governance (CG) review of all the manuals, policies, procedures and documents related to Corporate Governance and introduced required amendments.
- Reviewed the process of monitoring and reporting under the Whistleblowing policy.
- Reviewed and approved the AML Unit activities.
- Reviewed Compliance and Disclosure Unit's activities for 2018 and approved their action plan for 2019.
- Ensured compliance of Bank's related parties with governance requirements.
- Engaged all the Bank's divisions in the governance framework and provided guidance on enhancing governance practices.
- Monitored best practices in corporate governance and made recommendations on governance matters.

e. Changes during the year

No change in the composition of the Committee and its scope of activity took place in 2018.

II. Board Audit Committee (BAC)

a. Committee's Scope of Activity

The Board Audit Committee 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.

b. Composition of the Committee

- Mr. Khalid Faisal Al Mutawa, Committee Chairman
- Mr. Basel AlRashied AlBader, Committee Deputy Chairman
- Mr. Sayer Bader Al Sayer, Committee Member
- Mr. Sadeq Al Saraf, Committee Secretary

c. Committee Meetings

The Board Audit Committee convenes once every three months or as needed, or at the request of its Chairman or its two members. The presence of two members is required to hold a meeting.

d. Key Achievements in 2018

- Monitored the activities of the Internal Audit Division, including review of its plans, strategies, procedures, follow-up activities, organizational structure and operation and staffing budgets.
- Approved the Internal Audit 3-Year strategic plan with related Key Performance Indicators (KPIs).
- Approved the Internal Audit updated three-year risk-based plan (2019 – 2021) and reviewed the issues, action plans and recommendations set forth in the Internal Audit reports.
- Held meetings with GM-Internal Audit, External Auditors and Bank Compliance and Disclosure Officer without the presence of Executive Management.
- Reviewed the scope and approach of External Auditors' audit plans for the year ending 31st December 2018.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed issues, action plan and recommendations set forth in the CBK mandated Internal Control Report.
- Reviewed and endorsed to the Board of Directors the renewal of Board Audit Committee and Internal Audit By-Laws/Charters

Furthermore, and in accordance with best international practices, the Board Audit and Board Risk Committee held their fifth joint annual meeting to discuss issues of common interest to the two committees. Also, as per best practice, in 2018, the Board Audit Committee Chairman has become member in the Board Risk Committee to ensure that the hand shake between Risk and Audit functions is strengthened.

e. Changes during the year

Subsequent to the re-formation of the Board Committees on 10th May, 2018, Mr. Khalid Al Mutawa was appointed as Board Audit Committee Chairman and Mr. Sayer Al Sayer was appointed as Board Audit Committee member.

III. Board Risk Committee (BRC)

a. Committee's Scope of Activity

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

Bank's risk appetite.

b. Composition of the Committee

- Mr. Bader Nasser AlKharafi, Committee Chairman
- Mr. Ali Morad Behbehani, Committee Deputy Chairman
- Mr. Khalid Faisal AlMutawa, Committee Member
- Mr. Sadeq AlSaraf, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2018

- Reviewed the periodic risk management reports and dashboards.
- Reviewed and recommended the risk policies and the risk appetite for approval and ratification by the Board.
- Held a joint meeting with the Board Audit Committee to review the Bank's risk profile, internal audit updates, Internal Control Review (ICR) reports, key projects and material legal cases.
- Reviewed the cyber risk assessment report and the Bank's plan to further strengthen its cybersecurity.
- Reviewed status and action plan on large concentration credits.
- Reviewed summary of all credit approvals granted by Executive Credit Committee.
- Reviewed progress of IFRS9 project and provisions estimates from parallel runs during the year.
- Reviewed the status of material legal cases.
- Held meeting with the Chief Risk Officer without the presence of the Banks Executive Management.

e. Changes during the year

Subsequent to the re-formation of the Board Committees on 10th May, 2018, Mr. Bader Al Kharafi was appointed as Board Risk Committee Chairman and Mr. Khalid Al Mutawa was appointed as Board Risk Committee member.

IV. Board Nomination and Remuneration Committee

a. Committee's Scope of Activity

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 (CBK) instructions. The Committee conducts an annual review of the Board of Directors structure and recommends changes that can be made in line with the best interest of the Bank.

Furthermore, the BNRC 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 BNRC annually prepares a Remuneration Grading Policy and submits it to the Board of Directors.

b. Composition of the Committee

- Mr. Jassim Mustafa Boodai, Committee Chairman
- Mr. Bader Abdulmohsen ElJeaan, Committee Deputy Chairman
- Mr. Omar Hamad AlEssa, Committee Member
- Mr. Sadeq AlSaraf, Committee Secretary

c. Committee Meetings

The BNRC convenes at least twice a year. The presence of two members is required to achieve quorum and hold a meeting.

d. Key Achievements in 2018

- Monitored, promoted, and exceeded the Kuwaitization plan for the Bank with a rate of 73%. This was further developed through the Ajyal Graduate Development Program and Middle Management Modular Program to build a leadership pipeline.
- Led the Bank restructuring for optimization review.
- Recommended and approved executive compensation payouts and submitted recommendations in that respect to the Board for a resolution.

- Submitted recommendations to the Board in relation to adjusting the Annual Compensation in line with Market Trends and Compensation Results.
- Submitted recommendations to the Board in relation to salary increments and bonus payments.
- Assessed the adequacy and effectiveness of the Remuneration Policy.
- Completed a third party audit of executive compensation.
- Approved and executed the plan for Board Effectiveness Assessment.

e. Changes during the year

No changes were made to the composition of the Committee in 2018; however, the Committee's by-laws were reviewed and approved by the Board of Directors.

V. Board Credit and Investment Committee (BCIC)

a. Committee's Scope of Activity

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

b. Composition of the Committee

- Mr. Omar Kutayba Alghanim,
  Committee Chairman
- Mr. Bader Abdulmohsen ElJeaan,
  Committee Deputy Chairman
- Mr. Omar Hamad AlEssa,
  Committee Member
- Mr. Sadeq Al Saraf,
  Committee Secretary

c. Committee Meetings

The Committee meets once in a month or more frequently if required. At least 2 voting members are required to hold a meeting. Out of the two voting members, one must be the Chairman or the Deputy Chairman of the BCIC.

d. Key Achievements in 2018

- Setting up a Board level committee to approve credit and investment proposals has strengthened Corporate Governance in line with the instructions and directives of the Central Bank of Kuwait and has enhanced the efficiency and transparency of credit approval process.
- Approved large credit proposals that constitute the major portion of Bank's credit portfolio, including Bank limits and country limits.
- Approved Treasury limits in line with the Risk Appetite approved by the Board of Directors of the Bank.
- Approved amendments made to the Investment Policy to address the observations of Central Bank of Kuwait.
- Took effective steps to reduce Non Performing Loans that resulted in improvement of the NPL ratio of the Bank.

e. Changes during the year

The Committee was formed in March, 2018 and no changes in the composition of the Committee and its scope of activity took place in 2018.

Executive Management Governance Structure

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

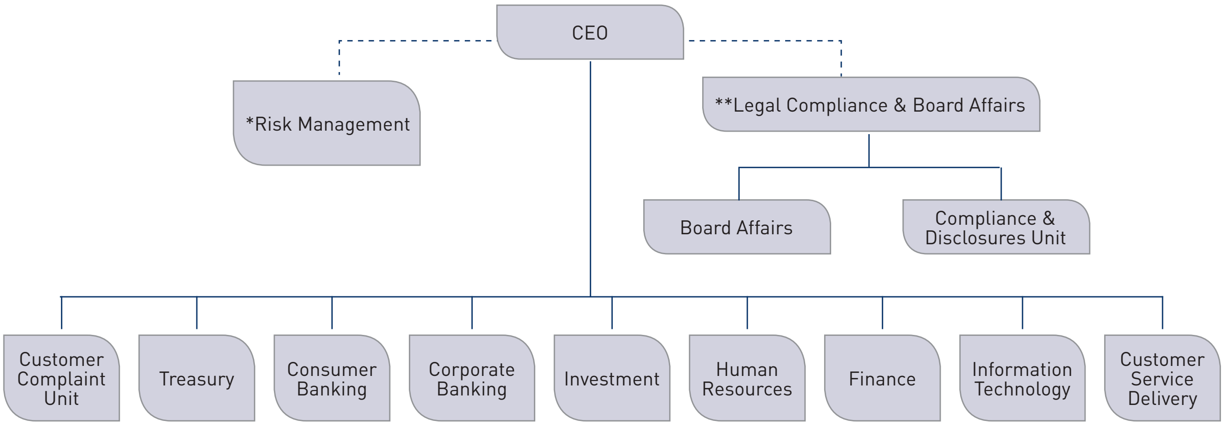
Credit Committees

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

Management Committees

- 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

Executive Management Organization



* Reports to Board Risk Committee

** Reports to the Board Corporate Governance Committee with a reporting line to the CEO for legal matters

Succession Planning

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

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

Remuneration Policy

The Bank's Executive Remuneration is designed to attract, motivate and retain leadership talent responsible for strategic growth of the Bank and ensure sustained shareholder value. Executive remuneration is intended to be based on a philosophy of 'Differentiation' to establish an ethos of 'Meritocracy', create a strong alignment between business performance and executive payout as well as compliance with (CBK) and Capital Markets Authority (CMA) guidelines.

These fixed and variable rewards are an integral part of the Bank's total reward framework that:

- Is fully integrated with the Bank's strategic objectives and supports the core values;
- Enables the attraction of the desired profile of potential employees, retention of key talent, and internal mobility and differentiation based on performance; and
- Is fair and equitable – ensures the mix of fixed and variable rewards that are relevant at the different levels of seniority. The Bank shall in general have a variable compensation based on 'At-Risk' approach for the senior executives whereby enough incentives are built-in to encourage outstanding performance notwithstanding that the variable remuneration pool encourages strengthening the capital base of the Bank yet prevents undue and excessive risks.

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

Salary Structure

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

Annual Merit Increment

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

HAY Job Evaluation

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

Promotion Increment

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

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

Employee Benefits

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

The Bank also provides a Shadow Equity Plan, which presents an opportunity to those executives who contribute to the Bank's success and growth to benefit from the organization's long-term growth. These shadow shares reflect the market value of the Bank's ordinary shares and will be redeemed for cash by the Bank upon vesting at a price equal to the Bank's ordinary shares market price at vesting date, in accordance with the plan's terms and provided all the conditions of the plan are met.

The shadow shares are not constitutional ordinary shares of Gulf Bank and, as such, they do not entitle the holder to any right to ownership or equity of the Bank.

(KD Thousand)

Total value of remuneration awards for the current fiscal year	2018		2017	
	Unrestricted	Deferred	Unrestricted	Deferred
Fixed remuneration				
- Cash - based	**2,842**	**-**	2,717	-
- Shares and share-linked instruments	**-**	**-**	-	-
-Other	**-**	**-**	-	-
Variable remuneration				
- Cash - based	**1,264**	**-**	1,193	-
- Shares and share-linked instruments	**-**	**520**	-	317
- Other	**316**	**-**	599	-

(KD Thousand)

Employee Categories	2018		2017	
	Number of employees in the category	Total remuneration paid	Number of employees in the category	Total remuneration paid*
Senior Management*	**12**	**3,694**	12	3,529
Material risk takers	**6**	**752**	5	773
Financial & Control functions	**5**	**496**	4	524

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

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

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

The total remuneration paid to five senior executives was **KD2,094 Thousand** (2017: KD2,014 Thousand). The total remuneration paid to the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and Chief Internal Auditor (CIA) amounted to **KD1,590 Thousand** 2017: KD1,508 Thousand).

Compliance and Disclosure Unit

The Unit monitors the process of compliance with the laws, regulations, and instructions issued by CBK, CMA, Boursa Kuwait and the Ministry of Commerce, in addition to compliance with the resolutions and directives issued by the Board. The Unit advises the Board at first-hand, through the Board Affairs Division, on the degree of conformity of its resolutions to the regulatory authorities' instructions.

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

Disclosure and Transparency

The Bank is committed to providing timely, consistent, and accurate information to its stakeholders, which is consistent with legal and regulatory requirements within a transparency framework which ensures that consistent disclosure practices are applied and that the business community, including individual investors, have prompt and simultaneous access to the disclosed information.

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

Insider Information

In line with the instructions issued by the regulatory authorities, the Bank initiated clear board-approved policies and procedures with regard to dealing with insider information that preclude employees, members of the Board and Executive Management from exploiting such information for personal benefit. The procedures were circulated to all staff, and a declaration was obtained from Gulf Bank insiders acknowledging that they are aware of the legal implications and the penalties against misuse of such insider information.

Code of Ethics

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

Conflict of Interest

Gulf Bank adopts a conflict of interest policy to ensure that all transactions are carried out transparently.

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

Confidentiality

The Board, Executive Management and employees are committed to maintain the confidentiality of information pertaining to the Bank's stakeholders in accordance with the rules and regulations issued by the Central Bank of Kuwait and other regulatory bodies.

Whistle Blowing Policy

In compliance with CBK instructions, and further to the Bank's commitment towards the shareholders and third parties, and in pursuance of the highest ethical standards and business integrity requirements, the Bank established a "Whistle Blowing Policy" and a direct reporting channel to the Chairman. The policy encourages positive communication between the Board, Executive Management and staff for the purpose of achieving and maintaining highest standards of professional, transparency and integrity.

The policy aims at detecting any practices that fall out of the scope of laws, regulations and sound professional conduct, so as to be remedied in a timely manner. It also provides confidentiality and ensures full protection to the whistle blower.

Board Affairs Division

The Board Affairs Division oversees and manages all matters related to the Board of Directors and its committees. The Division is in charge of preparing the agenda, scheduling and compiling the minutes of meetings of the Board of Directors and its committees and the Annual General Assembly of Shareholders. It also advises and updates the Board of Directors on corporate governance issues and new laws and regulations issued by the regulatory authorities with regard to corporate governance.

The Division has a liaison and coordination role between the Board of Directors and Executive Management in matters related to the implementation of the policies and resolutions approved by the Board.

The Board Affairs Division further coordinates with the Disclosure and Compliance Unit in order to ensure compliance with the relevant instructions issued by the CBK, Capital Market Authority, Boursa Kuwait and Ministry of Commerce & Industry.

Investor Relations Unit

The Investor Relations Unit is dedicated to serving Gulf Bank's stakeholders and the investment community by delivering sound corporate governance, ensuring transparency, and providing the latest corporate information.

Customer Complaints Unit

The Bank is keen to find proper solutions to the complaints raised by customers (individuals). In order to achieve this target, the Bank set up in 2011 an independent unit specialized in handling customer complaints, reporting directly to the CEO. The Unit has its own policies and procedures, along with the required mechanisms to handle customer complaints in accordance with CBK instructions issued in this regard. The unit is also responsible for supervising the implementation of the Customers Protection Manual which guarantees good performance and transparency in banking services provided by GB to its customers. The supervision of the precise implementation of the CPM alongside the activities of this unit allowed the bank to successfully enhance customer satisfaction, protection, loyalty and trust.

Related Party Transactions

Certain related parties (Major Shareholders, Board Members and Officers of the Bank, their families and companies where they are the principal owners) are customers of the Bank in its normal course of business.

The transactions with these parties are concluded at arm's length and on substantially the same terms as those governing comparable transactions with unrelated parties.

Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors for its review and approval. Where a Director is interested, that Director neither participates in the discussion nor votes on such matters. The Bank's policy is, as far as possible, to engage in transactions with related parties only at arm's length terms and in accordance with relevant laws and regulations.

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

Major Shareholders

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

Adequacy of Internal Control Systems

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

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

The key elements, which ensure the adequacy of Internal Control systems in the Bank, include the following:

- Existence of appropriate Board approved policies and Executive Management approved procedures, which are subject to regular reviews and updates, to validate applicability and sufficiency.
- Existence of several Board level committees which monitor all significant areas and activity.
- Existence of specialized control functions such as Compliance, Risk Management and Internal Audit. Processes consistent with the "Three lines of Defense" principle are in place to ensure weaknesses are identified and reported to Executive Management and the Board.
- Existence of an independent review process by Internal Audit Group, which assesses the Bank's process as per its mandate, including independent assurance and evaluation of the appropriateness of design and operating effectiveness of governance, systems controls, risk management and internal controls to monitor, manage and mitigate the Bank's key risks and its related processes, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risks, verifies and assesses the adequacy and effectiveness of the internal control system and reports significant issues and control gaps with the Management agreed actions, to the Board Audit Committee and the Board of Directors.
- Existence of independent control reviews on financial

accounting records and statements by External Auditors as per the requirement of local laws and regulations, and submit such audit reports in the form of Management letters to the Board of Directors and CBK.

- Existence of a comprehensive independent Internal Control Review process, performed annually by an international audit firm (other than the external auditors), as per the requirement of CBK, which identifies and reports any internal control deficiencies along with a Management action plan, to address such issues. The latest report was issued in June, 2018 and included no significant findings (Annexure-A). A summary of ICR report for the year ended 31st Dec 2017 was presented to the Board of Directors during 2018 and was reviewed and approved by the latter. The external audit firm has conducted two follow-up reviews 30/09/2018 and 31/12/2018 to ascertain corrective actions to its findings as per CBK requirements.

- The Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports, Central Bank audit reports, Management Letters, Internal Control Review reports and monitors periodically the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.

Annexure-A

Report on Internal Control Systems

28 June,, 2018

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

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 14 February, 2018, we have examined the accounting and other records and internal control systems of Gulf Bank K.S.C.P, for the year ended 31 December 2017.

We covered the following processes of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 17 January 2018 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June, 2012, instructions dated 23 July, 2013 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February, 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Bank operations, during the year ended 31 December 2017, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 17 January 2018,

The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2017, and

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

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

CAPITAL MANAGEMENT AND ALLOCATION

Capital Structure

In accordance with the CBK guidelines (CBK circular No.2/RB,RBA/336/2014), the Kuwaiti banks must maintain a minimum capital adequacy ratio of 13%. Tier 1 capital comprising Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital. CET1 comprising paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares and Tier 2 comprising allowed portion of general provisions (1.25% of the risk weighted assets) and subordinated Tier 2 bonds. Gulf Bank (the "Bank") has been identified as a Domestic Systemically Important bank (D-SIB) and is required to hold additional Common Equity Tier 1 capital (CET1) of 1% (2017: 1%).

The table below details the regulatory capital for the Bank as at 31 December 2018 and 31 December 2017:

(KD Million)

Composition of Capital	31-Dec-18	31-Dec-17	Variance
Common Equity Tier 1 Capital : instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**457.8**	457.8	-
Retained earnings	**162.6**	139.2	23.4
Accumulated other comprehensive income (and other reserves)	**81.9**	75.0	6.9
Common Equity Tier 1 capital before regulatory adjustments	**702.3**	672.0	30.3
Common Equity Tier 1 Capital : regulatory adjustments	**-**	-	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(73.6)**	(70.8)	(2.8)
Total regulatory adjustments to Common equity Tier 1	**(73.6)**	(70.8)	(2.8)
Common Equity Tier 1 capital (CET1)	**628.7**	601.2	27.5
Additional Tier 1 capital : instruments	**-**	-	-
Additional Tier 1 capital : regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**628.7**	601.2	27.5
Tier 2 capital : instruments and provisions			
Directly issued qualifying Tier 2instruments plus related stock surplus	**100.0**	100.0	-
General provisions included in Tier 2 capital	**54.2**	50.9	3.3
Tier 2 capital before regulatory adjustments	**154.2**	150.9	3.3
Tier 2 capital : regulatory adjustments	**-**	-	-
Tier 2 capital	**154.2**	150.9	3.3
Total capital (TC= T1+T2)	**782.9**	752.1	30.8
Total risk weighted assets	**4,465.7**	4,226.2	239.5
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**14.1%**	14.2%	-0.1%
Tier 1 (as a percentage of risk weighted assets)	**14.1%**	14.2%	-0.1%

(KD Million)

Composition of Capital	31-Dec-18	31-Dec-17	Variance
Total capital (as a percentage of risk weighted assets)	**17.5%**	17.8%	-0.3%
Institution specific buffer requirement(minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	**-**	-	-
of which : capital conservation buffer requirement	**2.5%**	2.5%	0.0%
of which : bank specific countercyclical buffer requirement	**-**	-	-
of which : D-SIB buffer requirement	**1.0%**	1.0%	0.0%
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**7.1%**	7.2%	-0.1%
National minima	**-**	-	-
National Common Equity Tier 1 minimum ratio	**10.5%**	10.5%	0.0%
National Tier 1 minimum ratio	**12.0%**	12.0%	0.0%
National total capital minimum ratio excluding CCY and DSIB buffers	**13.0%**	13.0%	0.0%
Amounts below the thresholds for deduction (before risk weighting)	**-**	-	-
Non-significant investments in the capital of other financials	**-**	-	-
Significant investments in the common stock of financials	**-**	-	-
Mortgage servicing rights(net of related tax liability)	**-**	-	-
Deferred tax assets arising from temporary differences(net of related tax liability)	**-**	-	-
Applicable caps on the inclusion of provisions in Tier 2	**-**	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**-**	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	**-**	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-	-
Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-	-

Capital Management

The Bank's capital management policy is to ensure and maintain an adequate capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in other balance sheet items, off-balance-sheet facilities and trading (i.e. market risk) activities, and the Bank's future dividend policy.

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

The following table below details the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank as at 31 December 2018 and 31 December 2017:

(KD Million)

Credit Risk Exposures	31-Dec-18	31-Dec-17	Variance
Credit risk weighted assets	**4,338.6**	4,068.8	269.8
Less: Excess general provision	**(198.5)**	(152.2)	(46.3)
Net credit risk weighted exposures	**4,140.1**	3,916.6	223.5
Market risk weighted assets	**1.0**	2.3	(1.3)
Operational risk weighted exposures	**324.6**	307.3	17.3
Total Risk Weighted exposures	**4,465.7**	4,226.2	239.5

Regulatory Capital requirement at 13%

(KD Million)

Credit Risk	31-Dec-18	31-Dec-17	Variance
Cash items	**-**	-	-
Claims on sovereigns	**0.6**	1.8	(1.2)
Claims on public sector entities (PSEs)	**3.4**	2.9	0.5
Claims on banks	**41.8**	37.2	4.6
Claims on corporates	**305.6**	285.9	19.7
Credit derivative claims (protection seller)	**-**	-	-
Regulatory retail exposures	**168.5**	153.1	15.4
Past due exposures	**3.6**	4.0	(0.4)
Other exposures	**40.5**	44.0	(3.5)
Capital requirement for credit risk	**564.0**	528.9	35.1
Less : Excess general provision	**(25.8)**	(19.8)	(6.0)
Capital requirement for net Credit Risk	**538.2**	509.1	29.1

(KD Million)

Market / Operational Risk	31-Dec-18	31-Dec-17	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**0.1**	0.3	(0.2)
Capital requirement for market risk	**0.1**	0.3	(0.2)
Capital requirement for operational risk	**42.2**	40.0	2.2
Additional capital requirement (DSIB @ 1%)	**44.7**	42.3	2.4
TOTAL CAPITAL REQUIREMENT	**625.2**	591.7	33.5

Capital adequacy ratios (per cent)	31-Dec-18	31-Dec-17	Variance
Tier 1 ratio	**14.1%**	14.2%	-0.1%
Total capital adequacy ratio	**17.5%**	17.8%	-0.3%

The regulatory capital allocation disclosed above is calculated at 14% (including 1% for DSIBs).The total risk-weighted exposure as at 31 December 2018 is **KD 4,465.7 million** (2017: KD 4,226.2 million), requiring a regulatory capital at **14%** (2017: 14%), of **KD 625.2 million** (2017: KD 591.7 million).

The Bank's regulatory capital as at 31 December 2018 is **KD 782.9 million** (2017: KD 752.1 million), translating to a capital adequacy ratio of **17.5%** (2017: 17.8%).

RISK MANAGEMENT

Organization of Governance and Risk Management

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

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of the Risk function of the Bank. BRC reviews high risk credits which are more than 10% of the Bank's capital or as deemed appropriate by the Committee. 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 organization of risk management, roles and responsibilities of the various committees are included in Note 24 of the financial statements.

Corporate Governance

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

Risk Appetite and Portfolio Strategy

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

The Bank has a Risk Appetite document, which enables close monitoring of various risks on an ongoing basis against the internally set thresholds. On a quarterly basis, the risk dashboard is presented and discussed with the Executive Risk Committee and Board Risk Committee. The Risk Appetite document is periodically reviewed and amended in line with market and economic factors. The Bank has a detailed credit policy approved by the Board and periodically revised in response to changes in risk and market conditions.

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

The Bank classifies its exposure as per North American Industry Classification System (NAICS) Code. Such classification is in addition to the classification based on purpose codes as defined by CBK. This allows the Bank to classify its portfolio into various sub-segments so as to facilitate analysis and improve management of concentrations, if any. The Bank 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. This rating has been extended down to the relationship manager level and risk measures are introduced for business performance appraisal. This leads to strengthening the first line and further improvement in asset quality.

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

The Internal Capital Adequacy Assessment Process ('ICAAP')

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

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

The Capital Adequacy Ratio under Pillar 1 (Basel III) as on 31 December 2018 is 17.53% (2017: 17.80%) and the corresponding Capital Adequacy Ratio under ICAAP is 16.03% (2017: 16.30%).

Credit Risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has comprehensive policies and procedures to control and monitor all such risks. The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to Board Credit and Investment Committee ("BCIC") who in turn can delegate its authority to Executive Credit Committee ("ECC") as stipulated by the Board of Directors within the CBK guidelines. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it.

Market Risk

Market risk is the risk that movements in market values or prices, including currency rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios (assets and financial instruments).

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

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

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

Bank's treasury group also maintains a portfolio of Kuwait Government treasury bonds and CBK bonds to meet the CBK statutory liquidity requirements as well as a portfolio of mostly GCC sovereign bonds denominated in USD to manage surplus liquidity.

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

Currency Risk

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

Interest Rate Risk (Banking Book)

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

Equity Risk (Banking Book)

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

In accordance with IFRS 9, equity investments are classified as 'Fair value through other comprehensive income' ('FVOCI') (previously classified as 'available-for-sale'). The accounting classifications and fair value measurements are disclosed in the significant accounting policies note to the financial statements. The types and accounting classifications of investments are disclosed in Note 13 of the financial statements.

Liquidity Risk

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

Operational Risk

Operational risk is the risk of loss arising out of the failure of people, processes or technology or the impact of external events. It includes fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events.

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

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

Credit Risk Exposure

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

Gross Credit Risk Exposure

The summary of the Bank's gross credit risk exposure (before credit risk mitigation) as of 31 December 2018 and 31 December 2017 are shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

(KD Million)

Gross Credit Risk Exposure	31-Dec-18	31-Dec-17	Variance
Funded Gross Credit Exposure	**6,265.9**	5,882.5	383.4
Unfunded Gross Credit Exposure	**1,450.8**	1,445.5	5.3
Total Gross Credit Risk Exposure	**7,716.7**	7,328.0	388.7

Funded gross credit risk exposure as of 31 December 2018 is **81.2%** (2017: 80.3%) of the total gross credit risk exposure.

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

Average Credit Risk Exposure

Average credit risk exposure as at 31 December 2018 and 31 December 2017 are detailed below:

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

(KD Thousands)

	2018			2017		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Cash items	**55,431**	**-**	**55,431**	48,725	-	48,725
Claims on sovereigns	**1,064,928**	**5**	**1,064,933**	1,188,457	5	1,188,462
Claims on public sector entities (PSEs)	**229,093**	**1,024**	**230,117**	227,618	3,441	231,059
Claims on banks	**587,615**	**355,442**	**943,057**	568,223	363,542	931,765
Claims on corporates	**2,204,767**	**1,069,418**	**3,274,185**	1,946,515	1,073,242	3,019,757
Credit derivative claims (Protection seller)	**-**	**-**	**-**	-	22,860	22,860
Retail exposures	**1,359,276**	**36,554**	**1,395,830**	1,258,225	38,970	1,297,195
Past due exposures	**61,003**	**1,121**	**62,124**	87,070	128	87,198
Other exposures	**366,787**	**2,417**	**369,204**	408,624	438	409,062
Total	**5,928,900**	**1,465,981**	**7,394,881**	5,733,457	1,502,626	7,236,083

Average funded gross credit risk exposure for 2018 is **80.18%** (2017: 79.23%) of the total average gross credit risk exposure. The full year average amounts are calculated using a 13-point average of the month end figures from 31 December 2017 to 31 December 2018 inclusive.

Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio as at 31 December 2018 and 31 December 2017 are shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2018 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**53,656**	**-**	**-**	**-**	**-**	**-**	**53,656**
Claims on sovereigns	**1,115,043**	**94,313**	**-**	**-**	**4,550**	**-**	**1,213,906**
Claims on public sector entities (PSEs)	**160,974**	**120,204**	**-**	**-**	**-**	**-**	**281,178**
Claims on banks	**33,773**	**466,235**	**241,336**	**16,920**	**224,393**	**1,505**	**984,162**
Claims on corporates	**3,072,158**	**226,930**	**7,136**	**9,818**	**23,627**	**9,589**	**3,349,258**
Retail exposures	**1,463,752**	**287**	**50**	**5**	**93**	**14**	**1,464,201**
Past due exposures	**34,162**	**-**	**-**	**-**	**-**	**-**	**34,162**
Other exposures	**331,541**	**3,029**	**427**	**1,176**	**-**	**18**	**336,191**
Total	**6,265,059**	**910,998**	**248,949**	**27,919**	**252,663**	**11,126**	**7,716,714**
Percentage of gross credit risk exposure by geographical region	**81.2%**	**11.8%**	**3.2%**	**0.4%**	**3.3%**	**0.1%**	**100.0%**

Total gross credit risk exposures as at 31 December 2017 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	62,138	-	-	-	-	-	62,138
Claims on sovereigns	1,084,025	56,982	-	-	13,579	-	1,154,586
Claims on public sector entities (PSEs)	126,678	85,485	-	-	-	-	212,163
Claims on banks	85,069	277,980	254,125	12,835	242,830	-	872,839
Claims on corporates	2,920,824	303,041	10,296	9,818	24,225	10,209	3,278,413
Retail exposures	1,339,674	1,131	50	5	266	-	1,341,126
Past due exposures	61,109	-	-	-	-	-	61,109
Other exposures	339,577	3,715	884	1,375	-	30	345,581
Total	6,019,094	728,334	265,355	24,033	280,900	10,239	7,327,955
Percentage of gross credit risk exposure by geographical region	82.1%	10.1%	3.6%	0.3%	3.8%	0.1%	100.0%

The majority of the Bank's credit exposure is in Kuwait which comprises **KD 6.27 billion** (**81.2%** of total gross credit exposure) at 31 December 2018, compared with KD 6.02 billion (82.1% of total gross credit exposure) at 31 December 2017.

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2018 and 2017, broken down by geographical region and standard credit risk portfolio are shown below:

Total gross credit risk exposures as at 31 December 2018 (Average) - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**55,431**	**-**	**-**	**-**	**-**	**-**	**55,431**
Claims on sovereigns	**988,429**	**65,362**	**-**	**-**	**11,142**	**-**	**1,064,933**
Claims on public sector entities (PSEs)	**146,261**	**83,856**	**-**	**-**	**-**	**-**	**230,117**
Claims on banks	**71,520**	**367,134**	**248,795**	**18,034**	**237,457**	**117**	**943,057**
Claims on corporates	**2,953,228**	**264,184**	**8,983**	**9,818**	**28,097**	**9,875**	**3,274,185**
Credit derivative claims (Protection seller)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Regulatory retail exposures	**1,394,691**	**353**	**60**	**88**	**354**	**284**	**1,395,830**
Past due exposures	**62,124**	**-**	**-**	**-**	**-**	**-**	**62,124**
Other exposures	**363,712**	**3,429**	**775**	**1,270**	**-**	**18**	**369,204**
Total	**6,035,396**	**784,318**	**258,613**	**29,210**	**277,050**	**10,294**	**7,394,881**
Percentage of gross credit risk exposureby geographical region	**81.7%**	**10.6%**	**3.5%**	**0.4%**	**3.7%**	**0.1%**	**100%**

Total gross credit risk exposures as at 31 December 2017 (Average) - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	48,725	-	-	-	-	-	48,725
Claims on sovereigns	1,107,543	59,901	-	706	20,312	-	1,188,462
Claims on public sector entities (PSEs)	149,734	81,325	-	-	-	-	231,059
Claims on banks	90,530	332,412	234,136	30,976	243,550	161	931,765
Claims on corporates	2,779,844	166,916	11,458	9,818	50,936	785	3,019,757
Credit derivative claims (Protection seller)	-	22,860	-	-	-	-	22,860
Regulatory retail exposures	1,296,253	266	52	104	332	188	1,297,195
Past due exposures	87,198	-	-	-	-	-	87,198
Other exposures	402,653	3,780	808	1,780	-	41	409,062
Total	5,962,480	667,460	246,454	43,384	315,130	1,175	7,236,083
Percentage of gross credit risk exposure by geographical region	82.4%	9.2%	3.4%	0.6%	4.4%	0.0%	100%

Industry Segment Distribution of Gross Credit Risk Exposures

The industry segment split of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2018 and 31 December 2017 are shown below:

Total gross credit risk exposures as at 31 December 2018- Industry wise

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Constr-uction	Manufa-cturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	53,656	53,656
Claims on sovereigns	-	170,550	-	-	-	-	-	1,043,356	1,213,906
Claims on public sector entities (PSEs)	-	-	-	213,515	-	-	-	67,663	281,178
Claims on banks	-	950,475	-	-	-	-	-	33,687	984,162
Claims on corporate	233,976	270,385	622,974	115,511	776,358	327,619	578,509	423,926	3,349,258
Regulatory retail exposures	1,368,821	27	17,331	322	22,600	4,145	480	50,475	1,464,201
Past due exposures	10,879	-	2,246	115	2,080	2	18,799	41	34,162
Other exposures	44,883	-	-	-	-	-	116,956	174,352	336,191
Total	**1,658,559**	**1,391,437**	**642,551**	**329,463**	**801,038**	**331,766**	**714,744**	**1,847,156**	**7,716,714**
Percentage of gross credit risk exposure by industry segment	**21.5%**	**18.0%**	**8.3%**	**4.3%**	**10.4%**	**4.3%**	**9.3%**	**23.9%**	**100%**

Total gross credit risk exposures as at 31 December 2017- Industry wise

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Constr uction	Manufa cturing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	62,138	62,138
Claims on sovereigns	-	99,315	-	-	5	-	-	1,055,266	1,154,586
Claims on public sector entities (PSEs)	-	-	2,690	184,404	-	-	-	25,069	212,163
Claims on banks	-	823,090	-	38,894	-	-	-	10,855	872,839
Claims on corporate	157,056	342,640	555,515	85,986	812,303	302,907	471,500	550,506	3,278,413
Regulatory retail exposures	1,286,765	27	19,842	469	21,363	4,114	206	8,340	1,341,126
Past due exposures	11,393	-	15,684	-	60	-	27,296	6,676	61,109
Other exposures	73,708	-	-	-	-	-	83,456	188,417	345,581
Total	1,528,922	1,265,072	593,731	309,753	833,731	307,021	582,458	1,907,267	7,327,955
Percentage of gross credit risk exposure by industry segment	20.9%	17.3%	8.1%	4.2%	11.4%	4.2%	7.9%	26.0%	100%

Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2018 and 31 December 2017 are shown below:

Total gross credit risk exposures as at 31 December 2018

(KD Thousands)

	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	**53,656**	**-**	**-**	**-**	**-**	**-**	**53,656**
Claims on sovereigns	**400,477**	**157,190**	**240,749**	**99,050**	**194,871**	**121,569**	**1,213,906**
Claims on public sector entities (PSEs)	**-**	**-**	**-**	**24,697**	**-**	**256,481**	**281,178**
Claims on banks	**385,562**	**163,079**	**55,978**	**100,744**	**205,914**	**72,885**	**984,162**
Claims on corporates	**339,740**	**600,138**	**469,340**	**442,117**	**638,494**	**859,429**	**3,349,258**
Regulatory retail exposures	**78,656**	**13,703**	**13,367**	**18,012**	**107,520**	**1,232,943**	**1,464,201**
Past due exposures	**23,825**	**172**	**129**	**334**	**1,026**	**8,676**	**34,162**
Other exposures	**145,984**	**79,225**	**12,020**	**40,865**	**19,179**	**38,918**	**336,191**
Total	**1,427,900**	**1,013,507**	**791,583**	**725,819**	**1,167,004**	**2,590,901**	**7,716,714**
Percentage of gross credit risk exposure by residual maturity	**18.5%**	**13.1%**	**10.3%**	**9.4%**	**15.1%**	**33.6%**	**100.0%**

Total gross credit risk exposures as at 31 December 2017

(KD Thousands)

	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	62,138	-	-	-	-	-	62,138
Claims on sovereigns	213,414	176,000	183,091	84,962	360,180	136,939	1,154,586
Claims on public sector entities (PSEs)	57	216	253	6,713	27,341	177,583	212,163
Claims on banks	337,087	83,235	23,315	146,095	128,373	154,734	872,839
Claims on corporates	216,961	510,364	445,124	533,994	627,121	944,849	3,278,413
Regulatory retail exposures	81,894	17,378	13,415	16,636	109,043	1,102,760	1,341,126
Past due exposures	49,677	64	49	237	1,364	9,718	61,109
Other exposures	46,505	-	60,647	75,413	82,126	80,890	345,581
Total	1,007,733	787,257	725,894	864,050	1,335,548	2,607,473	7,327,955
Percentage of gross credit risk exposure by residual maturity	13.8%	10.7%	9.9%	11.8%	18.2%	35.6%	100.0%

IMPAIRED LOANS AND PROVISIONS

Impaired Loans and Provisions by Industry Segments

The Bank has adopted IFRS 9: Financial Instruments with a date of application of 1 January 2018, with the exception of the measurement and disclosure requirements in respect of expected credit loss ("ECL") on credit facilities. These regulations require ECL to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of IFRS as issued by the International Accounting Standards Board.

Impaired loans and provisions (by industry segment) as at 31 December 2018

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2018 and 31 December 2017 are shown below:

(KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	Balance outstanding	Specific Provision Cash and Non cash	Specific Provision Cover
Personal	**10,879**	**21,357**	**10,477**	**49.1%**
Financial	**-**	**-**	**-**	**0.0%**
Trade and commerce	**2,202**	**2,267**	**266**	**11.7%**
Crude oil and gas	**115**	**180**	**65**	**36.1%**
Construction	**1,981**	**1,987**	**10,241**	**515.3%**
Manufacturing	**-**	**-**	**4**	**0.0%**
Real estate	**18,799**	**19,132**	**333**	**1.7%**
Others	**20**	**39**	**106**	**271.8%**
Total	**33,996**	**44,962**	**21,492**	**47.8%**

Impaired loans and provisions (by industry segment) as at 31 December 2017

(KD Thousands)

	Impaired Loans (NPLs)			
	Past due portion	Balance outstanding	Specific Provision Cash and Non cash	Specific Provision Cover
Personal	11,391	20,913	9,522	45.5%
Financial	-	-	-	0.0%
Trade and commerce	15,663	17,249	1,752	10.2%
Crude oil and gas	-	-	-	0.0%
Construction	-	-	1,943	0.0%
Manufacturing	-	-	12	0.0%
Real estate	27,296	27,339	43	0.2%
Others	6,678	7,509	855	11.4%
Total	61,028	73,010	14,127	19.3%

Non-performing loans ('NPL's') have decreased by KD 28 million in 2018 (for details refer Note 12 and 24 (A) of the financial statements and the following table).

Provision Charge by Industry Segments

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

Provision Charges and Write - offs during 2018 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	**General Charge**	**Total Charge**
Personal	**13,328**	**(32,983)**	**(19,655)**
Financial	**9,274**	**20,258**	**29,532**
Trade and commerce	**4,516**	**11,538**	**16,054**
Crude oil and gas	**65**	**630**	**695**
Construction	**30,110**	**(4,688)**	**25,422**
Manufacturing	**(8)**	**337**	**329**
Real estate	**10,290**	**1,177**	**11,467**
Others	**(268)**	**45,345**	**45,077**
Total	**67,307**	**41,614**	**108,921**

Provision Charges and Write - offs during 2017 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	**General Charge**	**Total Charge**
Personal	13,961	35,585	49,546
Financial	-	(34,356)	(34,356)
Trade and commerce	16,075	760	16,835
Crude oil and gas	-	327	327
Construction	(574)	4,108	3,534
Manufacturing	51,475	(34,081)	17,394
Real estate	42,029	(5,003)	37,026
Others	208	(20,730)	(20,522)
Total	123,174	(53,390)	69,784

Specific charge mentioned above excludes **KD 59.9 million** (2017: KD 127.6 million) amounts written off during the year.

Impaired Loans and Provisions by Geographical Segments

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31 December 2018 and 31 December 2017 are shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2018

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision	
	Past due portion	Balance outstanding	Cash and Non cash	Specific Provision Cover
Kuwait	**33,996**	**44,962**	**21,492**	**47.8%**
Other Middle East	**-**	**-**	**-**	**0.0%**
Western Europe	**-**	**-**	**-**	**0.0%**
USA & Canada	**-**	**-**	**-**	**0.0%**
Asia Pacific	**-**	**-**	**-**	**0.0%**
Rest of World	**-**	**-**	**-**	**0.0%**
Total	**33,996**	**44,962**	**21,492**	**47.8%**

Impaired loans and provisions (by Geographical Region) as at 31 December 2017

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision	
	Past due portion	Balance outstanding	Cash and Non cash	Specific Provision Cover
Kuwait	61,028	73,010	14,127	19.3%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	61,028	73,010	14,127	19.3%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2018 and 31 December 2017, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2018

(KD Thousands)

	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	**53,656**	**-**	**53,656**	**53,656**	**-**	**-**	**53,656**
Claims on sovereigns	**1,213,901**	**5**	**1,213,906**	**1,213,901**	**3**	**45**	**1,213,949**
Claims on PSEs	**280,252**	**926**	**281,178**	**280,252**	**463**	**3**	**280,718**
Claims on banks	**632,446**	**351,716**	**984,162**	**632,446**	**172,140**	**1,241**	**805,827**
Claims on corporates	**2,289,303**	**1,059,955**	**3,349,258**	**2,289,303**	**492,461**	**2,239**	**2,784,003**
Retail exposures	**1,426,504**	**37,697**	**1,464,201**	**1,426,504**	**16,389**	**-**	**1,442,893**
Past due exposures	**33,996**	**166**	**34,162**	**33,996**	**83**	**-**	**34,079**
Other exposures	**335,817**	**374**	**336,191**	**335,817**	**187**	**-**	**336,004**
Total	**6,265,875**	**1,450,839**	**7,716,714**	**6,265,875**	**681,726**	**3,528**	**6,951,129**

Gross credit risk exposure before CRM as at 31 December 2017

(KD Thousands)

	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	62,138	-	62,138	62,138	-	-	62,138
Claims on sovereigns	1,154,581	5	1,154,586	1,154,581	3	58	1,154,642
Claims on PSEs	211,048	1,115	212,163	211,048	558	9	211,615
Claims on banks	524,721	348,118	872,839	524,721	172,260	5,670	702,651
Claims on corporates	2,220,929	1,057,484	3,278,413	2,220,929	478,065	3,318	2,702,312
Retail exposures	1,302,888	38,238	1,341,126	1,302,888	16,713	-	1,319,601
Past due exposures	61,028	81	61,109	61,028	41	-	61,069
Other exposures	345,173	408	345,581	345,173	204	-	345,377
Total	5,882,506	1,445,449	7,327,955	5,882,506	667,844	9,055	6,559,405

Credit Risk Mitigation and Credit Risk-Weighted Assets

Under the Basel III standardized approach for credit risk, CRM techniques are used to reduce the risk-weighted amount of credit risk exposures for capital adequacy purposes. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it. As per Basel III real estate as collateral will be derecognized in five years with effect from 31 December 2014, with an additional hair cut of 10% in each year. At 31 December 2018, 100% (2017: 90%) hair cut is applied on real estates. Therefore, at 31 December 2018, real estate has been completely de-recognised as an eligible CRM for capital computation purposes.

As per Credit Policy of the Bank, collateral requirement, coverage and top up, if any, will be decided upon by the Credit Committee who approves the credit facilities based on various factors including financial strength of the borrower, cash flows sources for repayment, track record, group support, volatility, etc. Wherever the share collateral is the main source of repayment , a top up clause must be maintained. When the value of the collateral held in respect of a particular loan falls below the initial prescribed collateral coverage ratio and reaches the top up ratio threshold, the customer is requested to provide additional collateral or partially settle exposure to increase the coverage. Quoted shares are valued daily by using Boursa Kuwait prices and recognised stock exchanges and real estate collateral is valued once a year by two independent real estate valuers (the lower of the two valuations is used).

In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The CRM treatment of these guarantees for capital computation is strictly as stipulated under Basel guidelines.

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

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

The exposure after CRM, as at 31 December 2018 and 31 December 2017 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures as given below:

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2018

(KD Thousands)

		Credit Exposure/CRM				Risk - Weighted Assets		
	Exposure before CRM	CRM Eligible Real Estate	Eligible Financial Collateral	Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	**53,656**	**-**	**-**	**-**	**53,656**	**-**	**-**	**-**
Claims on sovereigns	**1,213,949**	**-**	**70**	**-**	**1,213,879**	**4,550**	**-**	**4,550**
Claims on PSEs	**280,718**	**-**	**463**	**-**	**280,255**	**26,251**	**-**	**26,251**
Claims on banks	**805,827**	**-**	**527**	**-**	**805,300**	**321,640**	**28**	**321,668**
Claims on corporates	**2,784,003**	**-**	**431,184**	**-**	**2,352,819**	**1,925**	**2,348,968**	**2,350,893**
Retail exposures	**1,442,893**	**-**	**142,507**	**-**	**1,300,386**	**-**	**1,296,012**	**1,296,012**
Past due exposures	**34,079**	**-**	**4,679**	**-**	**29,400**	**-**	**27,993**	**27,993**
Other exposures	**336,004**	**-**	**70,643**	**-**	**265,361**	**-**	**311,173**	**311,173**
Total	**6,951,129**	**-**	**650,072**	**-**	**6,301,056**	**354,366**	**3,984,174**	**4,338,540**

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2017

(KD Thousands)

		Credit Exposure/CRM				Risk - Weighted Assets		
	Exposure before CRM	CRM Eligible Real Estate	Eligible Financial Collateral	Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	62,138	-	-	-	62,138	-	-	-
Claims on sovereigns	1,154,642	-	112	-	1,154,530	13,579	-	13,579
Claims on PSEs	211,615	-	558	-	211,057	22,211	-	22,211
Claims on banks	702,651	-	841	-	701,810	286,181	15	286,196
Claims on corporates	2,702,312	44,966	455,671	-	2,201,675	2,340	2,196,995	2,199,335
Retail exposures	1,319,601	30	136,821	-	1,182,750	-	1,177,679	1,177,679
Past due exposures	61,069	9,001	19,831	-	32,237	-	31,106	31,106
Other exposures	345,377	5,532	51,941	-	287,904	-	338,672	338,672
Total	6,559,405	59,529	665,775	-	5,834,101	324,311	3,744,467	4,068,778

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

TRADING PORTFOLIO

Trading portfolio is limited to a modest amount of open currency position in the course of Bank's Balance Sheet management.

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

The details of the market risk capital charge for the Bank as at 31 December 2018 and 31 December 2017 are shown in the following table:

(KD thousands)

Market Risk	31-Dec-18	31-Dec-17	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**81**	187	(106)
Total market risk capital charge	**81**	187	(106)
Market risk - weighted assets	**1,013**	2,338	(1,325)
Total market risk capital requirement (at 13%)	**132**	304	(172.25)

On 31 December 2018, total market risk weighted assets were **KD 1 million** (2017: KD 2.3 million) and total capital requirement was **KD 132 thousand** (2017: KD 304 thousand).

Operational Risk

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

The details of the operational risk capital charge for the Bank as at 31 December 2018 and 31 December 2017 are shown in the following table:

Operational Risk as at 31 December 2018

(KD Thousands)

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	**31,997**	**18%**	**5,759**
Commercial banking	**76,815**	**15%**	**11,522**
Retail banking	**72,374**	**12%**	**8,685**
Total	**181,186**		**25,966**
Total operational risk weighted exposure			**324,575**
Total operational risk capital requirement (at 13%)			**42,195**

Operational Risk as at 31 December 2017

(KD Thousands)

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	28,481	18%	5,127
Commercial banking	73,889	15%	11,083
Retail banking	69,793	12%	8,375
Total	172,163		24,585
Total operational risk weighted exposure			307,313
Total operational risk capital requirement (at 13%)			39,951

As per Basel III, the total operational risk capital charge is calculated by multiplying the three year average gross income of the business lines by a pre-defined beta factor. The total operational risk weighted exposure is determined by multiplying the operational risk capital charge by 12.5. Gross income includes net interest income and net non-interest income, but excludes realised profits from the sale of securities in the banking book. At 31 December 2018 operational risk-weighted exposure was **KD 324.6 million** (2017: KD 307.3 million) and total operational risk capital requirement at 13% was **KD 42.2 million** (2017: KD 40.0 million).

Equity Risk in the Banking Book

The Bank does not trade in equities. All of the Bank's equity investments are held in the Banking (i.e. non-trading) book and are classified as 'FVOCI' (previously classified as 'available-for-sale') financial assets, i.e. they represent assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices . The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate for the instrument. The fair values of unquoted instruments estimated by using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price/net asset values. The Bank uses external valuation services when necessary.

As on 1 January 2018, the Bank has adopted IFRS 9. The Bank's management has irrevocably elected to 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. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity.

The fair value of the investment securities-equity held at 31 December 2018 and 31 December 2017 are shown below, along with the cumulative unrealised gains in the fair valuation reserve in equity and the regulatory capital implications.

Information related to the licensed Bank's equity position in the banking book as at 31 December 2018

(KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities- FVOCI	**15,723**	**19,378**	**35,101**
Unrealised gains in equity securities (part of CET1)	**3,135**	**4,223**	**7,358**
Regulatory capital details			
Regulatory capital requirement	**2,201**	**2,713**	**4,914**
Income statement details			
Income from disposal of investment securities			**-**

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2017

(KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities- available for sale	15,391	22,269	37,660
Unrealised gains in equity securities (part of CET1)	2,080	4,379	6,459
Regulatory capital details			
Regulatory capital requirement	2,155	3,118	5,272
Income statement details			
Income from disposal of investment securities			**2,822**

The Bank has a significant investment in a financial institution which is classified as investments in financial Institutions below the deduction threshold.

Interest Rate Risk in the Banking Book

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates. The sensitivity of net interest income to interest rate changes is provided in note 24 (B) to the financial statements.

Counter Party Credit Risk

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

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

Remuneration Policy

Refer to " Corporate Governance" section.

Leverage ratio common disclosure template

In accordance with the CBK guidelines (CBK circular No.2/BS/342/2015), Kuwait banks must maintain minimum leverage ratio of 3% effective from 31 December 2015. Leverage ratio is calculated as a ratio of Tier 1 capital as per Basel III to the total exposure. Total exposure is the sum of on balance sheet exposures and off balance sheet exposures after adjusting the credit conversion factor.

(KD thousands)

		31-Dec-18	31-Dec-17	Variance
On-balance sheet exposures				
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**6,016,347**	5,683,404	332,943
2.	(Asset amounts deducted in determining Basel III Tier 1 capital)	**-**	-	-
3.	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**6,016,347**	5,683,404	332,943
Derivative exposures				
4.	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**-**	-	-
5.	Add-on amounts for PFE associated with all derivatives transactions	**-**	-	-
6.	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**-**	-	-
7.	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**-**	-	-
8.	(Exempted CCP leg of client-cleared trade exposures)	**-**	-	-
9.	Adjusted effective notional amount of written credit derivatives	**-**	-	-
10.	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**-**	-	-
11.	**Total derivative exposures (sum of lines 4 to 10)**	**-**	-	-
Securities financing transaction exposures		**-**		
12.	Gross SFT assets (with no recognition of netting)	**-**	-	-
13.	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	-	-
14.	CCR exposure for SFT assets	**-**	-	-
15.	Agent transaction exposures	**-**	-	-
16.	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	-	-
Other off-balance sheet exposures				
17.	Off-balance sheet exposure (before implementation of CCF)	**2,318,708**	2,762,287	(443,579)
18.	(Adjustments for conversion to credit equivalent amounts)	**(1,483,668)**	(1,800,284)	316,616
19.	**Off-balance sheet items (sum of lines 17 and 18)**	**835,040**	962,003	(126,963)
Capital and total exposures				
20.	Tier 1 capital	**628,693**	601,278	27,415
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**6,851,387**	6,645,407	205,980
Leverage ratio				
22.	**Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))**	**9.18%**	9.05%	0.13%

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

SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE

(KD thousands)

		31-Dec-18	31-Dec-17	Variance
1.	Total consolidated assets as per published financial statements	**6,016,347**	5,683,404	332,943
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-	-
3.	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**	-	-
4.	Adjustments for derivative financial instruments	**-**	-	-
5.	Adjustment for securities financing transactions (i.e. repo and similar secured lending)	**-**	-	-
6.	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures	**835,040**	962,003	(126,963)
7.	Other adjustments	**-**	-	-
8.	**Leverage ratio exposure**	**6,851,387**	6,645,407	205,980

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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 2018, 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 2018, 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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"), according to Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK instructions as disclosed in the accounting policies and in Note 2 to the financial statements.

Recognition of ECL under IFRS 9, according to CBK guidelines, is a new and 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 assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired facility under the CBK instructions is based on the rules prescribed by the 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.

Our audit procedures included assessing the design and implementation of controls over, 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.

With respect to the ECL based on IFRS 9, according to CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date and checked the appropriateness of the Bank's determination of changes in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of 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 to determine ECL. We have also checked the consistency of various inputs and assumptions used by the Bank's management to determine ECL.

Further, for CBK 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, 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 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2018 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 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, related safeguards.

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 CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June, 2014 and 2/BS/342/2014 dated 21 October, 2014 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 2/BS/342/2014 dated 21 October, 2014 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 2018 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2018 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI

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

TALAL YOUSEF AL-MUZAINI

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

13 January 2019
Kuwait

INCOME STATEMENT

Year Ended 31 December 2018

	NOTES	2018 KD 000's	2017 KD 000's
Interest income	3	**242,706**	206,008
Interest expense	4	**(90,078)**	(73,777)
Net interest income		**152,628**	132,231
Net fees and commissions	6	**29,997**	30,837
Net gains from dealing in foreign currencies and derivatives	7	**9,059**	9,178
Realised gains from disposal of investment securities		**-**	2,822
Dividend income		**1,229**	1,210
Other income		**1,536**	5,104
Operating income		**194,449**	181,382
Staff expenses		**42,825**	42,266
Occupancy costs		**4,656**	4,365
Depreciation		**3,755**	3,210
Other expenses		**15,777**	14,444
Operating expenses		**67,013**	64,285
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**127,436**	117,097
Charge (release) of provisions:			
- specific	5	**59,326**	88,863
- general	12,18	**49,595**	(19,079)
Loan recoveries, net of write-off	12	**(57,918)**	(6,502)
Net provision on other financial assets		**70**	-
Impairment loss on other assets	14	**16,821**	3,366
Impairment loss on investment securities-equity		**-**	33
		67,894	66,681
OPERATING PROFIT		**59,542**	50,416
Directors' remuneration	22	**135**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**596**	505
National Labour Support Tax		**1,474**	1,248
Zakat		**596**	505
PROFIT FOR THE YEAR		**56,741**	48,023
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	**20**	17

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

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2018

	2018 KD 000's	2017 KD 000's
Profit for the year	**56,741**	48,023
Other comprehensive income		
Items that will not to be reclassified subsequently to the income statement:		
Net changes in fair value of investment securities-equity	**118**	-
Revaluation of premises and equipment	**131**	(758)
Items that are reclassified or may be reclassified subsequently to the income statement:		
Net changes in fair value of debt instruments at FVOCI	**24**	-
Investment securities:		
- Net realised gains on disposal	**-**	(313)
- Impairment loss	**-**	33
- Net unrealised gains	**-**	1,171
Other comprehensive income for the year	**273**	133
Total comprehensive income for the year	**57,014**	48,156

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 KD 000's	2017 KD 000's
ASSETS			
Cash and cash equivalents	9	**742,109**	475,441
Treasury bills and bonds	10	**395,736**	566,784
Central Bank of Kuwait bonds	11	**321,953**	394,555
Deposits with banks and other financial institutions	9	**156,569**	39,053
Loans and advances to banks	12	**143,668**	128,930
Loans and advances to customers	12	**3,950,053**	3,808,766
Investment securities	13	**167,372**	117,820
Other assets	14	**107,147**	122,101
Premises and equipment		**31,740**	29,954
TOTAL ASSETS		**6,016,347**	5,683,404
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**414,482**	412,105
Deposits from financial institutions	15	**1,005,894**	969,197
Customer deposits	16	**3,734,755**	3,489,977
Subordinated Tier 2 bonds	17	**100,000**	100,000
Other liabilities	18	**132,523**	110,847
TOTAL LIABILITIES		**5,387,654**	5,082,126
EQUITY			
Share capital	19	**304,813**	304,813
Statutory reserve	20	**32,429**	26,475
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**17,983**	17,852
Treasury shares reserve	21	**24,111**	24,246
Fair valuation reserve		**7,382**	6,444
Retained earnings		**162,556**	139,181
		702,298	672,035
Treasury shares	21	**(73,605)**	(70,757)
TOTAL EQUITY		**628,693**	601,278
TOTAL LIABILITIES AND EQUITY		**6,016,347**	5,683,404

Omar Kutayba Alghanim
(Chairman)

Antoine Daher
(Chief Executive Officer)

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

STATEMENT OF CASH FLOWS

Year Ended 31 December 2018

	NOTES	2018 KD 000's	2017 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**56,741**	48,023
Adjustments:			
Effective interest rate adjustment		**(22)**	-
Realised gains from disposal of investment securities		**-**	(2,822)
Dividend income		**(1,229)**	(1,210)
Depreciation		**3,755**	3,210
Loan loss provisions	5,12,18	**108,921**	69,784
Net provision on other financial assets		**70**	-
Impairment loss on other assets		**16,821**	3,366
Impairment loss on investment securities-equity		**-**	33
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**185,057**	120,384
Decrease/(increase) in operating assets:			
Treasury bills and bonds		**171,048**	(193,865)
Central Bank of Kuwait bonds		**72,602**	(18,315)
Deposits with banks and other financial institutions		**(117,600)**	68,960
Loans and advances to banks		**(14,647)**	7,731
Loans and advances to customers		**(244,520)**	(431,957)
Other assets		**(272)**	64,449
Increase/(decrease) in operating liabilities:			
Due to banks		**2,377**	(68,259)
Deposits from financial institutions		**36,697**	144,517
Customer deposits		**244,778**	94,637
Other liabilities		**15,919**	16,957
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		**351,439**	(194,761)
INVESTING ACTIVITIES			
Purchase of investment securities		**(57,198)**	(14,998)
Proceeds from sale of investment securities		**5,781**	43,765
Purchase of premises and equipment		**(5,410)**	(4,925)
Dividend income received		**1,229**	1,210
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**(55,598)**	25,052
FINANCING ACTIVITIES			
Dividend paid	22	**(26,190)**	(20,370)
Purchase of treasury shares		**(3,125)**	-
Proceeds from sale of treasury shares		**142**	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(29,173)**	(20,370)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**266,668**	(190,079)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**475,441**	665,520
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**742,109**	475,441
Additional cash flows information			
Interest received		**242,535**	207,073
Interest paid		**88,356**	70,082

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

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2018

		RESERVES								
	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	Treasury shares KD 000's	Total KD 000's
At 1 January 2017	304,813	21,433	153,024	18,610	24,246	5,553	116,570	339,436	(70,757)	573,492
Profit for the year	-	-	-	-	-	-	48,023	48,023	-	48,023
Other comprehensive income for the year	-	-	-	(758)	-	891	-	133	-	133
Total comprehensive income for the year	-	-	-	(758)	-	891	48,023	48,156	-	48,156
Dividend paid (Note 22)	-	-	-	-	-	-	(20,370)	(20,370)	-	(20,370)
Transfer to reserve	-	5,042	-	-	-	-	(5,042)	-	-	-
At 31 December 2017	304,813	26,475	153,024	17,852	24,246	6,444	139,181	367,222	(70,757)	601,278
At 1 January 2018	**304,813**	**26,475**	**153,024**	**17,852**	**24,246**	**6,444**	**139,181**	**367,222**	**(70,757)**	**601,278**
Impact on initial application of IFRS 9 (Note 2.6)	-	-	-	-	-	(242)	(184)	(426)	-	(426)
At 1 January 2018 (restated)	**304,813**	**26,475**	**153,024**	**17,852**	**24,246**	**6,202**	**138,997**	**366,796**	**(70,757)**	**600,852**
Profit for the year	-	-	-	-	-	-	56,741	56,741	-	56,741
Other comprehensive income for the year	-	-	-	131	-	142	-	273	-	273
Total comprehensive income for the year	-	-	-	131	-	142	56,741	57,014	-	57,014
Dividend paid (Note 22)	-	-	-	-	-	-	(26,190)	(26,190)	-	(26,190)
Realised loss on equity securities at FVOCI	-	-	-	-	-	1,038	(1,038)	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(3,125)	(3,125)
Sale of treasury shares	-	-	-	-	-	-	-	-	277	277
Loss on sale of treasury shares	-	-	-	-	(135)	-	-	(135)		(135)
Transfer to reserve	-	5,954	-	-	-	-	(5,954)	-	-	-
At 31 December 2018	**304,813**	**32,429**	**153,024**	**17,983**	**24,111**	**7,382**	**162,556**	**397,485**	**(73,605)**	**628,693**

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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 2018 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 13 January 2019. 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 of the Bank have been prepared in accordance with International Financial Reporting Standard ("IFRS") as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("CBK"). These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of IFRS as issued by the International Accounting Standards Board ("IASB") (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

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 that the Bank applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below."

Several other amendments and interpretations effective for the annual periods beginning on or after 1 January 2018, but do not have an impact on the financial performance or financial position of the Bank. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May, 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank adopted IFRS 15 Revenue from Contracts with Customers resulting in no change in the revenue recognition policy of the Bank in relation to its contracts with customers. Further, adoption of IFRS 15 had no significant impact on the financial statements of the Bank.

IFRS 9 Financial Instruments

The Bank has adopted IFRS 9: Financial Instruments issued by the IASB in July, 2014 with a date of application of 1 January 2018, with the exception of the measurement and disclosure requirements in respect of ECL on credit facilities as noted above in Note 2.1. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in prior periods.

The Bank has availed the exemption allowing it not to restate comparative information for prior years. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and reserves of the current year.

Classification and measurement of financial assets and financial liabilities:

IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). IFRS 9 classification and measurement approach for financial assets is based on the business model in which assets are managed and their contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. There is no impact on the Bank's accounting for financial liabilities. The Bank's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in Note 2.3.a.

Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost, debt securities at FVOCI, but not to investments in equity securities. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Bank's accounting policies for impairment of financial assets under IFRS 9 is explained in Note 2.3.a.

Hedge accounting:

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

"The Bank does not have any hedge relationships. Hence, the hedging requirements of IFRS 9 do not have a significant impact on Bank's financial statements."

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described Note 2.6:

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

Changes and implications resulting from the adoption of IFRS 9 are explained in Note 2.6.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's financial statements.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 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-applicable from 1 January 2018

IFRS 9 contains three classification categories for financial assets: 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"). IFRS 9 classification and measurement approach for financial assets is based on the business model in which assets are managed and their contractual cash flow characteristics.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' 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 period.

Classification of financial instruments-applicable up to 31 December 2017

The Bank classifies its financial assets as "at fair value through income statement", "loans and receivables", "held to maturity" or as "available-for-sale"; and its financial liabilities as "non-trading financial liabilities".

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity.

Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as at fair value through income statement, held to maturity, or loans and receivables.

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

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

Recognition/de-recognition

The criteria for recognition and de-recognition of financial instruments remains unchanged under IFRS 9.

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

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

A financial asset (in whole or in part) is derecognised 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- applicable from 1 January 2018

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.

From 1 January 2018, the Bank has applied IFRS 9 and 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).

Debt instruments at amortised cost

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Cash and cash equivalents, treasury bills and 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 debt instruments at amortised cost.

The carrying amount of these assets is adjusted by any recognised expected credit loss allowance except for loans and advances to banks, loans and advances to customers, which is measured at higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. Interest income from these financial assets is included in 'Interest income' using the effective interest rate ("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, continue 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 and derivatives'.

Measurement-applicable up to 31 December 2017

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

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

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

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

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

Impairment on financial assets - applicable from 1 January 2018

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The management has applied the new impairment model to debt instruments at amortised cost and FVOCI excluding loans and advances to banks and customers for which ECL is recognised 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. 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.

Credit facilities include loans and advances to banks, loans and advances to customers, guarantees, letter of credit and acceptances and undrawn commitments.

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.

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.

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.

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.

Objective evidence that debt instrument is impaired includes 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. The Bank assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant except for financial assets classified as loans and advances to banks and customers where CBK's instructions is followed.

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.

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 Bank recognises loss allowances for ECL on debts instruments at amortised cost excluding loans and advances to banks and loans and advances to customers, where provision for credit losses is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

No impairment loss is recognised on equity investments.

Balances with the Central Bank of Kuwait, Treasury bill and bonds and Central Bank of Kuwait bonds are considered to be low risk and fully recoverable and hence no ECL is measured.

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.

The management 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.

Lifetime ECL are recorded on financial assets that exhibit significant increase in credit risk since inception or are credit-impaired. A financial asset is 'credit-impaired' when there is an objective evidence of impairment that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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 and letters of credit

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 ECL is then based on the present value of the expected shortfalls in cash flows if the facility is drawn down, based on a PD weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the facility.

Guarantee contracts

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in the income statement, and the ECL provision. 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.

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).

There is no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Impairment and uncollectibility of financial assets- applicable up to 31 December 2017

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

Impairment is determined as follows:

a) for financial assets with fixed interest rates, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original EIR; and for financial assets with variable interest rates, carried at amortised cost, discounted at the current effective interest rate as determined under the contract. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the respective account where impairment was recognised. The amount of the reversal is recognised in the income statement;

b) for financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;

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

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

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

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

Fair values measurement

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

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

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

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.

Renegotiated loans

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

b. Derivative financial instruments and hedging

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through 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-applicable from 1 January 2018

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.

Hedge effectiveness requirements-applicable up to 31 December 2017

In order to qualify for hedge accounting, the hedge is expected to be highly effective and should be reliably measurable. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80 per cent to 125 per cent.

At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

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

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

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the discontinued hedge is amortized over the remaining term to maturity.

c. Collateral pending sale

The Bank occasionally acquires property in settlement of certain loans and advances. Such property is stated at the lower of the carrying value of the related loans and advances 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 to assess whether they are impaired. The Bank records an impairment loss on other assets when there has been a significant decline in the fair value below cost or where other objective evidence of impairment exists.

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 and computed based on projected unit credit method for reliable estimation of end of service indemnity benefit.

f. Treasury shares

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

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

h. Impairment of non-financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

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

i. Revenue recognition

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

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

j. Interest income and expenses

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

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

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

l. Leases

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

m. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets 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 recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Kuwaiti Dinars at the rates of exchange ruling at the 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. The guarantee liability is subsequently measured as a higher of the amount initially recognized less amortisation or the value of any financial obligation that may arise there from. Any increase in liability relating to financial guarantee is recorded in the income statement.

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- applicable from 1 January 2018

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.

Classification of financial instruments- applicable up to 31 December 2017

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

Impairment losses on financial instruments- applicable from 1 January 2018

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.

Impairment losses on loans and advances- applicable up to 31 December 2017

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

Impairment of available-for-sale investments- applicable up to 31 December 2017

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

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

Valuation of unquoted financial instruments

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

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

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

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

2.5 Standards issued but not effective

The relevant standards and interpretations issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. 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 except the following:

IFRS 16 Leases

The IASB issued the new standard on accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the income statement.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank is in the process of evaluating the impact of IFRS 16 on the Bank's financial statements.

2.6 Impacts of IFRS 9 adoption

The impact of IFRS 9 change in accounting policies as at 1 January 2018 has been to decrease retained earnings by KD 184 thousand, and to decrease the fair value reserve by KD 242 thousand as follows:

	Retained earnings KD 000's	Fair valuation reserve KD 000's
Closing balance under IAS 39 (31 December 2017)	139,181	6,444
Impact on reclassification and re-measurements:		
Investment securities (debt) from available-for-sale to amortised cost	-	15
Investment securities (equity) from available-for-sale to FVOCI	-	(257)
Impact on recognition of Expected Credit Losses on financial assets at amortised cost other than Loans and advances to banks and customers:		
Cash and cash equivalents excluding cash in hand and deposit with CBK	(34)	-
Deposits with banks and other financial institutions	(3)	-
Investment securities-debt securities	(147)	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	138,997	6,202

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table is reconciliation of original measurement categories and carrying value in accordance with IAS 39 and new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018:

	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 KD 000's	Carrying amount under IFRS 9 KD 000's
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized Cost	475,441	475,407
Treasury bills and bonds	Loans and receivables	Amortized Cost	566,784	566,784
Central Bank of Kuwait bonds	Loans and receivables	Amortized Cost	394,555	394,555
"Deposits with banks and other financial institutions"	Loans and receivables	Amortized Cost	39,053	39,050
Loans and advances to banks	Loans and receivables	Amortized Cost	128,930	128,930
Loans and advances to customers	Loans and receivables	Amortized Cost	3,808,766	3,808,766
Investment securities:				
- Equity securities	Available-for-sale	FVOCI	37,660	37,403
- Debt securities	Available-for-sale	Amortized Cost	20,564	20,214
- Held to maturity securities	Held to maturity	Amortized Cost	59,596	59,449
Other assets- accrued interest receivable	Loans and receivables	Amortized Cost	21,370	21,735
Total financial assets			5,552,719	5,552,293

	Classification under IAS 39	Classification under IFRS	Carrying amount under IAS 39 KD 000's	Carrying amount under IFRS 9 KD 000's
Financial liabilities				
Due to banks	Loans and receivables	Amortized Cost	412,105	412,105
Deposits from financial institutions	Loans and receivables	Amortized Cost	969,197	969,197
Customer deposits	Loans and receivables	Amortized Cost	3,489,977	3,489,977
Subordinated Tier 2 bonds	Loans and receivables	Amortized Cost	100,000	100,000
Other liabilities-accrued interest payable	Loans and receivables	Amortized Cost	27,728	27,728
Total financial liabilities			4,999,007	4,999,007

The application of revised accounting policies resulted in the reclassifications set out in the table above and explained below:

- On the adoption of IFRS 9, certain Debt securities were reclassified out of the available-for-sale categories to amortised cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception.
- The Bank has elected to irrevocably designate strategic investments of KD 37,403 thousand of non-trading equity securities at FVOCI (without recycling) as permitted under IFRS 9. These securities were previously classified as available-for-sale. The changes in fair value of such securities will no longer be reclassified to income statement when they are disposed of.

Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Carrying amount under IAS 39 KD 000's	Reclassification KD 000's	Remeasurements KD 000's	Carrying amount under IFRS 9 KD 000's
Financial assets at amortised cost				
Cash and cash equivalents	475,441	-	(34)	475,407
Treasury bills and bonds	566,784	-	-	566,784
Central Bank of Kuwait bonds	394,555	-	-	394,555
"Deposits with banks and other financial institutions"	39,053	-	(3)	39,050
Loans and advances to banks	128,930	-	-	128,930
Loans and advances to customers	3,808,766	-	-	3,808,766
Investment securities- held to maturity securities	59,596	20,214	(147)	79,663
Other assets- accrued interest receivable	21,370	365	-	21,735
	5,494,495	20,579	(184)	5,514,890

	Carrying amount under IAS 39 KD 000's	Reclassification KD 000's	Remeasurements KD 000's	Carrying amount under IFRS 9 KD 000's
Financial assets at FVOCI				
Investment securities				
- Equity securities	37,660	-	(257)	37,403
- Debt securities	20,564	(20,579)	15	-
	58,224	(20,579)	(242)	37,403

Investment in debt securities amounting to KD 20,564 thousand classified as available-for-sale under IAS 39 were reclassified as amortised cost under IFRS 9. This reclassification were adjusted based on business model assessment.

3. INTEREST INCOME

	2018 KD 000's	2017 KD 000's
Treasury bills, bonds and Central Bank of Kuwait Bonds	**22,645**	17,611
Placements with banks	**8,967**	6,369
Loans and advances to banks and customers	**211,094**	182,028
	242,706	206,008

4. INTEREST EXPENSE

	2018 KD 000's	2017 KD 000's
Sight and savings accounts	**3,899**	4,180
Time deposits	**70,460**	54,833
Bank borrowings	**8,683**	7,854
Subordinated Tier 2 bonds	**7,036**	6,910
	90,078	73,777

5. SPECIFIC PROVISIONS

	2018 KD 000's	2017 KD 000's
Loans and advances to customers		
– Cash (Note 12)	**53,596**	87,999
– Non-cash (Note 18)	**5,730**	864
	59,326	88,863

6. NET FEES AND COMMISSIONS

	2018 KD 000's	2017 KD 000's
Total fees and commission income	**38,725**	38,084
Total fees and commission expense	**(8,728)**	(7,247)
	29,997	30,837

Total fees and commission income includes **KD 280 thousand** (2017: KD 212 thousand) from fiduciary activities.

7. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	2018 KD 000's	2017 KD 000's
Net trading income from credit default swaps*	**-**	180
Foreign exchange transactions	**9,059**	8,998
	9,059	9,178

*All credit default swaps instruments matured during the previous year.

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 2018.

	2018 KD 000's	2017 KD 000's
Profit for the year	**56,741**	48,023
	Shares	Shares
Weighted average number of shares outstanding during the year, net of treasury shares	**2,904,089,619**	2,909,979,052
	Fils	Fils
Basic and diluted earnings per share	**20**	17

9. CASH AND CASH EQUIVALENTS

	2018 KD 000's	2017 KD 000's
Balances with the Central Bank of Kuwait	**209,685**	17,099
Cash in hand and in current accounts with other banks and other financial institutions	**223,001**	72,994
Deposits with banks and other financial institutions maturing with in 30 days	**309,439**	385,348
	742,125	475,441
Less: Provision for expected credit losses	**(16)**	-
	742,109	475,441

The provision for expected credit losses as at 1 January 2018 was KD 34 thousand (Note 2.6).

At 31 December 2018, deposits with banks and other financial institutions maturing more than 30 days amounting to **KD 156,653 thousand** (1 January 2018: KD 39,053 thousand) adjusted by ECL provision amount of **KD 84 thousand** (1 January 2018: KD 3 thousand).

At 31 December 2018, 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. TREASURY BILLS AND BONDS

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

	2018 KD 000's	2017 KD 000's
Maturing within one year	163,736	171,048
Maturing after one year	232,000	395,736
	395,736	566,784

At 31 December 2018, treasury bills and 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.

	2018 KD 000's	2017 KD 000's
Central Bank of Kuwait Bonds	**321,953**	394,555

At 31 December 2018, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

At 31 December 2018:

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	**1,659,447**	**-**	**-**	**-**	**9,589**	**1,669,036**
Financial	**136,710**	**67,664**	**-**	**-**	**-**	**204,374**
Trade and commerce	**436,142**	**2,275**	**-**	**-**	**-**	**438,417**
Crude oil and gas	**240,331**	**53,466**	**-**	**-**	**-**	**293,797**
Construction	**256,020**	**4,961**	**-**	**-**	**-**	**260,981**
Manufacturing	**279,720**	**10,009**	**-**	**-**	**-**	**289,729**
Real estate	**661,675**	**7,347**	**-**	**-**	**-**	**669,022**
Others	**214,890**	**199,690**	**-**	**4,550**	**-**	**419,130**
Gross loans and advances to customers	**3,884,935**	**345,412**	**-**	**4,550**	**9,589**	**4,244,486**
Less: Provision for impairment						**(294,433)**
Loans and advances to customers						**3,950,053**
B. Loans and advances to banks						
Gross loans and advances to banks	**10,975**	**59,598**	**72,792**	**-**	**1,513**	**144,878**
Less: Provision for impairment						**(1,210)**
Loans and advances to banks						**143,668**

At 31 December 2017:

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	1,528,236	-	-	-	10,209	1,538,445
Financial	214,080	82,591	-	-	-	296,671
Trade and commerce	411,826	6,311	-	-	-	418,137
Crude oil and gas	169,352	58,841	-	38,894	-	267,087
Construction	264,297	-	-	-	-	264,297
Manufacturing	247,677	12,372	-	-	-	260,049
Real estate	557,157	-	-	-	-	557,157
Others	216,052	228,412	-	13,579	-	458,043
Gross loans and advances to customers	3,608,677	388,527	-	52,473	10,209	4,059,886
Less: Provision for impairment						(251,120)
Loans and advances to customers						3,808,766
B. Loans and advances to banks						
Gross loans and advances to banks	-	11,040	119,191	-	-	130,231
Less: Provision for impairment						(1,301)
Loans and advances to banks						128,930

Movement in provision for impairment

	2018 KD 000's	2017 KD 000's
At 1 January	**252,421**	310,928
Amounts written-off	**(59,942)**	(127,640)
Charge to the income statement	**103,164**	69,133
At 31 December	**295,643**	252,421

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.

The general provisions as at 31 December 2018 were **KD 247,225 thousand** (2017: KD 197,657 thousand).

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 12,599 thousand** (2017: KD 413 thousand) and recoveries of **KD 70,517 thousand** (2017: KD 6,915 thousand).

	2018 KD 000's			2017 KD 000's		
Movement in provisions for impairment of loans and advances by class is as follows:	**Corporate lending**	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**230,066**	**22,355**	**252,421**	287,216	23,712	310,928
Amounts written-off	**(48,322)**	**(11,620)**	**(59,942)**	(111,399)	(16,241)	(127,640)
Charge to income statement	**89,083**	**14,081**	**103,164**	54,249	14,884	69,133
At 31 December	**270,827**	**24,816**	**295,643**	230,066	22,355	252,421

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

Provision for non-cash facilities of **KD 16,246 thousand** (2017: KD 10,489 thousand) is included under other liabilities (Note 18).

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

	2018 KD 000's
Provision on cash facilities	295,643
Provision on non-cash facilities	16,246
Total provisions on credit facilities	**311,889**
IFRS 9 ECL on credit facilities	**199,754**

The Bank's total provisions exceed the IFRS 9 ECL on credit facilities according to CBK guidelines by **KD 112,135 thousand**.

13. INVESTMENT SECURITIES

	Amortised cost KD 000's	FVOCI KD 000's	Total KD 000's
Quoted investments			
Sovereign bonds/sukuk	**107,930**	**-**	**107,930**
Other bonds	**1,511**	**-**	**1,511**
Equity securities	**-**	**15,723**	**15,723**
	109,441	**15,723**	**125,164**
Unquoted investments			
Other bonds	**20,810**	**2,174**	**22,984**
Equity securities/managed funds	**-**	**19,378**	**19,378**
	20,810	**21,552**	**42,362**
Less: Provision for expected credit losses	**(153)**	**(1)**	**(154)**
At 31 December 2018	**130,098**	**37,274**	**167,372**

	Held to maturity securities KD 000's	Available for sale KD 000's	Total KD 000's
Quoted investments			
Sovereign bonds	59,596	-	59,596
Other bonds	-	2,398	2,398
Equity securities	-	15,391	15,391
	59,596	17,789	77,385
Unquoted investments			
Other bonds	-	18,166	18,166
Equity securities/managed funds	-	22,269	22,269
	-	40,435	40,435
At 31 December 2017	59,596	58,224	117,820

At 31 December 2018, all the debt investment securities classified as Stage 1. During the year, there were no movement between stages.

The provision for expected credit losses as at 1 January 2018 was KD 147 thousand.

On the adoption of IFRS 9, certain Debt securities were reclassified out of the available-for-sale categories to amortised cost. The carrying amount of those assets was adjusted so that their amortised cost under IFRS 9 was as if those assets were accounted for at amortised cost from their inception. Investment in debt securities amounting to KD 20,564 thousand classified as available-for-sale under IAS 39 were reclassified as amortised cost under IFRS 9. This reclassification were adjusted based on business model assessment.

The Bank has elected to irrevocably designate strategic investments of KD 37,403 thousand of non-trading equity securities at FVOCI (without recycling) as permitted under IFRS 9. These securities were previously classified as available-for-sale. The changes in fair value of such securities will no longer be reclassified to income statement when they are disposed of. The impact of this change in accounting policy as at 1st January 2018 has been to decrease the fair value reserve by KD 242 thousand (refer to Note 2.6).

14. OTHER ASSETS

	2018 KD 000's	2017 KD 000's
Accrued interest receivable	**21,541**	21,370
Sundry debtors and others	**14,575**	21,875
Repossessed collaterals (refer movement below)	**71,031**	78,856
	107,147	122,101

Movement in repossessed collaterals:

	2018 KD 000's	2017 KD 000's
At 1 January	**78,856**	144,781
Additions- Real estate properties	**98,996**	-
Disposals	**(90,000)**	(62,559)
Impairment loss	**(16,821)**	(3,366)
At 31 December	**71,031**	78,856

The fair values of the real estate properties are not materially different from their carrying values.

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2018 KD 000's	2017 KD 000's
Due to banks		
Current accounts and demand deposits	**66,641**	14,101
Time deposits	**347,841**	398,004
	414,482	412,105
Deposits from financial institutions		
Current accounts and demand deposits	**53,497**	73,237
Time deposits	**952,397**	895,960
	1,005,894	969,197

16. CUSTOMER DEPOSITS

	2018 KD 000's	2017 KD 000's
Current accounts	**1,208,797**	1,161,667
Savings accounts	**344,350**	351,796
Time deposits	**2,181,608**	1,976,514
	3,734,755	3,489,977

Customer deposits include **KD 17,327 thousand** (2017: KD 13,219 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

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

	2018 KD 000's	2017 KD 000's
Accrued interest payable	**29,450**	27,728
Deferred income	**4,762**	4,418
Provisions for non-cash facilities (refer movement below)	**16,246**	10,489
Staff related provisions	**24,114**	23,129
Others	**57,951**	45,083
	132,523	110,847

Movement in provisions for non-cash facilities:

	2018 KD 000's	2017 KD 000's
At 1 January	**10,489**	9,838
Charge to the income statement	**5,757**	651
At 31 December	**16,246**	10,489

19. SHARE CAPITAL

	2018 KD 000's	2017 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 2018 is 3,048,127,898 (2017: 3,048,127,898).

20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2018	2017
Number of treasury shares	**149,994,610**	138,148,846
Percentage of treasury shares	**4.92%**	4.53%
Cost of treasury shares (KD 000's)	**73,605**	70,757
Weighted average market value of treasury shares as at 31 December (KD 000's)	**37,949**	33,985

Movement in treasury shares was as follows:

	No. of shares	
	2018	2017
Balance as at 1 January	**138,148,846**	138,148,846
Purchases	**12,400,252**	-
Sales	**(554,488)**	-
Balance as at 31 December	**149,994,610**	138,148,846

This includes 13,641,280 treasury shares costing KD 5,488 thousand, which represent collaterals repossessed in settlement of debts from customers. The balance in the treasury share reserve of **KD 24,111 thousand** (2017: KD 24,246 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 **10 fils** per share (2017: 9 fils) on the outstanding issued share capital as at 31 December 2018. 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 (AGM) held on 7 March, 2018 approved a cash dividend of 9 fils per share for the year ended 31 December 2017 (7 fils per share for the year ended 31 December 2016). The cash dividend was recorded on 29 March, 2018 and paid subsequently.

Directors' remuneration of **KD 135 thousand** (2017: KD 135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

23. RELATED PARTY TRANSACTIONS

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

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

	Number of Board Members or executive management members		Number of related parties			
	2018	2017	**2018**	2017	**2018 KD 000's**	2017 KD 000's
Board members:						
Balances						
Loans and advances	**1**	1	**16**	14	**145,556**	196,738
Deposits	**8**	8	**52**	40	**618,269**	552,672
Commitments/derivatives						
Guarantees /letters of credit	**1**	1	**8**	8	**6,611**	27,569
Forward foreign exchange contracts	**-**	-	**1**	2	**15,541**	22,122
Transactions						
Interest income	**1**	1	**24**	18	**7,781**	6,588
Interest expense	**5**	3	**17**	15	**12,623**	7,807
Net fees and commissions	**1**	1	**12**	9	**351**	242
Other expenses	**-**	-	**9**	7	**1,294**	222
Purchase of equipment	**-**	-	**3**	4	**71**	368
Executive management:						
Balances						
Loans and advances	**1**	2	**-**	-	**30**	43
Deposits	**11**	10	**-**	-	**1,084**	820
Transactions						
Interest income	**2**	2	**-**	-	**2**	2
Interest expense	**12**	12	**-**	-	**15**	16

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **3.5% to 6%** (2017: 2.5% to 5%) per annum. Some of the loans advanced to Board members and their related parties during the year are collateralised. The fair value of these collaterals as of 31 December 2018 was **KD 58,614 thousand** (2017: KD 102,204 thousand).

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

	2018 KD 000's	2017 KD 000's
Salaries and other benefits	**3,473**	3,154
End of service/termination benefits	**221**	375
	3,694	3,529

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. BRC reviews high risk credit which are more than 10% of the Bank's capital or as deemed appropriate by the Committee. 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.

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'), Business Banking Credit Committee ('BBCC'), Consumer Credit Committee ('CCC'), Remedial Credit Committee and Classification and Provisions Committee ('CPC').

The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to the 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 BBCC has the responsibility for facilitating asset creation and monitoring exposure management up to the approved limit in Small and Medium Enterprise ('SME') segment. BBCC has the sole authority to approve, reject or modify business banking credit applications submitted to it up to the limit of its delegated authority.

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.

Remedial Credit Committee 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 MCC or ECC or CPC or BCIC, as the case may be.

Classification and Provision Committee operates within the principles of CBK's rules and regulations and the Bank's Credit Policy guidelines for credit facilities classification, computation of their provisions and accounting of income generated therefrom and govern the classification of the credit portfolios of the Bank and provisioning decisions. The CPC is responsible for making provisions as per IFRS 9 models and methodologies adopted by the Bank in line with the guidelines issued by CBK.

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

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

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

The Financial Institutions division regularly reviews the Bank's overall country limits and exposures. The review focuses on the spread of country risk and recommendations to alter individual country risk limits are made where necessary.

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

ECL methodology

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

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

ECL is arrived at on the basis of Probability of Default (PD) for the corresponding rating grade of the facility, Loss Given Default (LGD) and Exposure at Default (EAD). 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 portion of LT ECLs 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. These expected 12 months default probabilities are applied to EAD and multiplied by applicable LGD and discounted by an approximation to the original EIR.

- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination, 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, 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.

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.

The Bank considers a financial asset as 'cured' (i.e. no longer be impaired) and therefore reclassified out of Stage 3, when it no longer meets any of the credit impaired criteria. In respect of impaired facilities which are classified in Stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Bank for consideration for classifying the facility in Stage 2/Stage 1. The Bank also considers related CBK guidelines before any credit facility is reclassified between stages. One year curing period is not applicable for consumer and instalment facilities.

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

Probability of default

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors. The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into account operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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

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

For Consumer banking, the payment behaviour of the borrower is monitored on a periodic basis. 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.

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 2018, **25%** (2017: 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.

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 2018 KD 000's**	Maximum exposure 2017 KD 000's
Cash and cash equivalents (excluding cash in hand)	**688,453**	413,303
Treasury bills and bonds	**395,736**	566,784
Central Bank of Kuwait bonds	**321,953**	394,555
Deposits with banks and other financial institutions	**156,569**	39,053
Loans and advances to banks	**143,668**	128,930
Loans and advances to customers:		
- Corporate lending	**2,517,480**	2,520,700
- Consumer lending	**1,432,573**	1,288,066
Debt investment securities (Note 13)	**132,271**	80,160
Other assets	**36,116**	43,245
Total	**5,824,819**	5,474,796
Contingent liabilities and commitments	**1,663,166**	1,655,916
Foreign exchange contracts (including spot contracts)	**73,919**	180,536
Total	**1,737,085**	1,836,452
Total credit risk exposure	**7,561,904**	7,311,248

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 2018 is **13.6%** (2017: 13%).

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 incorporates operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

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

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

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

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

Facility Risk Rating

The Bank also has an approved framework for Facility Risk Ratings (FRR). While Obligor Risk Rating does not take into consideration factors like availability of collateral and support, FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in FRR.

North American Industry Classification System (NAICS) Code:

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

Portfolio Risk Rating

The Bank 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. This rating has been extended down to the relationship manager level and risk measures are introduced for business performance appraisal. This leads to strengthening the first line and further improvement in asset quality.

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.

2018	Neither past due nor impaired High KD 000's	Standard KD 000's	Acceptable KD 000's	Past due but not impaired KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	**688,469**	**-**	**-**	**-**	**688,469**
Treasury bills and bonds	**395,736**	**-**	**-**	**-**	**395,736**
Central Bank of Kuwait bonds	**321,953**	**-**	**-**	**-**	**321,953**
Deposits with banks and other financial institutions	**156,653**	**-**	**-**	**-**	**156,653**
Loans and advances to banks	**102,416**	**42,462**	**-**	**-**	**144,878**
Loans and advances to customers:					
- Corporate lending	**1,889,735**	**765,796**	**97,735**	**10,445**	**2,763,711**
- Consumer lending	**1,348,526**	**14,091**	**1,745**	**71,451**	**1,435,813**
Debt investment securities (Note 13)	**132,425**	**-**	**-**	**-**	**132,425**
Other assets	**36,116**	**-**	**-**	**-**	**36,116**
	5,072,029	**822,349**	**99,480**	**81,896**	**6,075,754**

2017	Neither past due nor impaired High KD 000's	Standard KD 000's	Acceptable KD 000's	Past due but not impaired KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	413,303	-	-	-	413,303
Treasury bills and bonds	566,784	-	-	-	566,784
Central Bank of Kuwait bonds	394,555	-	-	-	394,555
Deposits with banks and other financial institutions	39,053	-	-	-	39,053
Loans and advances to banks	130,231	-	-	-	130,231
Loans and advances to customers:					
- Corporate lending	1,597,246	935,915	139,813	24,500	2,697,474
- Consumer lending	1,218,325	-	-	71,077	1,289,402
Debt investment securities (Note 13)	80,160	-	-	-	80,160
Other assets	43,245	-	-	-	43,245
	4,482,902	935,915	139,813	95,577	5,654,207

91% (2017: 91%) of the past due but not impaired category is below 60 days and **9%** (2017: 9%) is between 60-90 days.

Financial assets by class individually impaired

2018	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
Loans and advances to customers:			
- Corporate lending	23,386	407	22,909
- Consumer lending	21,576	10,559	50
	44,962	10,966	22,959

2017	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
Loans and advances to customers:			
- Corporate lending	51,991	2,418	49,573
- Consumer lending	21,019	9,564	20
	73,010	11,982	49,593

	2018		2017	
	Assets	**Off balance sheet items**	Assets	Off balance sheet items
	KD 000's	**KD 000's**	KD 000's	KD 000's
Geographic region:				
Domestic (Kuwait)	**4,774,558**	**1,324,055**	4,539,813	1,360,265
Other Middle East	**818,409**	**112,870**	657,771	149,339
Europe	**199,691**	**71,248**	207,023	83,507
USA and Canada	**2,800**	**23,943**	-	22,658
Asia Pacific	**18,364**	**204,969**	60,081	220,683
Rest of world	**10,997**	**-**	10,108	-
	5,824,819	**1,737,085**	5,474,796	1,836,452
Industry sector:				
Personal	**1,642,319**	**-**	1,514,007	-
Financial	**985,527**	**519,534**	845,630	598,037
Trade and Commerce	**423,342**	**277,194**	410,092	284,710
Crude Oil and Gas	**79,418**	**35,228**	140,521	44,098
Construction	**258,389**	**581,215**	258,611	599,188
Government	**1,310,896**	**12**	1,198,156	19
Manufacturing	**284,720**	**72,455**	255,396	74,635
Real Estate	**662,209**	**65,477**	551,717	33,152
Others	**177,999**	**185,970**	300,666	202,613
	5,824,819	**1,737,085**	5,474,796	1,836,452

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.

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 (previously available for sale) 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:

	2018			2017		
	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	Imapact on statement of comprehensive income KD 000's
KWD	**(+) 25**	**2,695**	**-**	(+) 25	2,774	-
USD	**(+) 25**	**287**	**-**	(+) 25	328	(24)

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 profit and other comprehensive income is as follows:

	2018			2017		
	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**	**(217)**	**211**	+5	(199)	256

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.

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, namely: minimum LCR of 90%; minimum NSFR of 100%; maturity ladder mismatch limits for specific time periods: -10% for 7 days or less; -20% for 1 month or less; -30% for 3 months or less; -40% for 6 months or less; the requirement to hold 18% of KD customer deposits in Kuwait Government treasury bills and bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 90%.

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 2018:

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	742,109	-	-	-	-	-	742,109
Treasury bills and bonds	-	27,433	41,803	94,500	158,000	74,000	395,736
Central Bank of Kuwait bonds	78,907	100,555	142,491	-	-	-	321,953
Deposits with banks and other financial institutions	-	126,570	29,999	-	-	-	156,569
Loans and advances to banks	12,487	25,022	29,120	22,748	54,291	-	143,668
Loans and advances to customers	220,493	469,792	374,095	484,318	496,453	1,904,902	3,950,053
Investment securities	-	-	24,568	-	39,386	103,418	167,372
Other assets	26,761	1,425	3,265	3,791	71,587	318	107,147
Premises and equipment	-	-	-	-	-	31,740	31,740
Total assets	1,080,757	750,797	645,341	605,357	819,717	2,114,378	6,016,347
Liabilities:							
Due to banks	170,088	86,891	86,227	71,276	-	-	414,482
Deposits from financial institutions	148,031	182,688	222,532	316,344	136,299	-	1,005,894
Customer deposits	2,272,559	700,593	328,609	412,526	20,468	-	3,734,755
Subordinated Tier 2 bonds	-	-	-	-	100,000	-	100,000
Other liabilities	39,466	26,061	9,257	18,142	39,597	-	132,523
Total liabilities	2,630,144	996,233	646,625	818,288	296,364	-	5,387,654

At 31 December 2017:

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	475,441	-	-	-	-	-	475,441
Treasury bills and bonds	-	29,000	57,086	84,962	287,236	108,500	566,784
Central Bank of Kuwait bonds	116,884	152,639	125,032	-	-	-	394,555
Deposits with banks and other financial institutions	-	39,053	-	-	-	-	39,053
Loans and advances to banks	-	30,282	7,544	72,626	13,579	4,899	128,930
Loans and advances to customers	140,921	330,095	369,930	615,582	502,751	1,849,487	3,808,766
Investment securities	-	-	-	-	33,365	84,455	117,820
Other assets	34,396	-	3,660	4,370	79,520	155	122,101
Premises and equipment	-	-	-	-	-	29,954	29,954
Total assets	767,642	581,069	563,252	777,540	916,451	2,077,450	5,683,404
Liabilities:							
Due to banks	142,216	33,105	90,434	146,350	-	-	412,105
Deposits from financial institutions	107,813	116,870	251,110	365,819	127,585	-	969,197
Customer deposits	2,025,674	691,246	319,526	437,099	16,432	-	3,489,977
Subordinated Tier 2 bonds	-	-	-	-	-	100,000	100,000
Other liabilities	50,613	20,026	9,214	15,352	15,642	-	110,847
Total liabilities	2,326,316	861,247	670,284	964,620	159,659	100,000	5,082,126

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 2018:

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	**106,127**	**81,264**	**205,315**	**28,231**	**-**	**420,937**
Deposits from financial institutions	**57,652**	**66,343**	**500,766**	**408,279**	**-**	**1,033,040**
Customer deposits	**1,587,448**	**351,565**	**1,721,397**	**108,619**	**-**	**3,769,029**
Subordinated Tier 2 bonds	**-**	**1,664**	**5,086**	**109,542**	**-**	**116,292**
Other liabilities	**39,466**	**26,061**	**27,399**	**39,597**	**-**	**132,523**
Total undiscounted liabilities	**1,790,693**	**526,897**	**2,459,963**	**694,268**	**-**	**5,471,821**

At 31 December 2017:

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	191,427	88,230	135,763	-	-	415,420
Deposits from financial institutions	73,450	13,893	252,288	654,844	-	994,475
Customer deposits	1,636,963	221,460	1,606,094	155,176	-	3,619,693
Subordinated Tier 2 bonds	-	1,682	5,045	122,982	-	129,709
Other liabilities	50,613	20,026	24,566	15,642	-	110,847
Total undiscounted liabilities	1,952,453	345,291	2,023,756	948,644	-	5,270,144

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 2018:						
Contingent liabilities	**16,161**	**53,329**	**141,768**	**719,246**	**509,780**	**1,440,284**
Commitments	**75**	**56,968**	**144,497**	**21,342**	**-**	**222,882**
	16,236	**110,297**	**286,265**	**740,588**	**509,780**	**1,663,166**

	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 2017:						
Contingent liabilities	14,583	47,388	162,249	770,836	452,805	1,447,861
Commitments	100	33,023	172,287	2,645	-	208,055
	14,683	80,411	334,536	773,481	452,805	1,655,916

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 2018:				
Forward foreign exchange contracts	**30,722**	**2,717**	**28,536**	**61,975**
At 31 December 2017:				
Forward foreign exchange contracts	95,170	37,904	46,097	179,171

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) (previously held as available for sale) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

Market indices	% Change in equity price	**2018 Effect on equity KD 000's**	2017 Effect on equity KD 000's
Kuwait Stock Exchange	+5%	**726**	682
New York Stock Exchange	+5%	**59**	68

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.

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:

2018	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets at FVOCI:				
Equity securities	15,723	5,531	13,847	35,101
Debt securities	-	2,173	-	2,173
	15,723	**7,704**	**13,847**	**37,274**

2017	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets available for sale :				
Equity securities	15,391	4,775	-	20,166
Debt securities	2,398	18,166	-	20,564
	17,789	22,941	-	40,730

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 Bank has adopted IFRS 9 on 1 January 2018 and fair valued certain unquoted equity securities, which were carried at cost, net of impairment in prior periods (31 December 2017: KD 17,494 thousand). These unquoted equity securities are classified as Level 3. Refer Note 2.6.

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 2018 were **KD 130,098 thousand** (2017: KD 59,596 thousand, previously classified as investment securities held to maturity) and **KD 108,348 thousand** (Level: 1) (2017: KD 59,356 thousand) and **KD 20,800 thousand** (Level 2) (2017: KD 18,166 thousand, previously classified as available-for-sale) 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 management has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact. The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

	2018 KD 000's	2017 KD 000's
Guarantees	**1,226,081**	1,247,906
Letters of credit and acceptances	**214,203**	199,955
	1,440,284	1,447,861

As at the reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD 222,882 thousand** (2017: KD 208,055 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 treasury bills, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the Investments unit.

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

	Commercial Banking		**Treasury & Investments**		**Total**	
	2018 KD 000's	2017 KD 000's	**2018 KD 000's**	2017 KD 000's	**2018 KD 000's**	2017 KD 000's
Operating income	**153,460**	149,512	**15,181**	10,457	**168,641**	159,969
Segment result	**106,901**	36,376	**14,082**	9,517	**120,983**	45,893
Unallocated income					**25,808**	21,413
Unallocated expense					**(90,050)**	(19,283)
Profit for the year					**56,741**	48,023
Segment assets	**4,204,269**	4,004,852	**1,744,222**	1,604,736	**5,948,491**	5,609,588
Unallocated assets					**67,856**	73,816
Total Assets					**6,016,347**	5,683,404
Segment liabilities	**2,952,062**	2,830,374	**2,253,045**	2,084,719	**5,205,107**	4,915,093
Unallocated liabilities and equity					**811,240**	768,311
Total Liabilities and Equity					**6,016,347**	5,683,404

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 2018 or 2017.

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 2018:

				Notional amounts by term to maturity	
	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount total KD 000's	Within 3 months KD 000's	3-12 months KD 000's
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	**718**	**(615)**	**61,975**	**33,439**	**28,536**

At 31 December 2017:

				Notional amounts by term to maturity	
	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount total KD 000's	Within 3 months KD 000's	3-12 months KD 000's
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	1,441	(1,237)	179,171	133,074	46,097

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.

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 2018 and 31 December 2017 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June, 2014 are shown below:

	2018 KD 000's	2017 KD 000's
Risk weighted assets	**4,465,675**	4,226,200
Capital required	**625,195**	591,668
Capital available		
- Tier 1 capital	**628,693**	601,278
- Tier 2 capital	**154,232**	150,860
Total capital	**782,925**	752,138
Tier 1 capital adequacy ratio	**14.08%**	14.23%
Total capital adequacy ratio	**17.53%**	17.80%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2018 and 31 December 2017 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October, 2014 are shown below:

	2018 KD 000's	2017 KD 000's
Tier 1 capital	**628,693**	601,278
Total Exposure	**6,851,387**	6,645,408
Financial leverage ratio	**9.18%**	9.05%

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 2018 and 31 December 2017 are included under the 'Risk Management' section of the annual report.

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