60

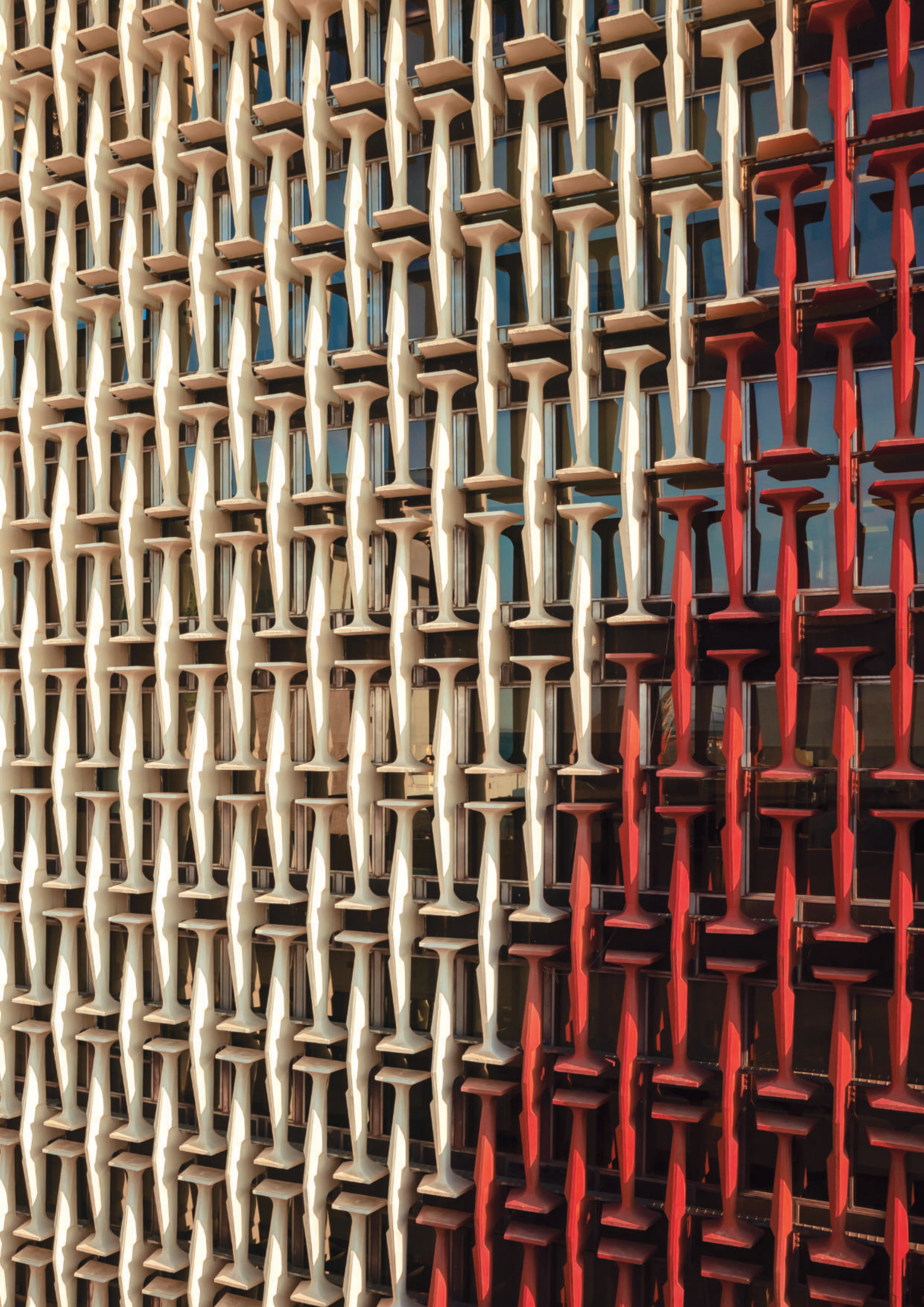
GROWING WITH YOU SINCE 1960

ANNUAL REPORT 2019

بنك الخليج
GULF BANK

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

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



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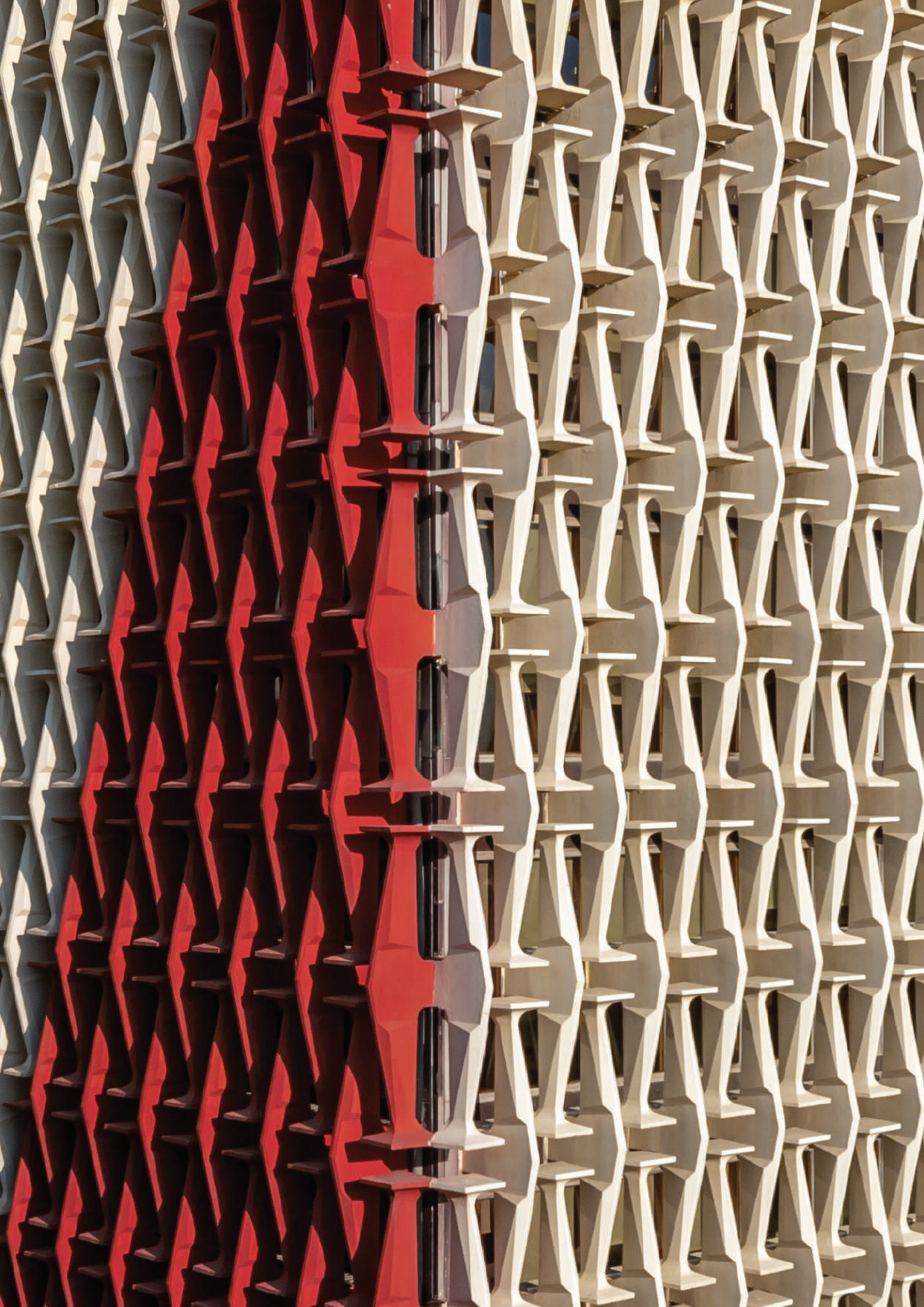


STRATEGIC
REVIEW

GULF BANK AT A GLANCE

Gulf Bank was established on November 23, 1960, when The Amir of Kuwait, signed Amiri Decree No. (44) recognizing Gulf Bank as a shareholding company. Founded by a group of twelve merchants, Gulf Bank has since grown to become one of the largest financial institutions in Kuwait today. After its founding, Gulf Bank commenced business operations in a rented flat on Fahad Al-Salem Street in the heart of Kuwait City with a total of 50 employees and a capital of 24 million rupees, equivalent to KD 1.8 million (USD 6 million).

Once Gulf Bank obtained permission to commence building its Head Office in 1961, the Bank hired architect Jean-Robert Delb, who was awarded the Deuxième Prix de Rome in 1957. Delb was appointed to design Gulf Bank's Head Office, consisting of nine floors above ground and two in the basement. Among the main elements of the building's design are pre-moulded concrete elements that form the building's facade as well as reduce its exposure to sunlight, shading the offices inside. The building also houses an outdoor pergola with faceted columns on the ground floor. The design takes advantage of the plot's rectangular shape and is organised around a central, triple-height hall which is used as the main reception space for customers. Today, Gulf Bank's Head Office is considered one of Kuwait City's most notable landmarks.

Today, Gulf Bank is one of the leading conventional banks in Kuwait and provides a wide range of services including consumer banking, wholesale banking, treasury, and financial services through its large network of 59 branches and over 300 ATMs. The Bank is currently rated 'A' by four leading international credit rating agencies.

Gulf Bank is also committed to maintaining a robust sustainbility program which consists of three pillars: social sustainability, economic sustainability, and environmental sustainability. Every year, Gulf Bank strategically selects sustainability initiatives that help the Bank serve its local communities, and demonstrate the Bank's larger commitment to our beloved Kuwait.

Gulf Bank is one of the leading conventional banks in Kuwait

1960
Founded

1984
Listed on Kuwait Stock Exchange

59
Branches Across Kuwait

300+
Automated Teller Machines

Bank Business Model

Treasury and Investment

2019
6.2
KD Billion

Corporate Banking

Consumer Banking

Total Assets

Active Board Members

Committee	Meetings
Board Meetings	6 Meetings
Corporate Governance Committee	2 Meetings
Audit Committee	5 Meetings
Nomination and Remuneration Committee	3 Meetings
Risk Committee	4 Meetings
Credit and Investment Committee	17 Meetings

37 Board Meetings

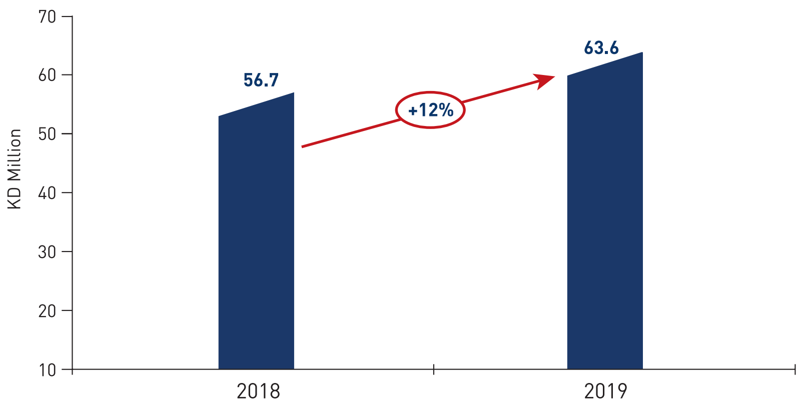
External Recognitions

Deutsche Bank

GCC Government Human Resources Awards

2019 KEY HIGHLIGHTS

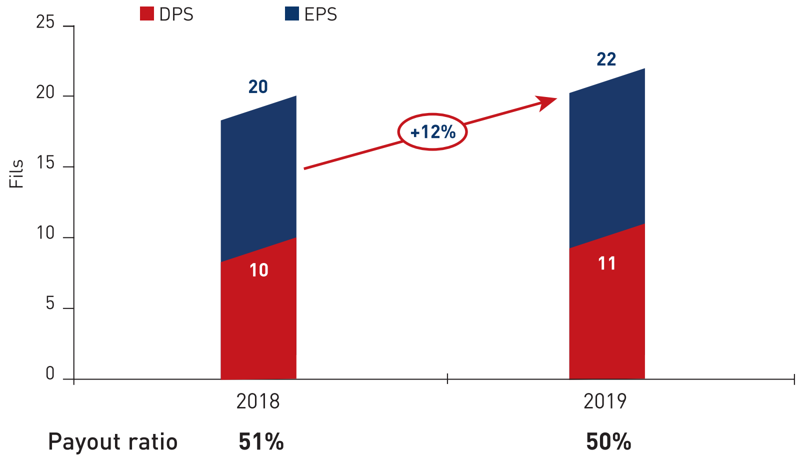
1) Net profit up 12% to KD 63.6 million



Net Profit

+12%

2) Earnings per share up 12% to 22 fils. Recommending dividend of 11 fils per share (50% payout ratio)*

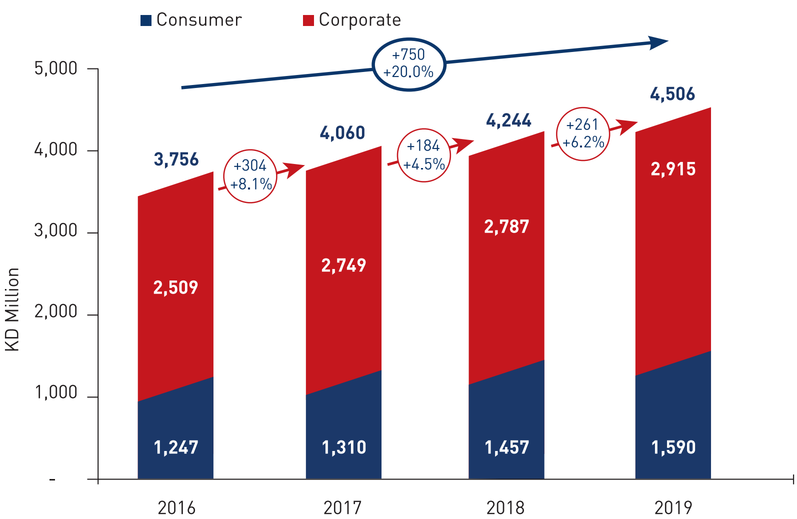


*2019 DIVIDEND SUBJECT TO APPROVAL BY THE SHAREHOLDERS' ASSEMBLY IN MARCH 2020

Earnings per share

+12%

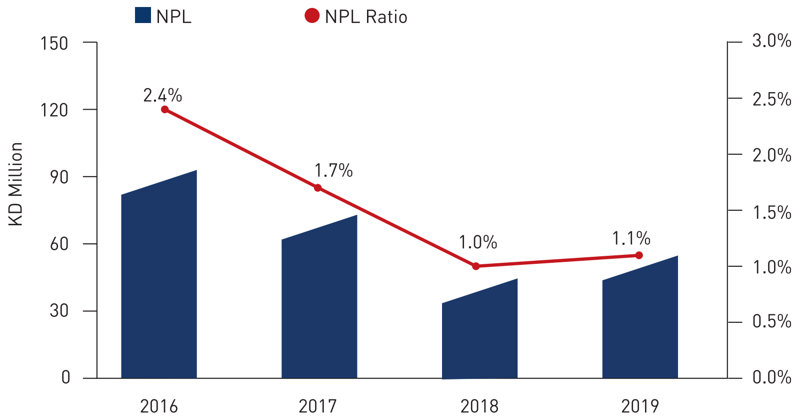
3) Customer gross loans reached another all-time high of KD 4.5 billion, up KD 261 million (+6.2%) vs. 2018



Consumer gross loans

+6.2%

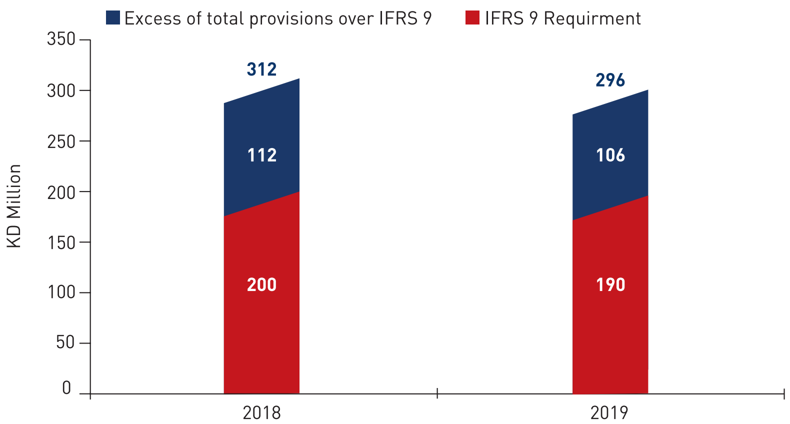
4) Non-performing loan ratio (NPL Ratio) stabilizing near industry norms



NPL RATIO

1.1%

5) Total credit provisions exceed IFRS9 accounting requirements by KD 106 million



	2018	2019
Excess / Total Provision	**36%**	**36%**

EXCESS CREDIT PROVISIONS (KD MILLIONS)

106

6) Maintaining "A" ratings from all four major credit rating agencies

Rating Agency	Rating	2019
Moody's	Long Term Deposit Rating	A3
	Outlook	Positive
S&P Global Ratings	Issuer Credit Rating	A-
	Outlook	Stable
Fitch Ratings	Long Term Issuer Default	A+
	Rating Outlook	Stable
Capital Intelligence	Long Term Foreign Currency	A+
	Outlook	Stable

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

12%
Net Profit Growth

22 fils **/ 11** fils
Earnings / Dividends Per Share

6.2%
Growth in Customer Loans

1.1%
Non-performing loan ratio

KD 106 million
Excess Credit Provisions

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present Gulf Bank's 2019 Annual Report.

In 2019, we delivered another great set of results as we continued to enhance the Bank's position to achieve sustainable growth for our customers, shareholders, regulators, employees, and communities.

The Bank is operating in a period of dynamic change with shifting customer expectations, intense competition, and rapidly evolving technology. This environment creates an opportunity for us to revise and revamp our strategic priorities to ensure that the banking journey of our customers keeps evolving and helps them achieve their financial goals.

Our strategy is centered around the customer and focuses on three key pillars:

- **Leveraging technology capabilities and digitalization** to improve the customer experience and deliver more personalized solutions.
- **Promoting a strong performance driven culture,** reinforced with meritocracy and engagement.
- **Investing to drive organic growth and operational excellence** without compromising our risk standards.

With that, let me walk you through the key highlights of 2019.

Financial Performance ... strong and sustainable

Net profit up 12% to KD 63.6 million.

Earnings per share up 12% to 22 fils and the Board of Directors is recommending a cash dividend of 11 fils per share, representing payout ratio of 50%, for shareholders' approval at the Annual General Meeting to be held in March 2020.

Customer loans reached another all-time high of KD 4.5 billion, an increase of KD 261 million or 6.2% vs. the end of 2018 and up 20% (KD 750 million) over the last three years. This growth in 2019 was well balanced as roughly half of the growth came from the Bank's Corporate segment and the other half came from the Bank's Consumer segment.

Non-performing loan ratio for the year end 2019 stabilized within industry norms and stood at 1.1%.

Total credit provisions ended 2019 at KD 296 million whereas IFRS 9 accounting requirements (i.e., ECL or expected credit losses) were KD 190 million. So, the Bank has very healthy **excess provisioning levels of KD 106 million.**

The Bank maintained its **'A' ratings from the four major credit rating agencies:**

- Moody's Investors Service maintained the Bank Long-Term Deposits Rating of "A3" with a "Positive" outlook.
- S&P Global Ratings affirmed the Bank Issuer Credit Rating at "A-" with a "Stable" outlook.
- Fitch Ratings affirmed the Bank Long-term Issuer Default Rating of "A+" with a "Stable" outlook.
- Capital Intelligence affirmed the Bank Long-term Foreign Currency Rating of "A+" with a "Stable" outlook.

The Bank's regulatory capital ratios remained strong as the Tier 1 ratio of 13.8% was 1.8% above our regulatory minimum of 12% and the Capital Adequacy Ratio (CAR) of 17.1% was 3.1% above our regulatory minimum of 14%.

Business Overview

In our **Consumer banking** segment, we deliver a wide range of simple and reliable banking products / experiences to each of our unique and differentiated customer segments.

In addition to having one of the largest branch networks in Kuwait **(59 Branches, and over 300 ATMs)**, we started to reinvent our branch design to improve the customer experience by providing a more seamless, open atmosphere and increased digital capabilities. An example of this is the new Gulf Bank Branch in Crystal Tower that was opened in early 2020.

These initiatives have led to strong growth in this segment as Consumer loans grew 9% over the most recent year and have grown at nearly twice the industry growth rate for a second year in a row.

Our **Corporate banking** segment is focused on building and deepening client relationships through a full-fledged specialized platform to maximize client value and support their growth ambitions. The Bank continued to provide funding to various vital projects in oil and gas, construction, and infrastructure through direct financing or through syndications with other local banks.

Despite the challenging market conditions during 2019, executing on this approach, Gulf Bank was able to grow its corporate loan book by 4.6% in 2019 vs. 2018 and has maintained its strong presence as a key domestic player.

Market Overview

During the year 2019, Kuwait continued to achieve major strides in developing its capital markets to be at par with international standards and attract more foreign investment.

After a long due diligence process, Morgan Stanley Composite Index (MSCI), a leading provider of research-based indexes and analytics, upgraded Kuwait to Emerging Market Status effective May 2020. The Kuwait market is expected to have a 0.69% weight in the MSCI Emerging Market Index. This is great news for our investors as Gulf Bank is one of the key constituents in the Index. The inclusion is scheduled over one phase with over US$ 2 billion of expected net inflows.

"A" Credit Ratings
From the Four Major Credit Rating Agencies

Capital Ratios
Remained Strong

MSCI Upgraded
Kuwait to Emerging Market Status

> **Sustainability Three Pillars:**
> Social, Economic and Environmental

Kuwait also witnessed two successful Initial Public Offerings (IPOs), the Boursa Kuwait (BKSC) and Shamal Az-Zour Al-Oula Power and Water Company. Both IPOs were offered to Kuwaiti citizens only and were oversubscribed. The strong demand is evidence that the local market is keen to IPO opportunities. This facilitates stronger public and private partnerships and creates lending opportunities for Banks.

Sustainability and Corporate Social Responsibility

At Gulf Bank, we believe that society and the economy advance hand in hand. Through continuous efforts on both fronts, a strong foundation is formed to support new ideas and drive future programs. Our initiatives throughout the years have set a valuable precedent for future projects and form the basis for Gulf Bank's approach to sustainability.

Our approach consists of three pillars: social sustainability, economic sustainability, and environmental sustainability. These pillars direct our focus on events and initiatives that are geared towards, youth and education, women's empowerment, health and fitness and Kuwait's heritage. We firmly believe that when our communities prosper, all of us thrive.

Closing Comments

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, and HH the Crown Prince, Sheikh Nawaf Al-Ahmed Al-Jaber 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.

We are grateful to our valued customers for trusting us to be their bank of choice, our shareholders who have supported us all these years and our dedicated colleagues who work tirelessly to deliver the best for our customers.

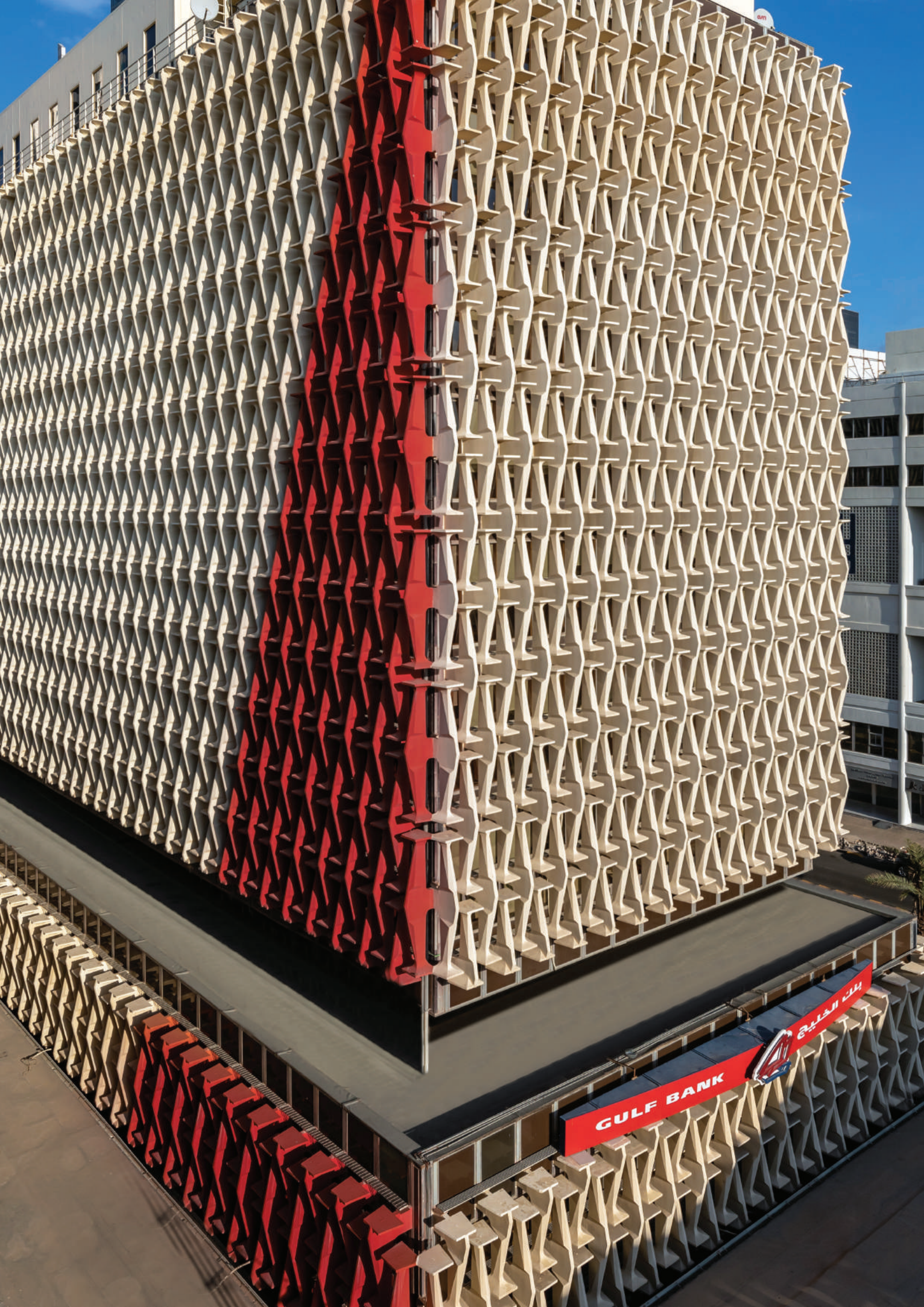
The year 2020 marks a key milestone in the Gulf Bank evolution as we celebrate our 60th Anniversary to continue serving individuals and businesses in Kuwait. This milestone is evidence of the Bank's ability and commitment to navigate successfully through changing environments that are rich with opportunities.

This also corresponds to the historical expeditions of Kuwaiti Sailing and Pearl Diving as men went through hardships and took risks to achieve financial prosperity to set up a merchant economy.

As the journey continues into a new decade and our seventh decade, I am excited by the challenges and opportunities before us and more confident than ever in Gulf Bank's ability to meet them.

Sincerely,

Omar Kutayba Alghanim
Chairman


GULF BANK

SUSTAINABILITY

Our approach to sustainability consists of three pillars: social sustainability, economic sustainability and environmental sustainability.

At Gulf Bank, we believe that society and economy advance hand in hand. Through continuous efforts on both fronts, a solid foundation is formed to support new ideas and drive future measures. Our initiatives throughout the years have set a valuable precedent for future projects, and the concept that forms the basis of Gulf Bank's corporate social responsibility and its approach to sustainability. Our approach consists of three pillars: social sustainability, economic sustainability, and environmental sustainability.

Gulf Bank is committed to maintaining a robust sustainability program and plays a vital role in contributing to its community in ways that extend well beyond finance. By proudly spearheading sustainability initiatives that help to shape the future of the communities we serve, we are demonstrating a larger commitment to our beloved Kuwait.

ماراثون
MARATHON

9,300
Marathon Participants

24%
Increase in Marathon Participants

10 Special Needs Employees

43% Female Employees

85 Ajyal graduates

SOCIAL SUSTAINABILITY

Gulf Bank 642 Marathon

As one of the most important social sporting events in the country, the annual Gulf Bank 642 Marathon aims to raise the level of health awareness and encourage the local community to adopt a healthier lifestyle. Consequently, the Bank this year partnered with Kuwait Red Crescent Society, to assist in bringing medical aid to those who are unable to afford medical treatment.

This year's marathon attracted more than 9,300 participants (an increase of 24% over last year's participation) representing over 100 nationalities from around the world and more than 300 volunteers.

Special Needs Inclusion

Gulf Bank is also keen on promoting a message of inclusion and diversity when it comes to hiring. This year, Gulf Bank proudly employed 10 people with special needs in various branches, considering the unique needs of each individual.

Gender Equality

The Bank continues to strive in achieving gender equality and women empowerment throughout the organization. Currently, 43% of Gulf Bank's workforce are females. In addition, Gulf Bank was one of the first banks in Kuwait to become a signatory of the United Nations' "Women's Empowerment Principles (WEPs)" initiative to promote gender equality and women's economic empowerment.

Ajyal Program

Gulf Bank has a strong focus on developing Kuwaiti professionals. 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. Accepting 21 applicants, Ajyal is a six-month program that aims to help candidates develop key banking skills, cultivating holistic bankers that have shown growth potential on both a personal and professional level. Since the program's inception in 2014, five generations have graduated with a total of 85 employees.

Kuwait Heritage

Gulf Bank also demonstrated its commitment to preserving Kuwaiti heritage and traditions by sponsoring the production of "Memoirs of a Sailor," an epic musical which comprised of poems from the Kuwaiti poet Mohammed Al-Fayez. The production took place during the second quarter of the year at Sheikh Jaber Al-Ahmad Cultural Center.

ECONOMIC SUSTAINABILITY

INJAZ

In keeping with annual tradition, Gulf Bank extended its support to "INJAZ" Kuwait, a non-profit, non-governmental organization for education and training in workforce readiness, financial literacy and entrepreneurship. As part of its strategic partnership with INJAZ, Gulf Bank sponsored numerous educational and entrepreneurial courses for high school and college students across both the public and private sectors.

To date, Gulf Bank has participated in five INJAZ Al-Arab programs, two INJAZ Kuwait Job Shadow Days, seven INJAZ Kuwait Innovation Camps and four INJAZ Kuwait Entrepreneurship Master Class workshops. Additionally, more than 230 Gulf Bank employees have volunteered their time and efforts at numerous schools and universities across Kuwait, inspiring over 1,350 students.

Financial Literacy

This year, Gulf Bank has also extended its economic sustainability role to social media. In an effort to promote financial literacy and create a culture of financial awareness, Gulf Bank's Economic Research Unit prepares weekly one-minute videos on topics including fintech, investment, saving, and general tidbits about the state of the economy.

ENVIRONMENTAL SUSTAINABILITY

Recycling Initiative

In 2019, the Bank partnered with Omniya, a nationwide recycling initiative founded in 2015 by young Kuwaitis aiming to raise awareness for waste recycling. Through this partnership, the Bank committed to recycling paper and plastic waste, and strategically distributed recycling receptacles in front of Gulf Bank's Head Office. By placing the recycling receptacles in one of the most visible locations in the heart of Kuwait City, Gulf Bank is raising awareness for recycling not only with its employees, but also with members of the local community.

Beach Cleanup and Earth Hour

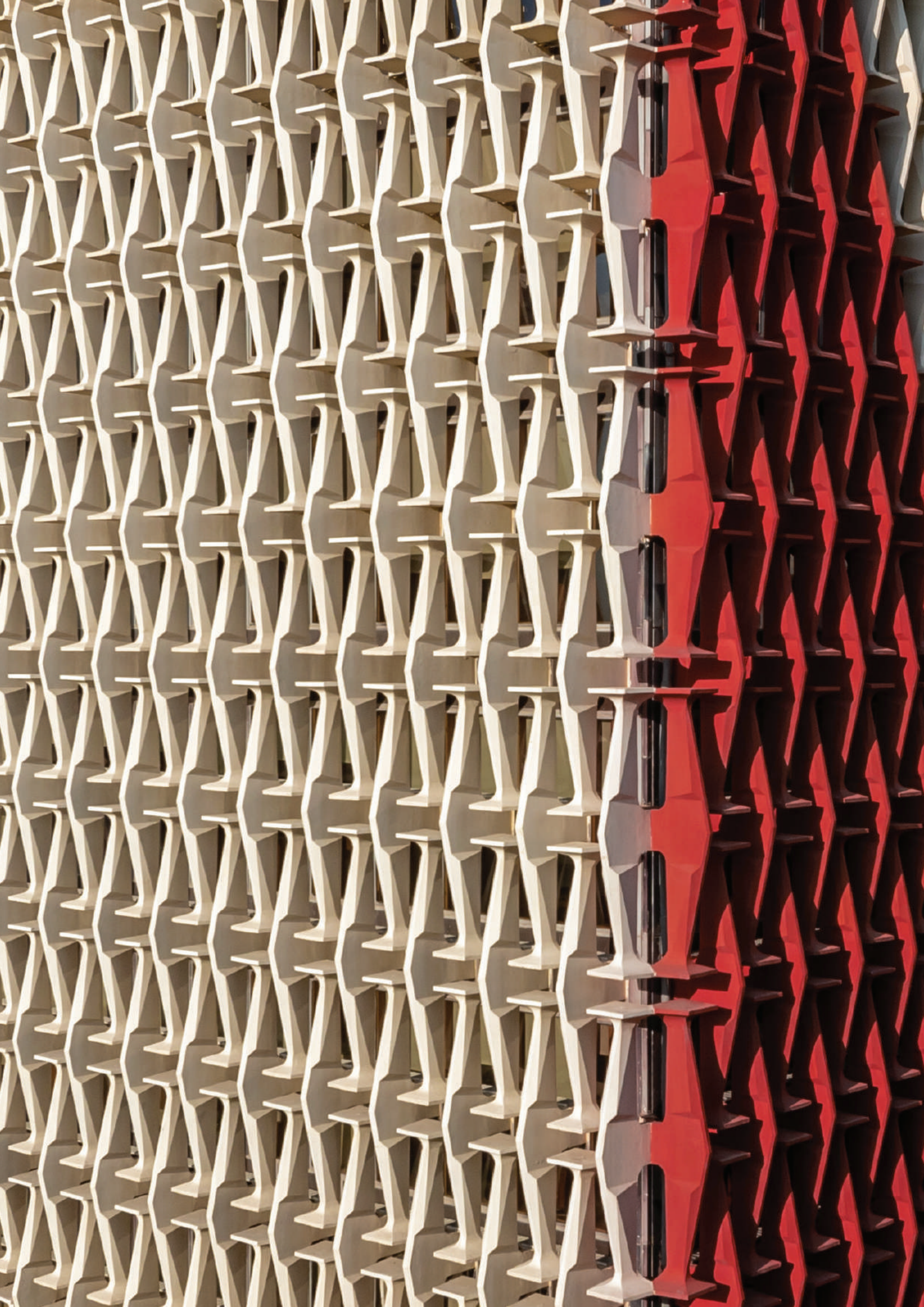
The Bank also held a beach cleanup at the Kuwait Towers as part of its commitment to Earth Day. A non-profit NGO provided an awareness session on the hazardous effect's pollutants have on our environment and assisted Gulf Bank employees in cleaning the beach. The Bank also joins global community efforts in reducing power consumption during "Earth Hour," a worldwide initiative that encourages individuals, communities, and businesses to turn off non-essential electric lights.

5	INJAZ Al-Arab programs
2	INJAZ Kuwait Job Shadow Days
7	INJAZ Kuwait Innovation Camps
4	INJAZ Kuwait Master Classes

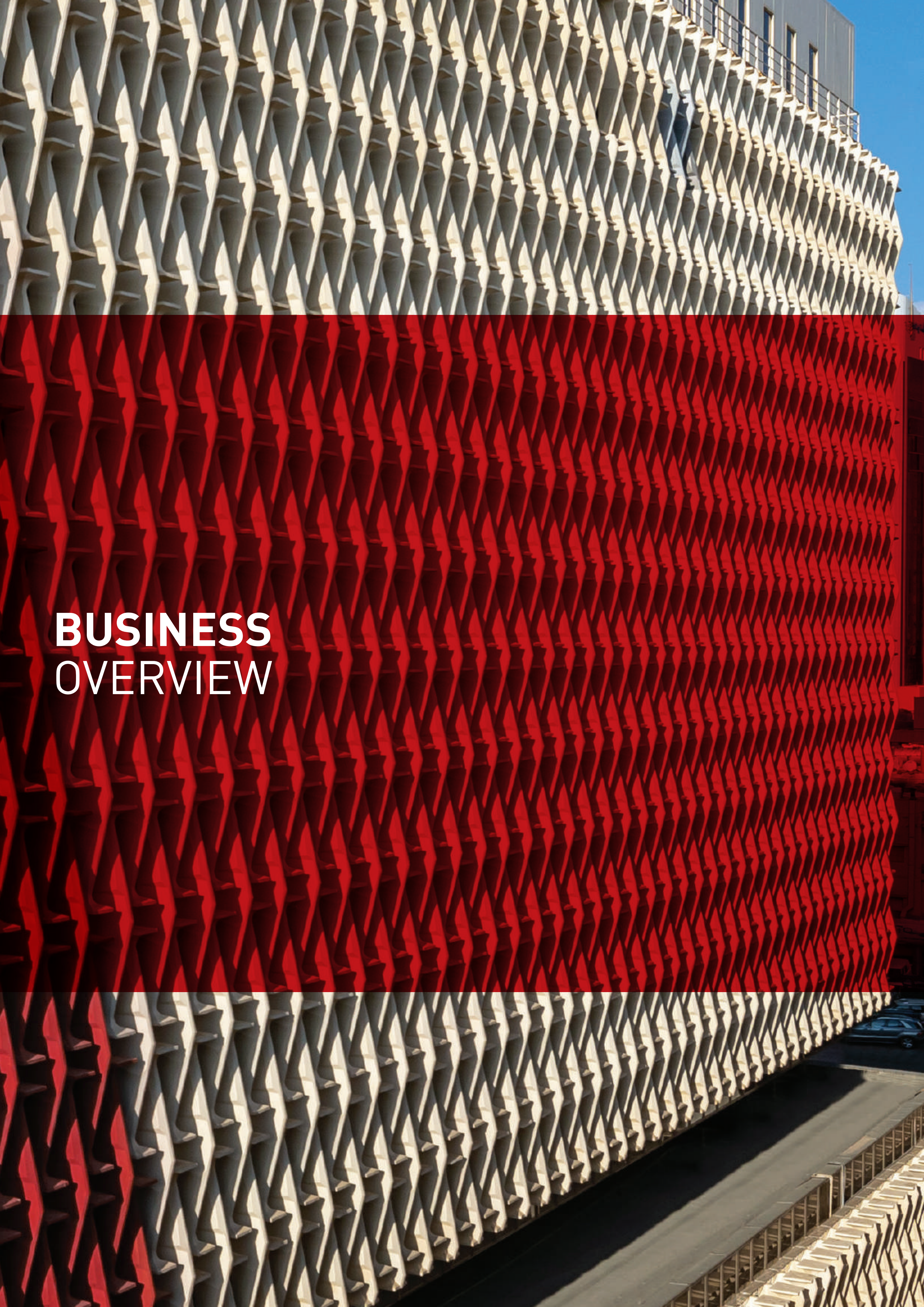
+ 200 Gulf Bank volunteers

1 Minute

Financial Literacy Awareness Videos on Social Media.



BUSINESS OVERVIEW



OPERATING ENVIRONMENT

Gulf Bank is dedicated to analyze and monitor the operating environment closely. Accordingly, Gulf Bank recently launched their Economic Research Unit, which aims to prepare detailed analytical studies and compile reports on the most important economic issues in both the region and the world. Thus, below are the key operating environment events during 2019.

> **The U.S. Fed, which aggressively hiked rates in the previous three years, decided to cut its interest rates three times during 2019... Kuwait's Central Bank cut its discount rate by 25 basis points... in October 2019.**

Globally

On a global level, 2019 growth was at its lowest level since 2008–09 according to October 2019 World Economic Outlook by International Monetary Fund (IMF). The prolonged process of the U.S.-China trade war was the key point of contention, causing a disruption of trade flows in several economies and raising concerns over global economic growth. However, events close to the end of the year indicated that a trade truce could be achieved in the near future.

At the same time the U.S. Fed, which aggressively hiked rates in the previous three years, decided to cut its interest rates three times during 2019, signaling a pause going forward. The Federal Reserve cut interest rates in October for the third time in 2019, in a move to ensure the U.S. economy weathers a global trade war without slipping into a recession but signaled its rate-cut cycle might be at a pause.

Brexit, on the other hand, took several turns in 2019 while Boris Johnson was appointed as the new U.K. Prime Minister during the year. As things stand, the U.K. is now set to leave the EU by Jan 31, 2020.

Closer to home, oil market witnessed volatility during the year, but was balanced by supply-side and demand-side factors. Tailwinds such as the end of waivers for US sanctions on Iranian crude exports, unrest in Venezuela, sustained production cuts from OPEC had contributed to the uptrend in oil prices. However, renewed trade tensions between the U.S. and China during the year dampened investor sentiment and resulted in the downward pressure on oil prices. The year also saw the finalization of an agreement between Kuwait and the Saudi Arabia to resume oil production from shared oil fields. As a result, Kuwait will resume production in Wafra fields in early 2020.

Kuwait Economy

According to IMF data, Economic growth in Kuwait, as measured by real GDP, is expected to increase to 3.1% in 2020 after a slow 2019, where growth moderated to 0.6%. Easing global trade tensions and the potential pickup in oil demand amidst OPEC supply cuts are expected to trigger the uptick in Kuwait's growth. Despite the extension of production cuts by OPEC, IMF data shows that oil GDP weakened, declining by 0.8% in 2019, as average oil price remained a tad lower than the previous year. On the contrary, non-oil GDP as captured by the IMF grew by 2.5% in 2019, better than the level witnessed in the previous year.

Moving into 2020, the International Monetary Fund (IMF) expects both oil and non-oil sectors to grow in tandem, with oil and non-oil GDP growing by 3.1% and 3.0% respectively.

Non-oil growth could potentially surprise on the upside if investment spending accelerates and implementation of projects picks up pace in the coming year.

In Kuwait, consumer price inflation remained moderate but picked up in the second half of the year, rising to a two year high of 1.7% at the end of Q3 2019 according to data provided by the Central Statistical Bureau. A further pickup is expected moving into 2020. However, downside risks such as slow global growth and weakness in real estate market still remains.

On the interest rate front, Kuwait's Central Bank cut its discount rate by 25 basis points to 2.75% from 3% in October 2019, joining the Federal Reserve-led monetary easing cycle. The cut came after staying put in July and September when other major Gulf central banks followed the Federal Reserve.

The decision to follow the Fed and cut the interest rate in Kuwait aimed to reduce the cost of borrowing in the Kuwaiti dinar, maintain a comfortable margin for the Kuwaiti dinar, and prove a supportive environment for investment, according to the Central Bank of Kuwait.

As per data from the IMF, Kuwait enjoys a stable macroeconomic footing, with low debt levels (15.2% of 2019e GDP) and a sound financial sector. Considering these factors, it remains better placed to tide over the "lower-for-longer" oil price environment. Fiscal breakeven oil price, a metric that provides the level of oil price at which the government expenditures would match the revenues, stood at USD 54.3 per bbl. for Kuwait in 2019 according to data published by the IMF.

> "(Kuwait) remains better placed to tide over the "lower-for-longer" oil price environment."

According to MEED, until the end of the third quarter of 2019, the total value of projects awarded stood at KD 770 million against KD 1.7 billion for the full year of 2018. Continuous delays in awarding projects and rolling over of tenders have slowed down the momentum. The much-touted Al-Zour petrochemical project, worth KD 3 billion, is expected to be tendered in the last quarter of 2020. The value of projects expected to be awarded in Kuwait stands at KD 6 billion.

Kuwait Capital Market

Kuwait's Capital Market segment, particularly the equity market, continued to witness some landmark developments during the year 2019. MSCI, one of the world's leading capital market index providers, upgraded Kuwait's status from Frontier to Emerging Markets with an estimated weight of 0.69%. The inclusion is scheduled over one phase in May 2020 with US$ 2.7bn of expected net inflows, according to Arqaam Capital's research. Furthermore, the ongoing reforms in the debt market segment following the establishment of debt management office could increase the depth of the capital market and provide alternative capital pools. This is crucial given the large-scale financing needed for New Kuwait 2035 various projects.

> "MSCI... upgraded Kuwait's status from Frontier to Emerging Markets... The inclusion is scheduled over one phase in May 2020 with US$ 2.7bn of expected net inflows..."

Kuwait equity markets in 2019 were among the leading performers at global level and the best performing market in the GCC region with 'Boursa Kuwait All Share' total return index gained 24%, while the 'Premier Market', that comprises of the 19 blue-chip companies, total return index was 32%.

Privatization of Boursa Kuwait was successfully completed this year as the Kuwaiti citizens enthusiastically lapped up the 50% public offering in November 2019. Earlier, a 44% stake of the company was sold to strategic investors while the Public Institution for Social Security (PIFSS) held the remaining 6% of Boursa Kuwait. Similarly, a 50% stake in Shamal Az-Zour Al-Oula Power and Water Company was offered to Kuwaiti citizens through a public offering that ran at the same time. Shamal Az-Zour Al-Oula is Kuwait's first shareholding company established to undertake building and operating electrical power and desalination plants. Both the offerings were oversubscribed and are part of governmental efforts to offer ownership stakes to citizens in projects, which are also offered to private sector institutional investors.

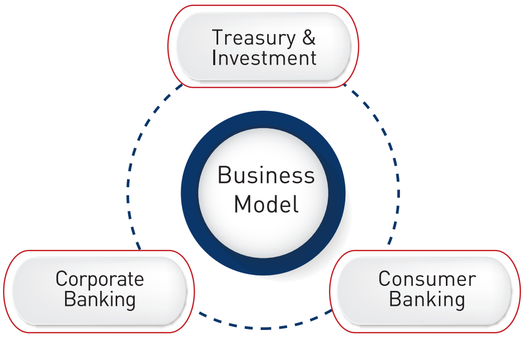
Kuwait Business Landscape

Kuwait's business landscape has greatly improved owing to the reforms initiated by the government. In appreciation of these changes, Kuwait was recognized as one of the top 10 improvers among 190 countries by the World Bank in its Ease of Doing Business study for 2020. Likewise, the World Economic Forum also noted that Kuwait was the biggest improver among MENA countries in its Global Competitive Index for 2019. The improvements made to Kuwait's business environment are expected to enhance the country's stature as an attractive investment destination.

> "...Kuwait was recognized as one of the top 10 improvers among 190 countries by the World Bank in its Ease of Doing Business study for 2020."

BUSINESS OVERVIEW

Gulf Bank continues to focus on its core strategy of providing conventional banking services to its Corporate and Consumer clients in Kuwait to help them achieve financial prosperity. During 2019, Gulf Bank was able to grow its overall loan book by 6.2%, reaching an all time high over KD 4.5 billion.



Corporate Banking

Gulf Bank's Corporate banking base includes local and multinational institutions doing business in Kuwait. The Bank offers a complete range of Corporate banking services including cash and non-cash facilities, online transactional services, specialized financing facilities, and advisory services. These and other services are provided through the Bank's commercial division, contracting division, real estate, and share financing division. Gulf Bank services its international clients, including financial and multinational institutions, through its wide, global, correspondent banking network.

> Throughout 2019, Gulf Bank continued its commitment to support Kuwait's 2035 National Development Plan.

The Bank's Corporate loan book delivered strong performance in 2019, achieving 4.6% growth in it's loan book despite increased competition and market volatility. Corporate banking represents 65% of the loan book and its performance was driven mainly by financing vital projects in the oil, construction, and infrastructure sectors through direct financing or through syndications with other local banks.

Throughout 2019, Gulf Bank continued its commitment to support Kuwait's National Development Plan, arising from the vision of His Highness the Amir Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah for New Kuwait 2035.

> Despite the challenging market conditions during 2019, the Bank has grown its Corporate loan book and maintained its dominant presence as a key domestic player...

Despite the challenging market conditions during 2019, the Bank has grown its Corporate loan book and maintained its dominant presence as a key domestic player by strengthening its relationships with the local, top tier merchant families. Gulf Bank has improved its services and product offerings, particularly in transaction banking, to enhance the overall customer experience and transform the bank-customer relationship into a more holistic one.

Arising from Gulf Bank's belief that its employees remain a key component, with the help of our Human Resource team, our Corporate banking team attracted new Kuwaiti talent and continued investing in young executives by fully sponsoring their executive education at renowned, top-tier business colleges worldwide.

Consumer Banking

Gulf Bank's Consumer banking arm serves retail, affluent, and private banking customers with a focus on the diverse, demanding needs and requirements of both Kuwaiti and non-Kuwaiti residents. This is achieved by offering a wide range of services and products to unique customer segments, ranging from day-to-day current / savings accounts, the "Al Danah" flagship product, credit cards, and our proprietary "WISE" investment platform.

Consumer Loans

Gulf Bank's consumer loan book represented 35% of the Bank loan book in 2019 and grew at nearly twice the industry growth rate for a second straight year. In addition, loans have grown for fourteen straight quarters. The wide reach of Gulf Bank's network and experienced Direct Sales team were key-drivers of growth.

Since one of the Bank's key target segments is Kuwaiti nationals, a new Kuwaiti salary scheme was introduced with regular monthly draws of up to 12 times and a yearly draw of up to 100 times the customer salary. In addition, several strategic campaigns and promotions were launched to ensure we reach bigger portion of that segment. The momentum continued with a steady range of offerings to different specialized segments within the Kuwaiti customer base including "Kuwaiti Heroes" (a dedicated salary package for all Kuwait heroes working in major public sector ministries and bodies), women working in government ministries, oil sector, teachers, and other professionals.

> "[Consumer] loans have grown for fourteen straight quarters."

Credit Cards

On the credit card front, Gulf Bank launched newly-designed cards to serve the different needs and requirements of each customer segment. Some of the new programs launched were Prepaid Cards, Corporate Cards, Kuwait's first Metal World Elite contactless card, an Easy-Pay program, and the Prepaid Gift Card. The Bank's credit card customers now have more than 1,000 outlets offering discounts. The Consumer banking team is fully supported by a data science and analytical team to provide a better understanding of our customers and their behavior.

> "The Bank's credit card customers now have more than 1,000 outlets offering discounts."

> Gulf Bank has one of the largest distribution channels in Kuwait with 59 branches, over 300 ATMs and 6 ITMs.

Wealth Management

Wealth Management continues to be a prime focus area for Consumer banking. Relationship managers serve the private, priority and the preferred segments to enrich the customer experience with a new and existing suite of products and services.

To complement our deposit and investment offerings, Gulf Bank added a strategic lending program for high net-worth customers in 2019. A series of exclusive events were conducted for the first time for wealth management customers including test drives for luxury sports cars like Porsche, Ferrari, Lotus, Mercedes Benz, and VIP invitations to selected shows at the prestigious Sheikh Jaber Al-Ahmad Cultural Center (JACC).

Distribution Channels

Gulf Bank has one of the largest distribution channels in Kuwait, with 59 branches, over 300 ATMs, and 6 Interactive Teller Machines (ITMs).These branches, ATMs and ITMs are placed at the highest footfall areas such as hotels, malls, supermarkets, hospitals, governmental, and educational centers, to ensure we cover all the key catchment areas in the country. Our branches, ATMs, and ITMs are equipped with the latest technology and surrounding billboards are used to advertise Gulf Bank's products and services using modern and elegant designs. This physical network is complemented by safe and secure mobile banking and online banking sites, and a 24/7 call center. This ensures that customers can reach us whenever and however they want.

Digital Drive

Gulf Bank has grown its mobile and online banking through "easy-to-use", customer-friendly applications. Our growing SMS subscribers help the Bank reach its customers for their day-to-day credit and debit transactions and make them aware of marketing and promotion campaigns. The introduction of an innovative and simple digital tool called "Self-Pay" has simplified the mechanism to instantly transfer payments from individuals and groups.

Treasury and Investments

Treasury

The Treasury team's main focus is to optimize the Bank's balance sheet by maintaining sufficient liquidity to support asset growth and sufficient buffers to meet regulatory requirements.

The team also aims to diversify its funding sources to optimize funding costs' and reduce dependency on any one depositor.

On the Treasury Trading and Sales side, the Bank provides competitive pricing in the foreign exchange to support the needs of its customers.

Proprietary Investment

The key focus of Gulf Bank's Proprietary Investment activities is to support the liquidity needs of the Bank, diversify income streams, and generate returns within the Bank's risk appetite. In 2019, the activity was mostly focused on building the Bank's fixed income portfolio while managing the existing investment portfolio.

Fiduciary Activities

Gulf Bank's, Fiduciary activities include carrying out portfolio management services, custody services, and investment advisory. We also act as a selling agent, licensed by the Kuwait Capital Markets Authority, to offer investment products, to our clients.

The Bank's experienced Investment Service team has been servicing a diversified client base that includes individual and institutional clients. Gulf Bank understands investment requirements of its clients and offers investment products and services that suit their needs.

In addition to acting as a selling agent for several leading local fund houses, Gulf Bank developed an online proprietary investment platform named "WISE". "WISE" offers clients a platform to invest in global markets through Exchange-Traded Funds (ETFs).

> "WISE" offers clients a platform to invest in global markets through Exchange-Traded-Funds (ETFs).

Financial Institutions and Sovereigns

As part of the Treasury Group, the Financial Institutions and Sovereigns team works closely with the Asset and Liabilities Management team to diversify the Bank's funding sources. The unit continues to act as the gateway that connects Gulf Bank with leading international partners and correspondent banks to provide efficient solutions to the Bank's retail and corporate clients.

This team expanded its portfolio and leveraged the momentum of international markets when domestic market growth was modest. This was achieved through origination as well as through primary and secondary market participations, within the Bank's risk appetite.

> The Financial Institutions and Sovereigns team... continues to act as the gateway that connects Gulf Bank with a wide number of leading international partners and correspondent banks...

CFO REVIEW
MANAGEMENT DISCUSSION AND ANALYSIS

Kevin Smith
Chief Financial Officer

In 2019, Gulf Bank's net profit grew 12% to KD 63.6 million, our sixth straight year of double-digit growth. And, despite intensified competition in the Corporate and Consumer Banking segments, we grew our gross loans and advances by KD 261 million (+6.2%) vs. 2018 with roughly half of that growth coming from each of these segments. Over the last three years, we've grown our gross loans and advances by 20% (KD 750 million) and our profits by 48% (KD 20 million). We've also built up a very healthy KD 106 million of provisions in excess of those required to meet the IFRS 9 accounting standard. These excess provisions represent 36% of our total provisions, one of the highest ratios in the industry.

Finally, in 2018, we demonstrated an ability to recover previously written-off loans, that amounts KD 36.5 million. In 2019, we went even further by demonstrating an ability to recover non-accrued interest income on written-off loans, that amount being 19.7 million. This has given us renewed confidence that our loans to Corporate customers in Kuwait have been structured properly, and provisioned conservatively.

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

KEY FINANCIAL METRICS	2019	2018	Better/(Worse) in 2019 vs. 2018
Income Statement			
Net interest income	**164**	153	8%
Non-interest income	**43**	42	3%
Operating income	**208**	194	7%
Operating expenses	**78**	67	(16%)
Operating profit	**130**	127	2%
Provisions / Impairment Losses	**63**	68	7%
Net profit	**64**	57	12%
Earnings per share (fils)	**22**	20	12%
Dividends per share (fils)[1]	**11**	10	10%
(1) "2019 Dividends are subject to approval by shareholders in Annual General Meeting to be held in March 2020."			
Balance Sheet			
Gross loans and advances to customers	**4,506**	4,244	6%
Total assets	**6,245**	6,016	4%
Deposits	**4,968**	4,741	5%
Total stockholders' equity	**664**	629	6%
Average daily share price (fils)	**294**	254	16%
Key Financial Ratios			
Return on average equity	**10.0%**	9.4%	7%
Return on average assets	**1.05%**	0.97%	8%
Net interest margin	**2.72%**	2.61%	4%
Non-Performing loan ratio	**1.1%**	1.0%	(10%)
Provisions & Impairments / Average Total Assets	**1.0%**	1.2%	11%
Tier 1 capital ratio	**13.8%**	14.1%	(2%)
Capital adequacy ratio	**17.1%**	17.5%	(2%)

MAJOR FINANCIAL HIGHLIGHTS

Net profit increased from KD 56.7 million in 2018 to KD 63.6 million in 2019, an increase of 12.2%.

Earnings per share increased from 20 fils per share to 22 fils per share and the Board of Directors has recommended a cash dividend of 11 fils per share for shareholders' approval at the Annual General Meeting to be held in March 2020.

Gross loans and advances to customers reached another all-time high of KD 4.5 billion at the end of 2019, KD 261million or 6.2% higher than the year earlier period. Over the last three years, loans and advances to customers have grown by KD 750 million or 20.0%.

Net interest margin improved 11 basis points from 2.61% in 2018 to 2.72% in 2019.

Return on average equity and return on average assets improved in 2019 to 10% and 1.05%, respectively.

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

- Tier 1 ratio of 13.8%, 1.8% above the regulatory minimum of 12%.
- Capital adequacy ratio of 17.1%, 3.1 % above the regulatory minimum of 14%

Shown below are the major variances in net profit from 2018 to 2019 (KD millions)

2019 Net profit	**63.6**
2018 Net profit	**56.7**
Increase in net profit	**6.9**

Better/(Worse) in 2019 vs 2018	
Net Interest Income	**11.8**
Non-Interest Income	**1.4**
Operating income	**13.2**
Operating expenses	**(11.0)**
Operating profit	**2.2**
Provisions / Impairment losses	**5.0**
Taxes/Others	**(0.3)**
Increase in net profit	**6.9**

The Bank's 2019 net profit growth of KD 6.9 million was mainly driven by higher net interest income of KD 11.8 million, higher non-interest income of KD 1.4 million, and lower provisions/ impairment losses of KD 5 million offset partially by higher operating expenses of KD 11 million.

Shown below is the breakdown of provisions and impairment losses (KD millions)

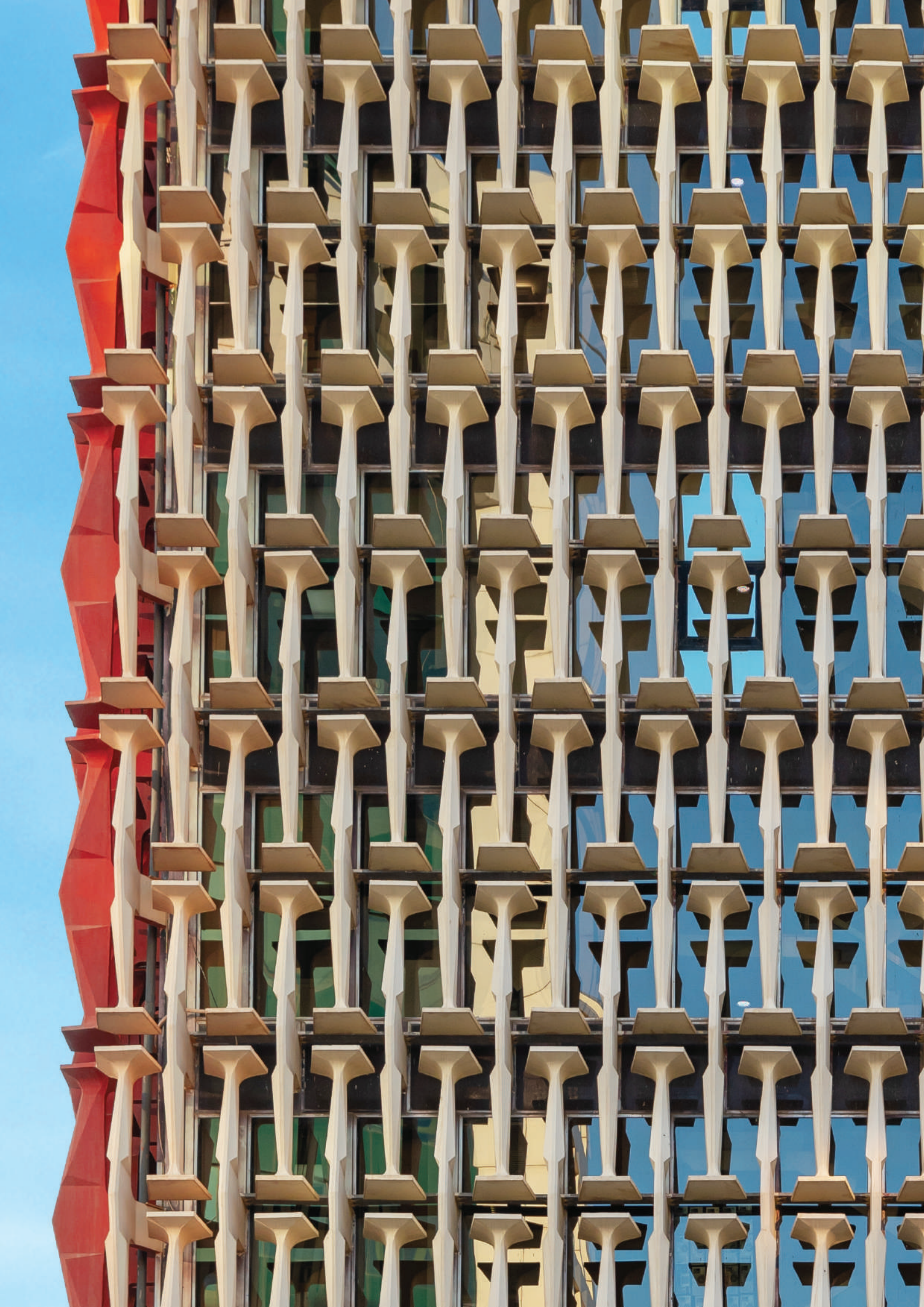
	2019	2018	Better/(Worse) in 2019 vs. 2018
Specific provisions	**70**	59	(11)
Write-offs	**3**	13	10
Gross credit costs	**73**	72	(1)
Recoveries	**(14)**	(71)	(57)
Credit Costs	**60**	1	(58)
% of average gross loans	1.38%	0.03%	
Impairment losses	**1**	17	16
Total credit costs/ impairment losses	**61**	18	(43)
General provisions	**2**	50	48
Total provisions/ impairment losses	**63**	68	5
Provisions/ impairment losses (as a % of average total assets)	**1.0%**	1.2%	

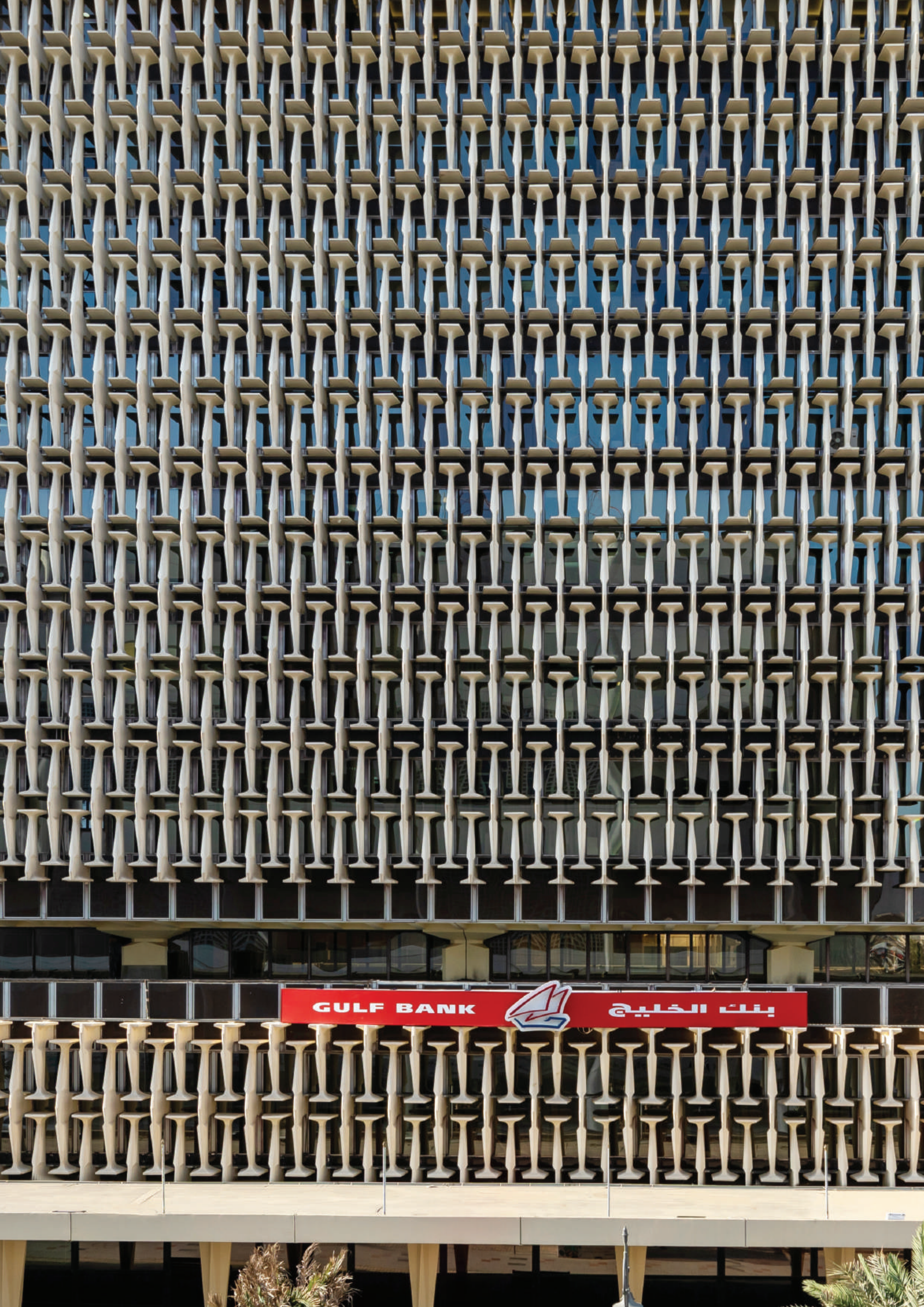
Total provisions and impairment losses of KD 63 million were incurred in 2019 (1.0% of average assets), KD 5 million or 12% lower than the prior year.

IFRS9 IMPLEMENTATION

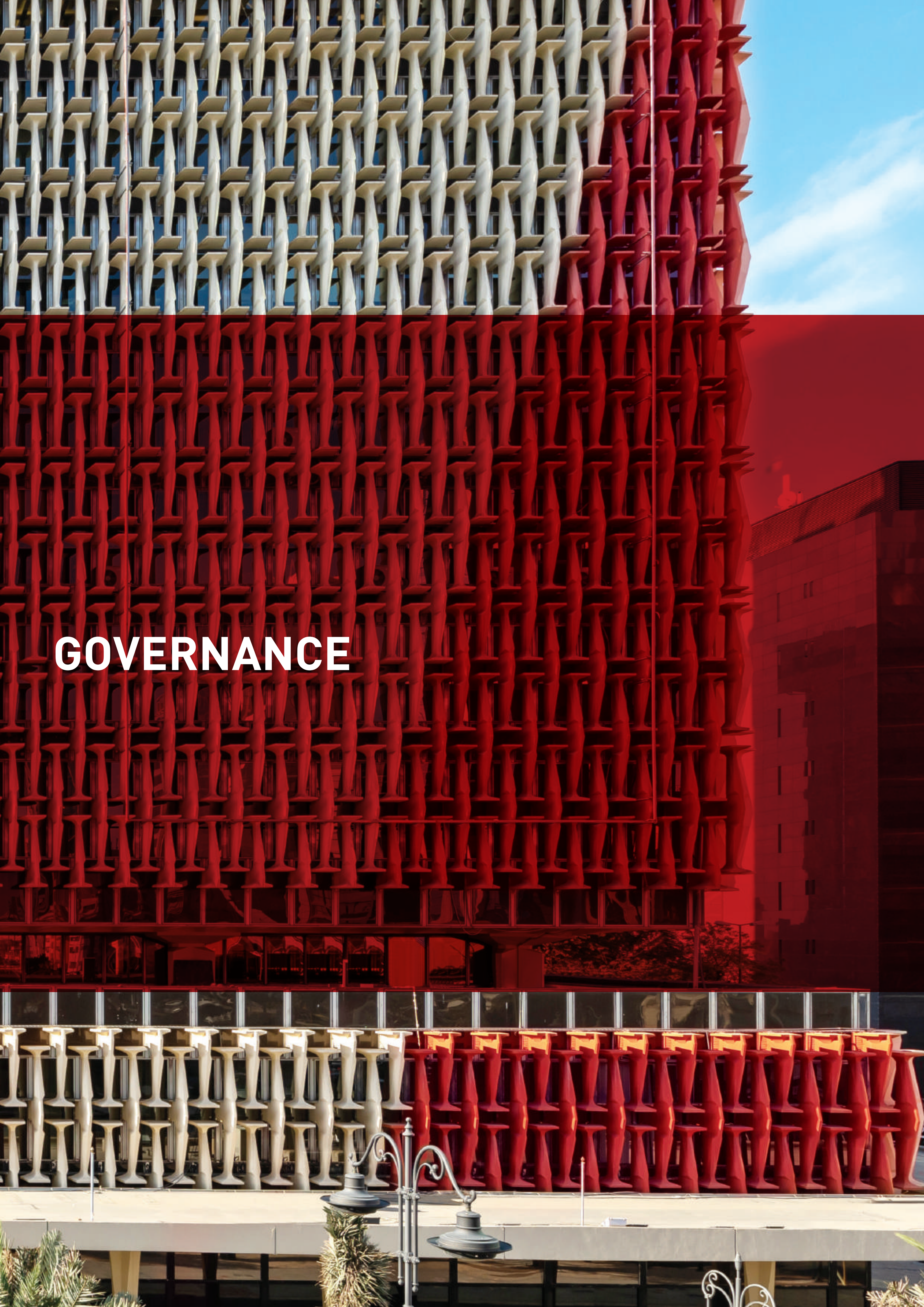
The **IFRS9 accounting standard** on credit facilities was implemented by the Central Bank of Kuwait at the end of 2018. As of year- end 2019, the Bank's total credit provisions of KD 296 million were greater than the IFRS9 requirements by KD 106 million.

COMPARISON BETWEEN TOTAL PROVISIONS AND IFRS 9 EXPECTED CREDIT LOSSES (ECL) ON CREDIT FACILITIES:	**2019**	2018
	KD Millions	KD Millions
Provision on cash facilities	**282**	296
Provision on non-cash facilities	**14**	16
Total provisions on credit facilities (A)	**296**	312
IFRS 9 ECL on credit facilities (B)	**190**	200
Excess of total provisions over IFRS 9 ECL on credit facilities (C=A-B)	**106**	112
Excess provisions as a percentage of total provisions (C/A)	**36%**	36%




GULF BANK
بنك الخليج

GOVERNANCE



BOARD OF DIRECTORS

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

Omar Kutayba Alghanim

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**
  Group Chief Executive Officer, 2019
  Chief Executive Officer, 2005 – 2019
  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
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
Deputy Chairman, Board Audit Committee
Member of Board Corporate Governance Committee

Date of Appointment:
17 March, 2012

Academic Qualifications:
- Degree in Engineering, Scotland

Experience:
- Deputy Vice Chairman of Al Sayer Group of Companies, Kuwait (1978 - present)
- Member of the Board of Kuwait Chamber of Commerce and Industry, Kuwait (2010 - present)
- Member of the Board of Miami International Holdings, Inc., Miami-USA (2012 - present)
- 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)

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

Omar Hamad AlEssa

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

Board Member
Chairman, Board Nomination & Remuneration Committee

Jassim Mustafa Boodai

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:
- Senior 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 Abdulmohsen El-Jeaan

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 Boursa Kuwait.
- 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

BOARD OF DIRECTORS

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

Bader Nasser AlKharafi

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, Board of Directors of Boursa 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
- Member of Board of UNHCR – The United Nations High Commissioner for Refugees "Sustainability Board"
- Vice Chairman of Injaz Kuwait, Kuwait
- Member of Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait

Fawaz Mohammad Alawadhi

Board Member
Member of Board Audit Committee

Date of Appointment:

7 August, 2019

Academic Qualifications:

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

Experience:

- Faculty member – Legal Department – College of Business Studies (June 2016- Present)
- Deputy Chief Legal Officer, Head of Litigation – Alghanim Industries (May 2016 – Present)
- Legal Council – Alghanim Industries (December 2008 – August 2014)

EXECUTIVE MANAGEMENT

Back row from left to right: Mr. Shahzad Anjum - Acting GM Chief information Officer, Mr. Sami Mahfouz – GM Treasury, Mr. Nabil Abdel-Malek – GM Legal Affairs and General Counsel, Mr. Dari Al Bader - GM Corporate Affairs, Mr. Farhan Mahmood - Chief Risk Officer, Mr. Kevin Smith – Chief Financial Officer, Mr. Ahmed AlDuwaisan – GM Corporate Banking, Mr. Hussam Mustafa – Chief Internal Auditor, Mr. Vikram Issar – GM Consumer Banking.

Front row from left to right: Mrs. Mona Mansour - GM Customer Service Delivery, Mr. Raghunandan S. Menon - Acting Deputy Chief Executive Officer, Mr. Omar Kutayba Alghanim - Gulf Bank's Chairman, Mr. Antoine Daher – Chief Executive Officer, Mrs. Salma AlHajjaj – GM Human Resources.

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

Raghunandan Menon

Acting Deputy Chief Executive 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 and Financial Services
- Previously served in senior management positions at Standard Chartered Bank in London, New York, Singapore and Mumbai. Held directorships in the board of Standard Chartered Plc subsidiaries in Korea, Nigeria and Ireland

EXECUTIVE MANAGEMENT

Chief Financial Officer

Kevin Smith

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:

- 34 years in Finance
- Previously worked in Country and Global CFO roles at GE, GE Capital, Novartis, Citibank, Tokyo Star Bank, and Standard Chartered Bank

Chief Risk Officer

Farhan Mahmood

Date of Joining Gulf Bank:
29 June, 2014

Academic Qualification:

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

Experience:

- 30 years' experience in Banking, covering Risk Management, Audit and Corporate Banking
- Worked in the UK, Asia, Africa and Middle East
- Previously 20 years at Citigroup and Deutsch Bank A.G. prior to that

Chief Internal Auditor

Hussam Mustafa

Date of Joining Gulf Bank:
10 August, 2014

Academic Qualifications:

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

Experience:

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

Legal Affairs and General Counsel

Nabil Abdel-Malek

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:

- 34+ 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 has represented the Lebanese Government and banks in major arbitrations

EXECUTIVE MANAGEMENT

General Manager - Corporate Banking

Ahmed AlDuwaisan

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:

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

General Manager - Consumer Banking

Vikram Issar

Date of Joining Gulf Bank:
24 March, 2013

Academic Qualifications:

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

Experience:

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

General Manager - Customer Service Delivery

Mona Mansour

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

General Manager - Human Resources

Salma AlHajjaj

Date of Joining Gulf Bank:

1 February, 2013

Academic Qualifications:

- BSc in Mathematics, Kuwait University
- MA in Organizational Management from the University of Phoenix 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.
- Featured in the 2018 publication of 'Those who Inspire' – Kuwait Edition
- Lifetime member of the International Society of Female Professionals

EXECUTIVE MANAGEMENT

General Manager – Treasury

Sami Mahfouz

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

General Manger – Corporate Affairs

Dari Al Bader

Date of Joining Gulf Bank:
21 October, 2019

Academic Qualifications:

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

Experience:

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

Shahzad Anjum

Acting General Manager - Chief Information Officer

Date of Joining Gulf Bank:

1 August 2019

Academic Qualifications:

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

Experience:

- 20+ years in Information Technology
- Previously worked as Group CIO at Alghanim industries

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 emanating from the Central Bank of Kuwait (CBK) 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 so, 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 practices and local regulatory requirements.

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

Corporate Governance Compliance with CBK Instructions

In June 2012, CBK issued regulations relating to Corporate Governance. In September 2019 CBK issued an amendment to the Corporate Governance regulations focusing on (a) Independent Board members, (b) Information Security systems and Cyber Security Risks, (c) Risk governance framework built on the premise of 3 lines of defense, and (d) Compliance Governance.

The regulations set out nine pillars for a sound Corporate Governance:

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

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

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

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

Stakeholder Definition

In line with best practice, a stakeholder is a party that has an interest in a company and can either affect or be affected by the business.

The following entities/ persons are deemed Bank's key stakeholders:

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

Corporate Governance - Policies and Procedures

The Bank has a comprehensive framework of Corporate Governance aimed at properly balancing between its ambitious objectives, on the one hand, and adherence to the 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

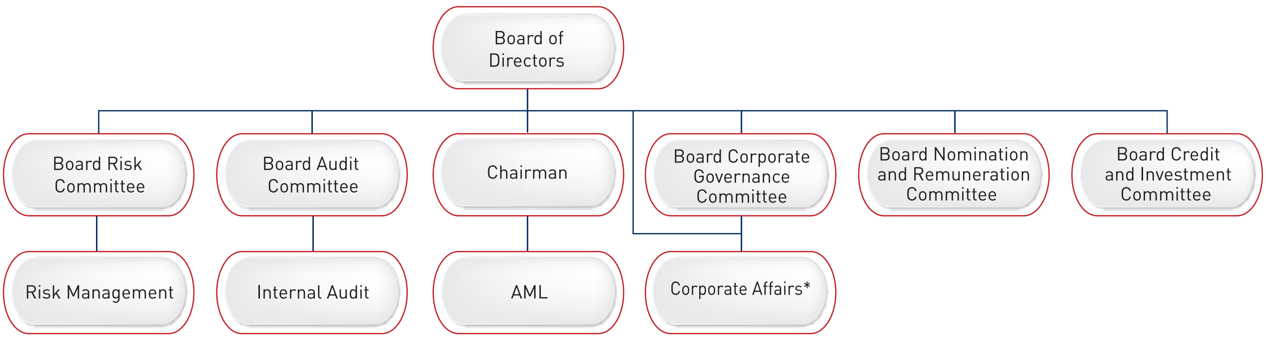
The Corporate Governance Manual defines the Board and Executive Management's respective roles. The overlap between the two roles is precluded. The Manual clearly defines the role of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Manager, Corporate Affairs, Chief Internal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

Governance Structure

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

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

The Board - Governance Organization



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

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 an in-house induction program and the members participated in several conferences and seminars about banking and financial activity.

Performance Evaluation

The Board undergoes a comprehensive performance evaluation annually. 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's 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 that promotes 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 in the agenda of the Board meeting.

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

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 resolutions. The Board Secretary, under the Chairman's supervision, is responsible for the follow-up on the implementation of Board resolutions.

Board Meetings and Attendance

During 2019, the Board of Directors met regularly, and Directors received information between meetings about the Bank's activities and the activity of the Management Committees. 6 Board meetings and 31 Board Committees meetings were held in 2019 detailed as follows:

	Board Meeting	Audit Committee	Risk Committee	Corporate Governance Committee	Nomination And Remuneration Committee	Creditand Investment Committee
Number of meetings in 2019	6	5	4	2	3	17
Omar Kutayba Alghanim	6	*	*	2	*	14
Ali Morad Behbehani	5	*	4	*	*	*
Bader Abdulmohsen El-Jeaan	5	*	*	*	3	16
Bader Nasser Al Kharafi	6	*	4	2	*	*
Jassim Mustafa Boodai	5	*	*	*	3	*
Khalid Faisel Ali Al Mutawa	6	5	3	*	*	*
Sayer Bader Al Sayer	6	4	*	2	*	*
Omar Hamad Youssef Al Essa	6	*	*	*	3	16
Basel AlRashied AlBader	3**	3**	*	*	*	*
Fawaz Mohammad AlAwadhi	3***	1***	*	*	*	*

* Not a member of the committee

** Resigned from the Board in July 2019

*** Joined the Board in Aug 2019

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

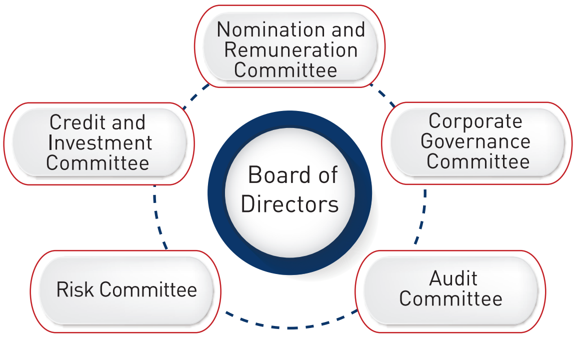
All Board Committees have submitted quarterly updates to the Board about their respective activity.

Board Remuneration

The Board Nomination and Remuneration Committee recommended to the Board of Directors, subject to the approval of the shareholders at the Annual General Assembly Meeting, that the total remuneration of the Board of Directors for 2019 be equal to KD 135 thousand (2018: 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 as follows:



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

The Board has established five committees: The Audit Committee, the Risk Committee, the Corporate Governance Committee, the Nomination and Remuneration Committee and the Credit and Investment Committee (the "Committees"). Each Committee has a written charter. The Board expects to accomplish a substantial amount of its work through the Committees. Each Committee shall report regularly to the Board, summarizing the Committee's actions and any significant issues faced by the Committee. Such reporting shall not be required if all committee members are present at the Committee meeting at which such actions or issues are considered. If any of the committee members is not present at the Committee meetings, they will be informed with respect to such actions or issues as appropriate. Each Committee shall be composed of no fewer than three members. Each Committee member must satisfy the membership requirements set forth in the relevant Committee charter. A committee member may serve on more than one Committee.

I. Board Corporate Governance Committee

a. Committee's Scope of Activity

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

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 2019

- Supervised the progress of Corporate Governance implementation Bank-wide.
- Reviewed the disclosures related to Corporate Governance which are presented in the Annual Report.
- Reviewed the new governance instructions issued by CBK, and the procedures taken to comply with these instructions.
- Reviewed the related parties' transactions and the conflict of interest reports.
- Reviewed Compliance and Disclosure Unit's activity for 2019 and approved their action plan for 2020.
- Reviewed and approved the AML Unit activity.
- Reviewed the process of monitoring and reporting under the Whistleblowing policy.

e. Changes during the year

No change in the composition of the Committee and its scope of activity took place in 2019.

II. Board Audit Committee

a. Committee's Scope of Activity

The Board Audit Committee (BAC) carries out its duties within the framework of governance principles and practices established by the Board of Directors. The Board Audit Committee promotes accountability of the key players and ensures that they perform in the best interest of the Bank and its shareholders to enhance shareholder value, 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. Sayer Bader Al Sayer, Committee Deputy Chairman
- Mr. Fawaz Mohammad AlAwadhi, 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 2019

- Monitored the activities of the Internal Audit Division, including review of its plans, strategies, procedures, follow-up activities, organizational structure and operation and staffing budgets.
- Approved the Internal Audit 3-Years strategic plan with related Key Performance Indicators (KPIs).
- Approved the Internal Audit updated three-year risk-based plan (2020 – 2022) 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 Auditor's audit plans for the year ending 31st December 2019.
- 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

e. Changes during the year

Subsequent to the resignation of Mr. Basel Al Bader (Kuwait Investment Authority representative) on 10th July 2019, Mr. Fawaz Al Awadhi was appointed as Board Audit Committee member and Mr. Sayer Al Sayer became the Board Audit Committee Deputy Chairman.

III. Board Risk Committee

a. Committee's Scope of Activity

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

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 2019

- Reviewed the periodic risk management reports and risk dashboards.
- Reviewed and recommended the risk policies and risk committee bylaws for approval and ratification by the Board.
- Reviewed the Information and Security Transformation proposal and approved the new framework and organization chart.
- Reviewed summary of all credit approvals given by Credit Committees.
- Held meetings with, the Chief Risk Officer without the presence of the Banks Executive Management.
- Reviewed and approved amendments to ICAAP assumptions and methodology.
- Periodically reviewed the status and provided guidance on significant projects including the ones related to enhancement of Cyber security of the Bank.
- Discussed and reviewed People Risk Management in respect of Succession Planning, Talent Acquisition and Talent Retention.

e. Changes during the year

No change in the composition of the Committee and its scope of activity took place in 2019.

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 the Central Bank of Kuwait's (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 Board members are consistently informed of 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 BRNC 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 2019

- Support the Bank's plans on Kuwaitization and delivery of development Programs that are designed to build a distinguished leadership pipeline in line with market trends and economic demands.
- Reviewed leadership succession plans closely in line with CBK recommendations and submitted them to the Board for resolution.
- Maximize efficiency of Bank operations and manpower optimization by spearheading organizational restructures (when necessary).
- Recommended and approved executive compensation payouts and submitted recommendations to the Board for resolution.
- Assessed Market Trends Study Reports and Compensation Results.
- Submitted recommendations to the Board in relation to salary increments and bonus payout for resolutions.
- Assessed the adequacy and effectiveness of Remuneration Policy.

- Completed third party audit of Executive compensation.
- Approved and executed the plan for Board Effectiveness Assessment.

e. Changes during the year

No changes were made to the composition of the Committee in 2019.

V. Board Credit and Investment Committee

a. Committee's Scope of Activity

The overall purpose and scope of the Board Credit and Investment Committee (BCIC) 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 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 either the Chairman or the Deputy Chairman of the BCIC.

d. Key Achievements in 2019

- The 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'.
- Approved Excutive Credit Committee Bylaw amendments consequent to change in organization structure.
- Discussed and deliberated upon the potential impact of drop in share prices on clients having listed shares as collateral.

e. Changes during the year

No change in the composition of the Committee and its scope of activity took place in 2019.

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:

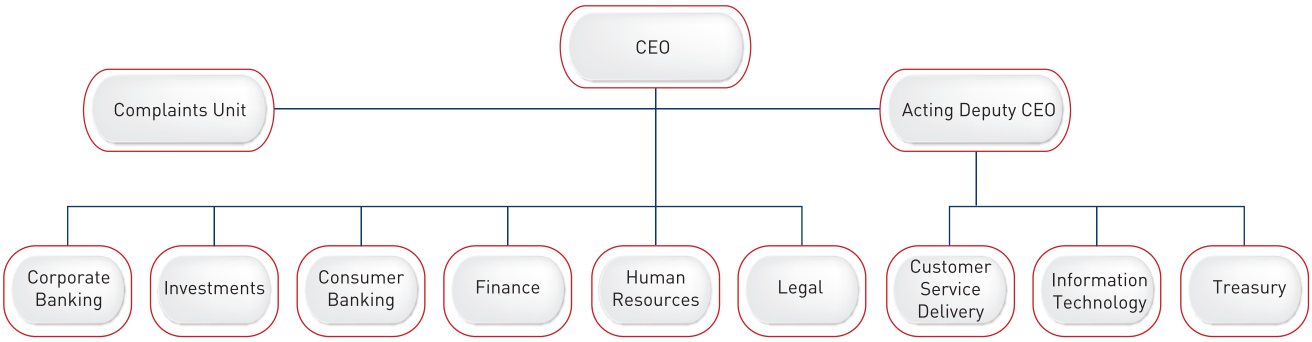
Credit Committees

- 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



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 the Banks' strategy.

The succession plan is reviewed and approved by the Board of Directors with the aim 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.

Succession planning is reviewed at least annually by the Human Resources Department with the Chief Executive Officer. The Board's Nomination and Remuneration Committee reviews the succession plan in preparation for discussion and to be approved by the Board of Directors.

Remuneration Policy

The Bank's Executive Remuneration is designed to attract, motivate and retain leadership talent responsible for strategic growth of the Bank and ensuring 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 Central Bank of Kuwait (CBK) and Capital Markets Authority (CMA) guidelines.

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

- Is fully integrated with the Bank's strategic objectives and supports the core values;
- Enables the attraction of the desired profile of potential

employees, retention of key talent, and internal mobility and differentiation based on performance; and

- Is fair and equitable – ensures the mix of fixed and variable rewards that are relevant at the different levels of seniority. The Bank shall in general have a variable compensation based on 'At-Risk' approach for the senior executives whereby enough incentives are built-in to encourage outstanding performance notwithstanding that the variable remuneration pool encourages strengthening the capital base of the Bank yet prevents undue and excessive risks.

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

Salary Structure

The Bank seeks to recruit and retain employees in a manner that is externally competitive and internally 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.

Korn Ferry - Hay Group Job Evaluation

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

Promotion Increment

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

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

Employee Benefits

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

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	2019		2018	
	Unrestricted	Deferred	Unrestricted	Deferred
Fixed remuneration				
Cash - based	**3,116**	**-**	2,842	-
Shares and share-linked instruments	**-**	**-**	-	-
Other	**-**	**-**	-	-
Variable remuneration				
Cash - based	**1,474**	**-**	1,264	-
Shares and share-linked instruments	**-**	**554**	-	520
Other	**508**	**-**	316	-

(KD Thousand)

Employee Categories	2019		2018	
	Number of employees in the category	Total remuneration paid	Number of employees in the category	Total remuneration paid**
Senior Management*	**14**	**4,461**	12	3,694
Material risk takers	**6**	**894**	6	752
Financial & Control functions	**6**	**812**	5	496

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

** Includes actual cash paid plus estimated variable compensation.

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

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

The total remuneration paid to five senior executives was KD2,513 thousand (2018: KD2,094 thousand). The total remuneration paid to the Chief Executive Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor amounted to KD2,134 thousand (2018: KD1,590 thousand).

Compliance and Disclosure Unit

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

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

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

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

Insider Information

In line with the instructions issued by the regulatory authorities, Gulf Bank initiated clear board-approved policies and procedures in regards 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 and Good Conduct is considered one of the most important components of the corporate governance framework. The Board of Directors and Executive Management encourage and promote compliance with the Code of Ethics and Good Conduct in the Bank's day-to-day business activities, among its employees and in its business relationships with customers & stakeholders. For details about our Code of Ethics and Good Conduct, please visit (https://www.e-gulfbank.com/en/about-us/corporate-governance).

Conflict of Interest

Gulf Bank adopts a conflict of interest policy to ensure that all transactions are carried out at arms -length and transparently.

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

Confidentiality

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

Gulf Bank applies the required controls to insure confidentiality of information as per the policies approved by the Board of Directors.

Whistle Blowing Policy

In compliance with CBK instructions, and further to the Bank's commitment towards the shareholders and third parties, and in pursuance of the highest ethics standards and business integrity requirements, the Bank established a "Whistle Blowing Policy" and a direct reporting channel to the Chairman. The policy encourages positive intercommunication 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 Unit

The Board Affairs Unit oversees and manages all matters related to the Board of Directors and its committees. The Unit 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 handles all matters related to Corporate Governance regulations issued by the Central Bank of Kuwait.

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

The Board Affairs Unit reports to the Corporate Affairs.

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. 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 Gulf Bank 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 and Management 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 as per its mandate including independent assurance and evaluation of the appropriateness of design & operating effectiveness of governance, systems controls, risk management and internal controls to monitor, manage and mitigate the Bank's key risks and its related processes, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risks, verifies and assesses the adequacy and effectiveness of the internal control system and reports significant issues and control gaps with the Management agreed actions, to the Board Audit Committee and the Board of Directors.

- Existence of independent control reviews on financial accounting records and statements by External Auditors as per the requirement of local laws and regulations and submit such audit reports in the form of Management letters to Board of Directors and CBK.
- Existence of a comprehensive independent Internal Control Review process performed annually through an international audit firm (other than the external auditors), as per the requirement of CBK, which identifies and reports any internal control deficiencies along with a Management action plan, to address such issues. The latest report was issued in June 2019 and included no significant findings (Annexure-A). A summary of ICR report for the year ended 31st Dec 2018 was presented to the Board of Directors during 2019 and was reviewed and approved by the latter. The external audit firm has conducted two follow-up reviews 30/09/2019 and 31/12/2019 to ascertain corrective actions to its findings as per CBK requirements.
- The Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports, Central Bank audit reports, Management Letters, Internal Control Review reports and monitors periodically the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.

INTERNAL CONTROL SYSTEMS REPORT

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

24 June, 2019

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 06 February 2019, 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 2018.

We covered the following processes of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2019 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 2018, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

a. the accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 14 January 2019,

b. the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2018, and

c. 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 comprises of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital. CET1 comprises of paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares. Tier 2 comprises of allowed portion of general provisions (1.25% of the credit 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% (2018: 1%).

The table below details the regulatory capital for the Bank as at 31 December 2019 and 31 December 2018:

(KD Million)

Composition of Capital	31-Dec-19	31-Dec-18	Variance
Common Equity Tier 1 Capital : instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**457.8**	457.8	-
Retained earnings	**190.9**	162.6	28.3
Accumulated other comprehensive income (and other reserves)	**89.2**	81.9	7.3
Common Equity Tier 1 capital before regulatory adjustments	**737.9**	702.3	35.6
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)**	(73.6)	-
Total regulatory adjustments to Common equity Tier 1	**(73.6)**	(73.6)	-
Common Equity Tier 1 capital (CET1)	**664.3**	628.7	35.6
Additional Tier 1 capital : instruments	**-**	-	-
Additional Tier 1 capital : regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**664.3**	628.7	35.6
Tier 2 capital : instruments and provisions			
Directly issued qualifying Tier 2 instruments plus related stock surplus	**100.0**	100.0	-
General provisions included in Tier 2 capital	**58.2**	54.2	4.0
Tier 2 capital before regulatory adjustments	**158.2**	154.2	4.0
Tier 2 capital : regulatory adjustments	**-**	-	-
Tier 2 capital	**158.2**	154.2	4.0
Total capital (TC= T1+T2)	**822.5**	782.9	39.6
Total risk weighted assets	**4,809.3**	4,465.7	343.6

The table below details the regulatory capital for the Bank as at 31 December 2019 and 31 December 2018 continued:

(in KD Million unless otherwise stated)

Composition of Capital	31-Dec-19	31-Dec-18	Variance
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**13.8%**	14.1%	-0.3%
Tier 1 (as a percentage of risk weighted assets)	**13.8%**	14.1%	-0.3%
Total capital (as a percentage of risk weighted assets)	**17.1%**	17.5%	-0.4%
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)	**6.8%**	7.1%	-0.3%
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)	**254.8**	252.7	2.1
Cap on inclusion of provisions in Tier 2 under standardized approach	**58.2**	54.2	4.0
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 AND ALLOCATION

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 2019 and 31 December 2018:

(KD Million)

Credit Risk Exposures	31-Dec-19	31-Dec-18	Variance
Credit risk weighted assets	**4,653.1**	4,338.6	314.5
Less: Excess general provision	**(196.6)**	(198.5)	1.9
Net credit risk weighted exposures	**4,456.5**	4,140.1	316.4
Market risk weighted assets	**2.0**	1.0	1.0
Operational risk weighted exposures	**350.8**	324.6	26.2
Total Risk Weighted exposures	**4,809.3**	4,465.7	343.6

Regulatory Capital requirement at 13%

(KD Million)

Credit Risk	31-Dec-19	31-Dec-18	Variance
Cash items	**-**	-	-
Claims on sovereigns	**5.2**	0.6	4.6
Claims on public sector entities (PSEs)	**6.9**	3.4	3.5
Claims on Multi Development Banks (MDBs)	**0.7**	-	0.7
Claims on banks	**47.6**	41.8	5.8
Claims on corporates	**311.7**	305.6	6.1
Regulatory retail exposures	**183.8**	168.5	15.3
Past due exposures	**5.2**	3.6	1.6
Other exposures	**43.8**	40.5	3.3
Capital requirement for credit risk	**604.9**	564.0	40.9
Less : Excess general provision	**(25.6)**	(25.8)	0.2
Capital requirement for net Credit Risk	**579.3**	538.2	41.1

(KD Million)

Market Risk	31-Dec-19	31-Dec-18	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**0.3**	0.1	0.2
Capital requirement for market risk	**0.3**	0.1	0.2
Capital requirement for operational risk	**45.6**	42.2	3.4
Additional capital requirement (DSIB @ 1%)	**48.1**	44.7	3.4
TOTAL CAPITAL REQUIREMENT	**673.3**	625.2	48.1

Capital adequacy ratios (per cent)	31-Dec-19	31-Dec-18	Variance
Tier 1 ratio	**13.8%**	14.1%	-0.3%
Total capital adequacy ratio	**17.1%**	17.5%	-0.4%

The total risk-weighted exposure as at 31 December 2019 is **KD 4,809.3 million** (2018: KD 4,465.7 million), requiring a total capital at **14%** (2018: 14%) including 1% DSIB, of **KD 673.3 million** (2018: KD 625.2 million).

The Bank's regulatory capital as at 31 December 2019 is **KD 822.5 million** (2018: KD 782.9 million), translating to a capital adequacy ratio of **17.1%** (2018: 17.5%).

RISK MANAGEMENT

Organization of Governance and Risk Management

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

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of the Risk function of the Bank. The BRC reviews and recommends all risk management policies and risk appetite for the Board of Directors (BOD) approval. BRC reviews 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 CRO, which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

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

Corporate Governance

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

Risk Appetite and Portfolio Strategy

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

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

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

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

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 2019 is **17.10%** (2018: 17.53%) and the corresponding Capital Adequacy Ratio under ICAAP is **15.66%** (2018: 16.03%).

Credit Risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has comprehensive policies and procedures to control and monitor all such risks. The BOD has delegated all authority (except credit facilities to Board 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.

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

Liquidity Risk

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

Operational Risk

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

The Bank's Operational Risk Management framework is intended to identify, assess, monitor, mitigate and control operational risk effectively in the Bank in a consistent manner 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 Bank has an Incident reporting mechanism, whereby control failures are internally reported, the root causes identified and appropriate remedial measures are implemented in a timely manner. The Bank collates internal operational loss information and the data facilitates the Bank to put in place appropriate controls to prevent incidence of such losses in future. The Bank uses the 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 2019 and 31 December 2018 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 Thousands)

Gross Credit Risk Exposure	31-Dec-19	31-Dec-18	Variance
Funded Gross Credit Exposure	**6,496.5**	6,265.9	230.6
Unfunded Gross Credit Exposure	**1,492.1**	1,450.8	41.3
Total Gross Credit Risk Exposure	**7,988.6**	7,716.7	271.9

Funded gross credit risk exposure as of 31 December 2019 is **81.3%** (2018: 81.2%) 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 2019 and 31 December 2018 are detailed below:

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

(KD Thousands)

	2019			2018		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Cash items	59,914	-	59,914	55,431	-	55,431
Claims on sovereigns	986,735	3,274	990,009	1,064,928	5	1,064,933
Claims on PSEs	243,920	2,031	245,951	229,093	1,024	230,117
Claims on MDBs	4,911	-	4,911	-	-	-
Claims on banks	773,819	348,392	1,122,211	587,615	355,442	943,057
Claims on corporates	2,257,371	1,066,595	3,323,966	2,204,767	1,069,418	3,274,185
Retail exposures	1,485,823	39,681	1,525,504	1,359,276	36,554	1,395,830
Past due exposures	59,175	368	59,543	61,003	1,121	62,124
Other exposures	345,688	369	346,057	366,787	2,417	369,204
Total	6,217,356	1,460,710	7,678,066	5,928,900	1,465,981	7,394,881

Average funded gross credit risk exposure for 2019 is **80.98%** (2018: 80.18%) 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 2018 to 31 December 2019 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 2019 and 31 December 2018 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 2019 - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	69,556	-	-	-	-	-	69,556
Claims on sovereigns	816,411	113,416	-	-	-	-	929,827
Claims on PSEs	164,380	110,323	-	-	-	-	274,703
Claims on MDBs	-	-	-	-	-	11,415	11,415
Claims on banks	84,429	562,794	300,128	37,780	236,957	15,152	1,237,240
Claims on corporates	3,182,028	215,927	30,170	9,734	28,590	7,856	3,474,305
Retail exposures	1,589,810	453	331	90	371	358	1,591,413
Past due exposures	46,127	-	-	-	-	-	46,127
Other exposures	351,473	2,305	306	-	-	-	354,084
Total	6,304,214	1,005,218	330,935	47,604	265,918	34,781	7,988,670
Percentage of gross credit risk exposure by geographical region	79.0%	12.6%	4.1%	0.6%	3.3%	0.4%	100.0%

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 PSEs	160,974	120,204	-	-	-	-	281,178
Claims on MDBs	-	-	-	-	-	-	-
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%

The majority of the Bank's credit exposure is in Kuwait which comprises **KD 6.30 billion** (**79%** of total gross credit exposure) at 31 December 2019, compared with KD 6.27 billion (81.2% of total gross credit exposure) at 31 December 2018.

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2019 and 2018, broken down by geographical region and standard credit risk portfolio are shown below:

Total gross credit risk exposures as at 31 December 2019 (Average) - Region wise

(KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**59,914**	**-**	**-**	**-**	**-**	**-**	**59,914**
Claims on sovereigns	**900,410**	**87,497**	**351**	**-**	**1,751**	**-**	**990,009**
Claims on public sector entities (PSEs)	**163,313**	**82,638**	**-**	**-**	**-**	**-**	**245,951**
Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**4,911**	**4,911**
Claims on banks	**65,711**	**543,816**	**268,894**	**34,634**	**206,722**	**2,434**	**1,122,211**
Claims on corporates	**3,058,805**	**215,598**	**9,100**	**9,812**	**21,886**	**8,765**	**3,323,966**
Regulatory retail exposures	**1,524,141**	**362**	**229**	**88**	**334**	**350**	**1,525,504**
Past due exposures	**59,543**	**-**	**-**	**-**	**-**	**-**	**59,543**
Other exposures	**342,612**	**2,850**	**418**	**162**	**-**	**15**	**346,057**
Total	**6,174,449**	**932,761**	**278,992**	**44,696**	**230,693**	**16,475**	**7,678,066**
Percentage of gross credit risk exposure by geographical region	**80.5%**	**12.1%**	**3.6%**	**0.6%**	**3.0%**	**0.2%**	**100%**

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 PSEs	146,261	83,856	-	-	-	-	230,117
Claims on MDBs	-	-	-	-	-	-	-
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
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 exposure by geographical region	81.7%	10.6%	3.5%	0.4%	3.7%	0.1%	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 2019 and 31 December 2018 are shown below:

Total gross credit risk exposures as at 31 December 2019- Industry wise

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Construc-tion	Manufac-turing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	69,556	69,556
Claims on sovereigns	-	187,751	-	-	-	-	-	742,076	929,827
Claims on PSEs	-	20,913	-	158,957	-	-	-	94,833	274,703
Claims on MDBs	-	11,415	-	-	-	-	-	-	11,415
Claims on banks	-	1,237,240	-	-	-	-	-	-	1,237,240
Claims on corporate	193,927	250,256	712,820	127,246	797,622	339,214	571,620	481,600	3,474,305
Regulatory retail exposures	1,536,125	16,150	17,502	310	7,344	5,231	956	7,795	1,591,413
Past due exposures	12,361	8,305	1,531	49	5,122	-	18,756	3	46,127
Other exposures	30,409	203	-	-	-	-	140,939	182,533	354,084
Total	1,772,822	1,732,233	731,853	286,562	810,088	344,445	732,271	1,578,396	7,988,670
Percentage of gross credit risk exposure by industry segment	22.1%	21.7%	9.2%	3.6%	10.1%	4.3%	9.2%	19.8%	100%

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

(KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Construc-tion	Manufac-turing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	53,656	53,656
Claims on sovereigns	-	170,550	-	-	-	-	-	1,043,356	1,213,906
Claims on PSEs	-	-	-	213,515	-	-	-	67,663	281,178
Claims on MDBs	-	-	-	-	-	-	-	-	-
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 ex-posures	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%	100.0%

Residual Maturity Distribution of Gross Credit Risk Exposure

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2019 and 31 December 2018 are shown below:

Total gross credit risk exposures as at 31 December 2019

(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	**69,556**	**-**	**-**	**-**	**-**	**-**	**69,556**
Claims on sovereigns	**343,984**	**114,209**	**191,275**	**95,034**	**149,913**	**35,412**	**929,827**
Claims on PSEs	**6,518**	**14,395**	**-**	**-**	**24,920**	**228,870**	**274,703**
Claims on MDBs	**-**	**-**	**-**	**-**	**11,415**	**-**	**11,415**
Claims on banks	**558,727**	**131,243**	**65,969**	**119,011**	**280,060**	**82,230**	**1,237,240**
Claims on corporates	**351,597**	**647,516**	**520,253**	**415,988**	**758,891**	**780,060**	**3,474,305**
Regulatory retail exposures	**78,976**	**14,251**	**14,716**	**18,475**	**111,682**	**1,353,313**	**1,591,413**
Past due exposures	**31,838**	**906**	**294**	**171**	**2,558**	**10,360**	**46,127**
Other exposures	**153,731**	**73,922**	**18,232**	**65,674**	**10,092**	**32,433**	**354,084**
Total	**1,594,927**	**996,442**	**810,739**	**714,353**	**1,349,531**	**2,522,678**	**7,988,670**
Percentage of gross credit risk exposureby residual maturity	**20.0%**	**12.5%**	**10.1%**	**8.9%**	**16.9%**	**31.6%**	**100.0%**

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 PSEs	-	-	-	24,697	-	256,481	281,178
Claims on MDBs	-	-	-	-	-	-	-
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%

RISK MANAGEMENT

Impaired Loans and Provisions

Impaired Loans and Provisions by Industry Segments

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

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2019 and 31 December 2018 are shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2019

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	**12,333**	**23,267**	**10,934**	**47.0%**
Financial	**7,868**	**8,492**	**1,211**	**14.3%**
Trade and commerce	**1,195**	**1,563**	**821**	**52.5%**
Crude oil and gas	**49**	**49**	**-**	**0.0%**
Construction	**4,626**	**4,810**	**7,168**	**149.0%**
Manufacturing	**-**	**-**	**-**	**0.0%**
Real estate	**18,749**	**19,082**	**333**	**1.7%**
Others	**-**	**-**	**47**	**0.0%**
Total	**44,820**	**57,263**	**20,514**	**35.8%**

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

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance		
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%

Non-performing loans have increased by KD 12 million in 2019 (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 2019 (by Industry Segments)

(KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	General Charge	Total Charge
Personal	**13,512**	**1,203**	**14,715**
Financial	**17,211**	**(31)**	**17,180**
Trade and commerce	**54,288**	**(10,350)**	**43,938**
Crude oil and gas	**65**	**(415)**	**(350)**
Construction	**(2,966)**	**58**	**(2,908)**
Manufacturing	**(4)**	**49**	**45**
Real estate	**0**	**229**	**229**
Others	**(20)**	**(287)**	**(307)**
Total	**82,086**	**(9,544)**	**72,542**

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

Specific charge mentioned above excludes **KD 88.3 million** (2018: KD 59.9 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 2019 and 31 December 2018 are shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2019

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Kuwait	**44,820**	**57,263**	**20,514**	**35.8%**
Other Middle East	**-**	**-**	**-**	**0.0%**
Western Europe	**-**	**-**	**-**	**0.0%**
USA & Canada	**-**	**-**	**-**	**0.0%**
Asia Pacific	**-**	**-**	**-**	**0.0%**
Rest of World	**-**	**-**	**-**	**0.0%**
Total	**44,820**	**57,263**	**20,514**	**35.8%**

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

(KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
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%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2019 and 31 December 2018, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2019

(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	**69,556**	**-**	**69,556**	**69,556**	**-**	**-**	**69,556**
Claims on sovereigns	**923,761**	**6,066**	**929,827**	**923,761**	**3,040**	**47**	**926,848**
Claims on PSEs	**271,776**	**2,927**	**274,703**	**271,776**	**1,463**	**-**	**273,239**
Claims on MDBs	**11,415**	**-**	**11,415**	**11,415**	**-**	**-**	**11,415**
Claims on banks	**919,837**	**317,403**	**1,237,240**	**919,837**	**151,606**	**884**	**1,072,327**
Claims on corporates	**2,353,060**	**1,121,245**	**3,474,305**	**2,353,060**	**509,464**	**85**	**2,862,609**
Retail exposures	**1,548,576**	**42,837**	**1,591,413**	**1,548,576**	**18,766**	**5**	**1,567,347**
Past due exposures	**44,820**	**1,307**	**46,127**	**44,820**	**653**	**-**	**45,473**
Other exposures	**353,723**	**361**	**354,084**	**353,723**	**181**	**-**	**353,904**
Total	**6,496,524**	**1,492,146**	**7,988,670**	**6,496,524**	**685,173**	**1,021**	**7,182,718**

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 MDBs	-	-	-	-	-	-	-
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

Credit Risk Mitigation and Credit Risk-Weighted Assets

Under the Basel III standardized approach for credit risk, CRM techniques are used to reduce the risk-weighted amount of credit risk exposures for capital adequacy purposes. Note 24 (A) to the financial statements explains credit risk in detail and also outlines Bank's policy and framework to manage it. As per Basel III CBK guidelines, real estate is not considered as an eligible CRM for capital computation purposes.

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

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer (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 2019 and 31 December 2018 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 2019

(KD Thousands)

	Credit exposure before CRM	CRM		Credit exposure after CRM	Risk - Weighted Assets		
		Eligible Financial Collateral	Eligible Guarantees		Rated	Unrated	Total
Cash items	**69,556**	**-**	**-**	**69,556**	**-**	**-**	**-**
Claims on sovereigns	**926,848**	**109**	**-**	**926,739**	**39,755**	**-**	**39,755**
Claims on PSEs	**273,239**	**19,449**	**-**	**253,790**	**53,266**	**-**	**53,266**
Claims on MDBs	**11,415**	**-**	**-**	**11,415**	**5,708**	**-**	**5,708**
Claims on banks	**1,072,327**	**47,596**	**-**	**1,024,731**	**366,313**	**-**	**366,313**
Claims on corporates	**2,862,609**	**462,799**	**-**	**2,399,810**	**1,908**	**2,395,994**	**2,397,902**
Retail exposures	**1,567,347**	**149,279**	**-**	**1,418,068**	**-**	**1,413,481**	**1,413,481**
Past due exposures	**45,473**	**4,304**	**-**	**41,169**	**-**	**39,853**	**39,853**
Other exposures	**353,904**	**68,645**	**-**	**285,259**	**-**	**336,828**	**336,828**
Total	**7,182,718**	**752,181**	**-**	**6,430,537**	**466,950**	**4,186,156**	**4,653,106**

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

(KD Thousands)

	Credit exposure before CRM	CRM		Credit exposure after CRM	Risk - Weighted Assets		
		Eligible Financial Collateral	Eligible Guarantees		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 MDBs	-	-	-	-	-	-	-
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

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 2019 and 31 December 2018 are shown in the following table:

(KD thousands)

Market Risk	31-Dec-19	31-Dec-18	Variance
Interest rate position risk	-	-	-
Foreign exchange risk	**159**	81	78
Total market risk capital charge	**159**	81	78
Market risk - weighted assets	**1,988**	1,013	975
Total market risk capital requirement (at 13%)	**258**	132	126

On 31 December 2019, total market risk weighted assets were **KD 2 million** (2018: KD 1 million) and total capital requirement was **KD 258 thousand** (2018: KD 132 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 2019 and 31 December 2018 are shown in the following table:

Operational Risk as at 31 December 2019

(KD Thousands)

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	**37,873**	**18%**	**6,817**
Commercial banking	**81,633**	**15%**	**12,245**
Retail banking	**74,981**	**12%**	**8,998**
Total	**194,487**		**28,060**
Total operational risk weighted exposure			**350,750**
Total operational risk capital requirement (at 13%)			**45,598**

Operational Risk as at 31 December 2018

(KD Thousand

	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

As per Basel III, the total operational risk capital charge is calculated by multiplying the three year average gross income of the business lines by a pre-defined beta factor. The total operational risk weighted exposure is determined by multiplying the operational risk capital charge by 12.5 Gross income includes net interest income and net non-interest income. At 31 December 2019 operational risk-weighted exposure was **KD 350.8 million** (2018: KD 324.6 million) and total operational risk capital requirement at 13% was **KD 46 million** (2018: KD 42 million).

Equity Risk in the Banking Book

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

The fair value of the investment securities-equity held at 31 December 2019 and 31 December 2018 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 2019

(KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	**15,868**	**17,898**	**33,766**
Unrealised gains in equity securities (part of CET1)	**4,445**	**3,076**	**7,521**
Regulatory capital details			
Regulatory capital requirement	**2,222**	**2,506**	**4,728**
Disposal details			
Realised gain on equity securities at FVOCI			**386**

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	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
Disposal details			
Realised loss on equity securities at FVOCI			(1,038)

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

Interest Rate Risk in the Banking Book

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

Counter Party Credit Risk

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

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

Remuneration Policy

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%. 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-19	31-Dec-18	Variance
On-balance sheet exposures				
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**6,245,417**	6,016,347	229,070
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)	**6,245,417**	6,016,347	229,070
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)	**2,389,252**	2,318,708	70,544
18.	(Adjustments for conversion to credit equivalent amounts)	**(1,524,511)**	(1,483,668)	(40,843)
19.	**Off-balance sheet items (sum of lines 17 and 18)**	**864,741**	835,040	29,701
Capital and total exposures				
20.	Tier 1 capital	**664,323**	628,693	35,630
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**7,110,158**	6,851,387	258,771
Leverage ratio				
22.	**Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))**	**9.34%**	9.18%	0.17%

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-19	31-Dec-18	Variance
1.	Total consolidated assets as per published financial statements	**6,245,417**	6,016,347	229,070
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	**864,741**	835,040	29,701
7.	Other adjustments	**-**	-	-
8.	**Leverage ratio exposure**	**7,110,158**	6,851,387	258,771


GULF BANK

FINANCIAL STATEMENTS

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

Building a better working world

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Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2019, 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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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 2019 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Bank's 2019 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 Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 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 2019 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 2019 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.

16 January 2020
Kuwait

INCOME STATEMENT

Year Ended 31 December 2019

	NOTES	2019 KD000's	2018 KD000'S
Interest income	3	**275,644**	242,706
Interest expense	4	**(111,240)**	(90,078)
Net interest income		**164,404**	152,628
Net fees andcommissions	6	**29,544**	29,997
Net gains from dealing in foreign currencies		**9,967**	9,059
Dividend income		**1,131**	1,229
Other income		**2,601**	1,536
Operating income		**207,647**	194,449
Staff expenses		**47,413**	42,825
Occupancycosts	7	**2,839**	4,656
Depreciation	7	**7,069**	3,755
Other expenses		**20,676**	15,777
Operating expenses		**77,997**	67,013
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**129,650**	127,436
Charge of provisions:			
- specific	5	**70,472**	59,326
- general	12,18	**2,070**	49,595
Loan recoveries, net of write-off	12	**(10,915)**	(57,918)
Net provision on other financial assets		**(2)**	70
Impairment loss on other assets	14	**1,259**	16,821
		62,884	67,894
OPERATING PROFIT		**66,766**	59,542
Directors' remuneration	22	**135**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**668**	596
National Labour Support Tax		**1,652**	1,474
Zakat		**668**	596
PROFIT FOR THE YEAR		**63,643**	56,741
Basic and diluted per share (Fils)	8	**22**	20

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

STATEMENT OF COMPREHENSIVE INCOME

	2019 KD000's	2018 KD000'S
Profit for the year	**63,643**	56,741
Other comprehensive income		
Items that will not to be reclassified subsequently to the income statement:		
Net changes in fair value of investment securities-equity	**549**	118
Revaluation of premises and equipment	**442**	131
Items that are reclassified or may be reclassified subsequently to the income statement:		
Net changes in fair value of debt instruments at FVOCI	**(23)**	24
Other comprehensive income for the year	**968**	273
Total comprehensive income for the year	**64,611**	57,014

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	NOTE	2019 KD000's	2018 KD000'S
ASSETS			
Cash and cash equivalents	9	**847,881**	742,109
Kuwait Government treasury bonds	10	**232,000**	395,736
Central Bank of Kuwait bonds	11	**278,675**	321,953
Deposits with banks and other financial institutions	9	**128,368**	156,569
Loans and advances to banks	12	**212,978**	143,668
Loans and advances to customers	12	**4,224,608**	3,950,053
Investment securities	13	**170,694**	167,372
Other assets	14	**113,549**	107,147
Premises and equipment		**36,664**	31,740
TOTAL ASSETS		**6,245,417**	6,016,347
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**398,713**	414,482
Deposits from financial institutions	15	**1,018,487**	1,005,894
Customer deposits	16	**3,949,901**	3,734,755
Subordinated Tier 2 bonds	17	**100,000**	100,000
Other liabilities	18	**113,993**	132,523
TOTAL LIABILITIES		**5,581,094**	5,387,654
EQUITY			
Share capital	19	**304,813**	304,813
Statutory reserve	20	**39,106**	32,429
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**18,425**	17,983
Treasury shares reserve	21	**24,111**	24,111
Fair valuation reserve		**7,522**	7,382
Retained earnings		**190,927**	162,556
		737,928	702,298
Treasury shares	21	**(73,605)**	(73,605)
TOTAL EQUITY		**664,323**	628,693
TOTAL LIABILITIES AND EQUITY		**6,245,417**	6,016,347

Omar Kutayba Alghanim
(Chairman)

Antoine Daher
(Chief Executive Officer)

Theattached notes 1 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year Ended 31 December 2019

ASSETS	NOTE	2019 KD000's	2018 KD000'S
OPERATING ACTIVITIES			
Profit for the year		**63,643**	56,741
Adjustments:			
Effective interest rate adjustment		**(195)**	(22)
Dividend income		**(1,131)**	(1,229)
Depreciation		**7,069**	3,755
Loan loss provisions	5,12,18	**72,542**	108,921
Net provision on other financial assets		**(2)**	70
Impairment loss on other assets		**1,259**	16,821
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**143,185**	185,057
Decrease/(increase) in operating assets:			
Kuwait Government treasury bonds		**163,736**	171,048
Central Bank of Kuwait bonds		**43,278**	72,602
Deposits with banks and other financial institutions		**28,203**	(117,600)
Loans and advances to banks		**(69,251)**	(14,647)
Loans and advances to customers		**(349,361)**	(244,520)
Other assets		**(7,833)**	(272)
(Decrease)/increase in operating liabilities:			
Due to banks		**(15,769)**	2,377
Deposits from financial institutions		**12,593**	36,697
Customer deposits		**215,146**	244,778
Other liabilities		**(21,223)**	15,919
NET CASH FLOWS FROM OPERATING ACTIVITIES		**142,704**	351,439
INVESTING ACTIVITIES			
Purchase of investment securities		**(31,956)**	(57,198)
Proceeds from sale of investment securities		**29,332**	5,781
Purchase of premises and equipment		**(6,458)**	(5,410)
Dividend income received		**1,131**	1,229
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(7,951)**	(55,598)
FINANCING ACTIVITIES			
Dividend paid	22	**(28,981)**	(26,190)
Purchase of treasury shares		**-**	(3,125)
Proceeds from sale of treasury shares		**-**	142
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(28,981)**	(29,173)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**105,772**	266,668
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**742,109**	475,441
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**847,881**	742,109
Additional cash flows information			
Interest received		**274,998**	242,535
Interest paid		**109,794**	88,356

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

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2019

(KD Thousands)

	Share capital	RESERVES							Treasury shares	Total
		Statutory reserve	Share premium	Property revaluation reserve	Treasury shares reserve	Fair valuation reserve	Retained earnings	Subtotal reserves		
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	-	-	-	-	-	(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
At 1 January 2019	**304,813**	**32,429**	**153,024**	**17,983**	**24,111**	**7,382**	**162,556**	**397,485**	**(73,605)**	**628,693**
Profit for the year	-	-	-	-	-	-	63,643	63,643	-	63,643
Other comprehensive income for the year	-	-	-	442	-	526	-	968	-	968
Total comprehensive income for the year	-	-	-	442	-	526	63,643	64,611	-	64,611
Dividend paid (Note 22)	-	-	-	-	-	-	(28,981)	(28,981)	-	(28,981)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(386)	386	-	-	-
Transfer to reserve	-	6,677	-	-	-	-	(6,677)	-	-	-
At 31 December 2019	**304,813**	**39,106**	**153,024**	**18,425**	**24,111**	**7,522**	**190,927**	**433,115**	**(73,605)**	**664,323**

NOTES TO THE FINANCIAL STATEMENTS

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. The Bank's shares are listed on 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 2019 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 16 January 2020. 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 ofpreparation

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") and the regulations issued by the 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 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations effective for the annual periods beginning on or after 1 January 2019, 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 16: Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The only exceptions are short-term (i.e., where the lease term is 12 months or less) and low-value leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Bank, as a lessee, has adopted the accounting policies for its leases under IFRS 16 is explained in Note 2.3.1.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Bank has availed the short-term and low-value leases exceptions. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to KD 5,726 thousand. Refer to note 7 to the financial statements for more information.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Bank.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

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

Business model assessment

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

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

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

SPPI Test

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

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

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

Recognition/de-recognition

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 therisks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through agreement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability and the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

Measurement of financial instruments

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

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

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

Financial assets carried at amortised cost

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

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

Cash and cash equivalents, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances to banks, loans and advances to customers, certain investment debt securities and certain other assets are classified as financial assets carried at amortised cost.

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, to be recognised in income statement as 'Dividend income' when the Bank's right to receive payments is established.

NOTES TO THE FINANCIAL STATEMENTS

Financial asset at FVTPL

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

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

Impairment on financialassets

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

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

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

Impairment on credit facilities

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

Impairment on other financial assets (other than credit facilities)

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

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

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

Expected Credit Losses

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL- credit impaired

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

Determining the stage of Expected Credit Loss

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

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

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

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

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

Measurement of ECLs

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

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

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

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

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

Write off

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

Commitments

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

Guarantee contracts and letters of credit

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

Modification of loans and advances to customers

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated credit-impaired. When loans and advances to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

b. Derivative financial instrument sandhedging

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.

NOTES TO THE FINANCIAL STATEMENTS

Hedge effectiveness requirements

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

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

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

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

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

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

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

c. Repossessed collaterals

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

The Bank reviews its repossessed collaterals classified as 'other assets' at each reporting date 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. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

f. Treasury shares

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

g. Premises and equipment

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

l. Leases

Applicable from 1 January 2019

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

Right-of-use assets

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

Lease Liabilities

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

Applicable up to 31 December 2018

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 initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting date. Any resultant gains or losses are taken to the income statement.

In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the income statement, foreign exchange differences are recognised in the income statement.

o. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consists of cash in hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding thirty days from the date of deposit.

p. Segment reporting

A segment is a distinguishable component of the Bank that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Bank to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, products and services, class of customers where appropriate are aggregated and reported as reportable segments.

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. 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

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

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

Impairment losses on financial instruments

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios.

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

Valuation of unquoted financial instruments

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

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

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

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

2.5 Standards issued but not effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2020 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective. None of these are expected to have a significant impact on the financial statements of the Bank.

3. INTEREST INCOME

	2019 KD 000's	2018 KD 000's
Kuwait Government treasury bonds and CBK Bonds	**17,498**	19,201
Debt investment securities	**4,990**	3,444
Placements with banks	**14,852**	8,967
Loans and advances to banks and customers*	**238,304**	211,094
	275,644	242,706

*Includes KD 19,714 thousand (2018: KD Nil) from an impaired credit facility, based on a judgement rendered by the Court of Appeals.

4.INTEREST EXPENSE

	2019 KD 000's	2018 KD 000's
Sight and savings accounts	**3,251**	3,899
Time deposits	**88,594**	70,460
Bank borrowings	**12,330**	8,683
Subordinated Tier 2 bonds	**7,065**	7,036
	111,240	90,078

5. SPECIFIC PROVISIONS

	2019 KD 000's	2018 KD 000's
Loans and advances to customers		
- Cash (Note 12)	**73,137**	53,596
- Non-cash (Note 18)	**(2,665)**	5,730
	70,472	59,326

6. NET FEES AND COMMISSIONS

	2019 KD 000's	2018 KD 000's
Total fees and commission income	**38,884**	38,725
Total fees and commission expense	**(9,340)**	(8,728)
	29,544	29,997

Total fees and commission income includes **KD 338 thousand** (2018: KD 280 thousand) from fiduciary activities.

7. IMPACT OF IFRS 16 ADOPTION

The Bank presents right-of-use assets in 'premises and equipment' and lease liabilities in 'other liabilities' in the statement of financial position. The carrying value of right-of-use assets and lease liabilities as at 31 December 2019 amounted to **KD 4,079 thousand** and **KD 4,025 thousand** respectively.

Depreciation charge for right-of-use assets for the year amounted to **KD 2,679 thousand** and is included in 'depreciation' in income statement. Occupancy costs is lower to the extent of **KD 2,787 thousand** during the year as a result of applying IFRS 16.

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 2019.

	2019 KD 000's	2018 KD 000's
Profit for the year	**63,643**	56,741
Weighted average number of shares outstanding during the year, net of treasury shares	**Shares 2,898,133,288**	Shares 2,904,089,619
	Fils	Fils
Basic and diluted earnings per share	**22**	20

9. CASH AND CASH EQUIVALENTS

	2019 KD 000's	2018 KD 000's
Balances with the Central Bank of Kuwait	**186,022**	209,685
Cash in hand and in current accounts with other banks and other financial institutions	**156,392**	223,001
Deposits with banks and other financial institutions maturing with in 30 days	**505,520**	309,439
	847,934	742,125
Less: Provision for ECL	**(53)**	(16)
	847,881	742,109

At 31 December 2019, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 128,450 thousand** (2018: KD 156,653 thousand) adjusted by ECL provision amount of **KD 82 thousand** (2018: KD 84 thousand).

At 31 December 2019 and 2018, cash and equivalents and deposits with banks and other financial institutions are classified as Stage I. During the year, there were no movement between stages.

10. KUWAIT GOVERNMENT TREASURY BONDS

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

	2019 KD 000's	2018 KD 000's
Maturing within one year	**123,500**	163,736
Maturing after one year	**108,500**	232,000
	232,000	395,736

At 31 December 2019, Kuwait Government treasury bonds are considered low risk and classified as Stage I. 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.

	2019 KD 000's	2018 KD 000's
Central Bank of Kuwait Bonds	**278,675**	321,953

At 31 December 2019 and 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 2019:

A. Loans and advances to customers

	Kuwait KD 000's	**Other Middle East KD 000's**	**Western Europe KD 000's**	**Asia Pacific KD 000's**	**Rest of World KD 000's**	**Total KD 000's**
Personal	**1,771,305**	**-**	**-**	**-**	**8,210**	**1,779,515**
Financial	**145,274**	**107,859**	**-**	**-**	**-**	**253,133**
Trade and commerce	**445,875**	**10,455**	**-**	**-**	**-**	**456,330**
Crude oil and gas	**235,897**	**15,490**	**-**	**-**	**-**	**251,387**
Construction	**281,246**	**9,189**	**-**	**-**	**-**	**290,435**
Manufacturing	**296,627**	**7,728**	**-**	**-**	**-**	**304,355**
Real estate	**687,342**	**9,822**	**-**	**-**	**-**	**697,164**
Others	**199,146**	**274,385**	**-**	**-**	**-**	**473,531**
Gross loans and advances to customer	**4,062,712**	**434,928**	**-**	**-**	**8,210**	**4,505,850**
Less: Provision for impairment						**(281,242)**
Loans and advances to customers						**4,224,608**

B. Loans and advances to banks

Gross loans and advances to banks	**43,011**	**120,993**	**4,546**	**18,941**	**26,567**	**214,058**
Less: Provision for impairment						**(1,080)**
Loans and advances to banks						**212,978**

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

Movement in provision for impairment

	2019 KD 000's	2018 KD 000's
At 1 January	**295,643**	252,421
Amounts written-off	**(88,263)**	(59,942)
Charge to the income statement	**74,942**	103,164
At 31 December	**282,322**	295,643

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 2019 were **KD 249,030 thousand** (2018: KD 247,225 thousand).

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 2,762 thousand** (2018: KD 12,599 thousand) and recoveries of **KD 13,677 thousand** (2018: KD 70,517 thousand).

NOTES TO THE FINANCIAL STATEMENTS

Movement in provisions for impairment of loans and advances by class is as follows:	**2019 KD 000's**			2018 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**270,827**	**24,816**	**295,643**	230,066	22,355	252,421
Amounts written-off	**(70,801)**	**(17,462)**	**(88,263)**	(48,322)	(11,620)	(59,942)
Charge to income statement	**59,879**	**15,063**	**74,942**	89,083	14,081	103,164
At 31 December	**259,905**	**22,417**	**282,322**	270,827	24,816	295,643

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

Provision for non-cash facilities of **KD 13,846 thousand** (2018: KD 16,246 thousand) is included under other liabilities (Note 18).

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

	2019 KD 000's	2018 KD 000's
Provision on cash facilities	**282,322**	295,643
Provision on non-cash facilities	**13,846**	16,246
Total provisions on credit facilities	**296,168**	311,889
IFRS 9 ECL on credit facilities	**189,942**	199,754
Excess of total provisions over IFRS 9 ECL on credit facilities	**106,226**	112,135
Excess provisions as a percentage of total provisions	**36%**	36%

13. INVESTMENT SECURITIES

	2019 KD 000's			2018 KD 000's		
	Amortised cost KD 000's	**FVOCI KD 000's**	**Total KD 000's**	Amortised cost KD 000's	FVOCI KD 000's	Total KD 000's
Quoted investments						
Sovereign bonds/sukuk	**83,539**	**-**	**83,539**	107,930	-	107,930
Other bonds	**32,496**	**-**	**32,496**	1,511	-	1,511
Equity securities		**15,868**	**15,868**	-	15,723	15,723
	116,035	**15,868**	**131,903**	109,441	15,723	125,164
Unquoted investments						
Other bonds	**20,809**	**201**	**21,010**	20,810	2,174	22,984
Equity securities/managed funds	**-**	**17,898**	**17,898**	-	19,378	19,378
	20,809	**18,099**	**38,908**	20,810	21,552	42,362
Less: Provision for ECL	**(117)**	**-**	**(117)**	(153)	(1)	(154)
At 31 December	**136,727**	**33,967**	**170,694**	130,098	37,274	167,372

At 31 December 2019 and 2018, all the debt investment securities classified as Stage 1. During the year, there were no movement between stages.

14. OTHER ASSETS

	2019 KD 000's	2018 KD 000's
Accrued interest receivable	**22,187**	21,541
Sundry debtors and others	**18,536**	14,575
Repossessed collaterals (refer movement below)	**72,826**	71,031
	113,549	107,147

Movement in repossessed collaterals:

	2019 KD 000's	2018 KD 000's
At 1 January	**71,031**	78,856
Additions		
- Listed equity securities	**8,432**	-
- Real estate properties	**-**	98,996
Disposals	**(5,378)**	(90,000)
Impairment loss	**(1,259)**	(16,821)
At 31 December	**72,826**	71,031

Investment securities amounting to **KD 2,894 thousand** (31 December 2018: KD Nil) are fair valued using quoted market prices (Level I). 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

	2019 KD 000's	2018 KD 000's
Due to banks		
Current accounts and demand deposits	**22,912**	66,641
Time deposits	**375,801**	347,841
	398,713	414,482
Deposits from financial institutions		
Current accounts and demand deposits	**69,953**	53,497
Time deposits	**948,534**	952,397
	1,018,487	1,005,894

16. CUSTOMER DEPOSITS

	2019 KD 000's	2018 KD 000's
Current accounts	**1,206,523**	1,208,797
Savings accounts	**336,314**	344,350
Time deposits	**2,407,064**	2,181,608
	3,949,901	3,734,755

Customer deposits include **KD 13,617 thousand** (2018: KD 17,327 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

	2019 KD 000's	2018 KD 000's
Accrued interest payable	**30,896**	29,450
Deferred income	**4,980**	4,762
Provisions for non-cash facilities (refer movement below)	**13,846**	16,246
Staff related provisions	**25,960**	24,114
Lease liabilities (Note 7)	**4,025**	-
Others	**34,286**	57,951
	113,993	132,523

Movement in provisions for non-cash facilities:

	2019 KD 000's	2018 KD 000's
At 1 January	**16,246**	10,489
Release (charge) to the income statement	**(2,400)**	5,757
At 31 December	**13,846**	16,246

19. SHARE CAPITAL

	2019 KD 000's	2018 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 2019 is 3,048,127,898 (2018: 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 mayresolve to discontinue such annual transfers when the reserve equals 50 percent of paid up sharecapital.

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

	2019	2018
Number of treasury shares	**149,994,610**	149,994,610
Percentage of treasury shares	**4.92%**	4.92%
Cost of treasury shares (KD 000's)	**73,605**	73,605
Weighted average market value of treasury shares as at 31 December (KD 000's)	**44,098**	37,949

Movement in treasury shares was asfollows:

	No. of shares	
	2019	2018
Balance as at I January	**149,994,610**	138,148,846
Purchases	**-**	12,400,252
Sales	**-**	(554,488)
Balance as at 31 December	**149,994,610**	149,994,610

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** (2018: KD 24,111 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings through out the holding period of treasury shares.

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **11 fils** per share (2018: 10 fils) on the outstanding issued share capital as at 31 December 2019. The Cash dividend is subject to the approval of the shareholders atthe Annual General Meeting.

During the year, the shareholders at the Annual General Meeting held on 11 March 2019 approved a cash dividend of IO fils per share for the year ended 31 December 2018 (9 fils per share for the year ended 31 December 2017). The cash dividend was recorded on 28 March 2019 and paid subsequently.

Directors' remuneration of **KD 135 thousand** (2018: 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		Number of related parties			
	2019	2018	**2019**	2018	**2019 KD 000's**	2018 KD 000's
Board members:						
Balances						
Loans and advances	**1**	1	**14**	16	**176,918**	145,556
Credit cards	**6**	3	**7**	5	**86**	65
Deposits	**8**	8	**60**	52	**25,560**	618,269
Commitments/derivatives						
Guarantees /letters of credit	**1**	**1**	**5**	8	**5,388**	6,611
Forward foreign exchange contracts	**-**	-	**-**	1	**-**	15,541
Transactions						
Interest income	**1**	1	**19**	24	**7,025**	7,781
Interest expense	**5**	5	**21**	17	**9,512**	12,623
Net fees and commissions	**-**	1	**12**	12	**120**	351
Other expenses	**-**	**-**	**12**	9	**2,655**	1,294
Purchase of equipment	**-**	**-**	**2**	3	**173**	71
Executive management:						
Balances						
Loans and advances	**2**	1	**-**	-	**47**	30
Credit cards	**11**	9	**-**	-	**28**	22
Deposits	**12**	11	**-**	-	**1,491**	1,084
Transactions						
Interest income	**2**	2	**-**	-	**3**	2
Interest expense	**13**	12	**-**	-	**28**	15

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **3.5% to 6%** (2018: 3.5% to 6%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 31 December 2019 was **KD 116,820 thousand** (2018: KD 58,614 thousand).

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

	2019 KD 000's	2018 KD 000's
Salaries and other benefits	**4,065**	3,473
End of service/termination benefits	**396**	221
	4,461	3,694

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these instruments are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Risk management

The use of financial instruments also brings with it the associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risk forms an integral part of the Bank's strategic objectives.

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

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Bank. The BRC reviews and recommends all risk management policies and risk appetite for Board of Directors (BOD) approval. BRC reviews 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 exoosures 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 ('RCC') 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.

RCC reviews all remedial management credits and/or approves or recommends for MCC's or ECC's approval. All proposals to settle, restructure, reschedule, abandon recovery efforts or write-off debts applications that fall outside the delegated authority limits of the Remedial Credit Committee are referred to the relevant Credit Committee.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

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 {TIC) PDs are generated from the rating tool based on the internal/ external credit ratings. The Bank converts the TIC 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 2019, **24%** (2018: 25%) 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 2019 KD 000's**	Maximum exposure 2018 KD 000's
Cash and cash equivalents (excluding cash in hand)	**778,325**	688,453
Kuwait Government treasury bonds	**232,000**	395,736
Central Bank of Kuwait bonds	**278,675**	321,953
Deposits with banks and other financial institutions	**128,368**	156,569
Loans and advances to banks	**212,978**	143,668
Loans and advances to customers:		
- Corporate lending	**2,656,614**	2,517,480
- Consumer lending	**1,567,994**	1,432,573
Debt investment securities (Note 13)	**136,928**	132,271
Other assets	**40,723**	36,116
Total	**6,032,605**	5,824,819
Contingent liabilities and commitments	**1,753,185**	1,663,166
Foreign exchange contracts (including spot contracts)	**100,425**	73,919
Total	**1,853,610**	1,737,085
Total credit risk exposure	**7,886,215**	7,561,904

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 exposuresas at 31 December 2019 is **13.3%** (2018:13.6%).

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Internal credit quality rating

The Bank's policy is to assess the credit risk in Commercial banking through a risk rating process. The process is based on international best practices, and provides transparency and consistency to enable comparison between obligors.

The Bank uses Moody's Risk Rating tool for rating its corporate borrowers. Under the Moody's Risk rating framework all the borrowers are rated based on financial and business assessments. Financial assessment takes into operational performance, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing.

The Risk Rating Process derives the Obligor Risk Ratings (ORRs) and Facility Risk Ratings (FRRs). The rating methodology focuses on factors such as: operating performance, liquidity, debt service and capital structure. The ratio analysis includes assessment of each ratio's trend across multiple periods, both in terms of rate change and the volatility of the trend. It also ccompares 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' qualityrange.

Facility Risk Rating

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

North American Industry Classification System {NAICS} Code:

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

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

Portfolio Risk Rating

The Bank computes a weighted average Risk Rating through which the overall portfolio quality is assessed at regular intervals and deliberated upon in the ERC as well as in the BRC.

RAROC Model

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

Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has a system for real time electronic dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

2019	Neither past due norimaired Past 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)	**778,378**	**-**	**-**	**-**	**778,378**
Kuwait Government treasury bonds	**232,000**	**-**	**-**	**-**	**232,000**
Central Bank of Kuwait bonds	**278,675**	**-**	**-**	**-**	**278,675**
Deposits with banks and other financial institutions	**128,450**	**-**	**-**	**-**	**128,450**
Loans and advances to banks	**214,058**	**-**	**-**	**-**	**214,058**
Loans and advances to customers:					
- Corporate lending	**2,039,320**	**739,308**	**94,624**	**9,546**	**2,882,798**
- Consumer lending	**1,480,326**	**16,654**	**-**	**74,008**	**1,570,988**
Debt investment securities (Note 13)	**137,045**	**-**	**-**	**-**	**137,045**
Other assets	**40,723**	**-**	**-**	**-**	**40,723**
	5,328,975	**755,962**	**94,624**	**83,554**	**6,263,115**

2018	Neither past due norimaired Past 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
Kuwait Government treasury 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

93% (2018: 91%) of the past due but not impaired category is below 60 days and **7%** (2018: 9%) is between 60-90 days.

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Financial assets by class individually impaired

2019	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
Loans and advances to customers:			
- Corporate lending	**32,641**	**374**	**31,252**
- Consumer lending	**19,423**	**6,870**	**294**
	52,064	**7,244**	**31,546**

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

	2019		2018	
	Assets KD 000's	Off balance sheet items KD 000's	Assets KD 000's	Off balance sheet items KD 000's
Geographic region:				
Domestic (Kuwait)	**4,770,090**	**1,350,038**	4,774,558	1,324,055
Other Middle East	**903,520**	**178,860**	818,409	112,870
Europe	**238,878**	**96,963**	199,691	71,248
USA and Canada	**28,542**	**19,048**	2,800	23,943
Asia Pacific	**57,028**	**208,701**	18,364	204,969
Rest of world	**34,547**	**-**	10,997	-
	6,032,605	**1,853,610**	5,824,819	1,737,085
Industry sector:				
Personal	**1,755,379**	**30,837**	1,642,319	-
Financial	**1,217,984**	**555,152**	985,527	519,534
Trade and Commerce	**451,493**	**378,575**	423,342	277,194
Crude Oil and Gas	**74,766**	**36,578**	79,418	35,228
Construction	**287,428**	**558,112**	258,389	581,215
Government	**1,080,490**	**7**	1,310,896	12
Manufacturing	**299,292**	**64,014**	284,720	72,455
Real Estate	**690,398**	**48,080**	662,209	65,477
Others	**175,375**	**182,255**	177,999	185,970
	6,032,605	**1,853,610**	5,824,819	1,737,085

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 sensitivityon equity (comprehensive income) is the impact of changes in interest rates on the fair value of FVOCI fixed/floating rate bonds held at year end.

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

	2019			2018		
Currency	**Change in interest rate in basis points**	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
KWD	(+) 25	**2,117**	**-**	(+) 25	2,695	-
USD	(+) 25	**605**	**-**	(+) 25	287	-

C. CURRENCY RISK

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Bank complies with all CBK and internally approved limits. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

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

	2019			2018		
Currency	**Change in currency rate %**	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in currency rate %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	**+ 5**	**(80)**	**115**	+ 5	(217)	211

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.

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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 100% (2018: 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 KO customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 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 2019:

Assets:	Upto 1month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	847,881	-	-	-	-	-	847,881
Kuwait Government treasury bonds	29,500	15,000	37,000	42,000	86,500	22,000	232,000
Central Bank of Kuwait bonds	61,927	91,060	125,688	-	-	-	278,675
Deposits with banks and other financial institutions	-	72,347	40,868	15,153	-	-	128,368
Loans and advances to banks	445	13,568	22,230	21,077	140,657	15,001	212,978
Loans and advances to customers	244,826	400,314	526,421	551,050	498,136	2,003,861	4,224,608
Investment securities	-	-	7,589	-	91,273	71,832	170,694
Other assets	28,483	3,087	4,933	3,414	73,260	372	113,549
Premises and equipment	-	-	-	-	-	36,664	36,664
Total assets	1,213,062	595,376	764,729	632,694	889,826	2,149,730	6,245,417
Liabilities:							
Due to banks	120,399	69,064	108,033	101,217	-	-	398,713
Deposits from financial institutions	344,085	162,351	267,765	243,508	778	-	1,018,487
Customer deposits	2,170,013	598,970	568,210	590,205	22,503	-	3,949,901
Subordinated Tier 2 bonds	-	-	-	-	100,000	-	100,000
Other liabilities	39,088	24,180	11,375	17,705	21,645	-	113,993
Total liabilities	2,673,585	854,565	955,383	952,635	144,926	-	5,581,094

STRATEGIC REVIEW BUSINESS OVERVIEW GOVERNANCE FINANCIAL STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018:

Assets:	Upto 1month 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
Kuwait Government treasury 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

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 2019:

Financial liabilities:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD000's
Due to banks	**59,010**	**47,203**	**189,133**	**109,496**	**-**	**404,842**
Deposits from financial institutions	**89,796**	**169,672**	**584,652**	**195,507**	**-**	**1,039,627**
Customer deposits	**1,581,477**	**271,689**	**1,536,583**	**603,307**	**-**	**3,993,056**
Subordinated Tier 2 bonds	**-**	**1,634**	**4,991**	**102,741**	**-**	**109,366**
Other liabilities	**39,088**	**24,180**	**29,080**	**21,645**	**-**	**113,993**
Total undiscounted liabilities	**1,769,371**	**514,378**	**2,344,439**	**1,032,696**	**-**	**5,660,884**

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 KD000'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

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

At 31 December 2019:

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD000's
Contingent liabilities	**27,275**	**58,179**	**198,070**	**616,078**	**561,979**	**1,461,581**
Commitments	**5,194**	**5,552**	**29,095**	**48,820**	**202,943**	**291,604**
	32,469	**63,731**	**227,165**	**664,898**	**764,922**	**1,753,185**

At 31 December 2018:

	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 KD000's
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

NOTES TO THE FINANCIAL STATEMENTS

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	1to3 months KD 000's	3 to 12 months KD 000's	Total KD 000's
At 31 December 2019:				
Forward foreign exchange	**70,848**	**174**	**3,108**	**74,130**
At 31 December 2018:				
Forward foreign exchange	30,722	2,717	28,536	61,975

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are monitored through the Operational Risk Management Unit in the Risk Management Department. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management. The Operational Risk Management function is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

This is a risk that the value of equity investments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

A portion of the Bank's investments are held in well diversified portfolio of managed funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

The effect on equity (as a result of change in the fair value of equity instruments held as FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

Market indices	% Change in equity price	2019 Effect on equity KD 000's	2018 equity KD 000's
Kuwait Stock Exchange	+5%	**793**	726
New York Stock Exchange	+5%	-	59

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:

2019	**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	**15,868**	**5,978**	**11,920**	**33,766**
Debt securities	**-**	**201**	**-**	**201**
	15,868	**6,179**	**11,920**	**33,967**

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

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

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

The amortized cost and fair value of investment securities at amortised cost as at 31 December 2019 were **KD 136,727 thousand** (2018: KD 130,098 thousand) and **KD 118,235 thousand** (Level 1) (2018: KD 108,348 thousand) and **KD 20,800 thousand** (Level 2) (2018: KD 20,800 thousand) respectively.

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

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

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:

	2019 KD 000's	2018 KD 000's
Guarantees	**1,213,861**	1,226,081
Letters of credit and acceptances	**247,720**	214,203
	1,461,581	1,440,284

As at the reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD 291,604 thousand** (2018: KD 222,882 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

27. SEGMENTAL ANALYSIS

a. 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	
	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Operating income	**166,869**	153,460	**7,754**	15,181	**174,623**	168,641
Segment result	**76,487**	106,901	**6,610**	14,082	**83,097**	120,983
Unallocated income					**33,024**	25,808
Unallocated expense					**(52,478)**	(90,050)
Profit for the year					**63,643**	56,741
Segment assets	**4,562,162**	4,204,269	**1,605,868**	1,744,222	**6,168,030**	5,948,491
Unallocated assets					**77,387**	67,856
Total Assets					**6,245,417**	6,016,347
Segment liabilities	**2,740,335**	2,952,062	**2,688,145**	2,253,045	**5,428,480**	5,205,107
Unallocated liabilities and equity					**816,937**	811,240
Total Liabilities and Equity					**6,245,417**	6,016,347

b. Geographic segment information relating to location of assets, liabilities and off balance sheet are given in Note 24 A..

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 2019 or 2018.

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 December2019:

				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	**13**	**(215)**	**74,130**	**71,022**	**3,108**

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

NOTES TO THE FINANCIAL STATEMENTS

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 cashdividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2019 and 31 December 2018 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2019 KD 000's	2018 KD 000's
Risk weighted assets	**4,809,253**	4,465,675
Capital required	**673,295**	625,195
Capital available		
- Tier 1 capital	**664,323**	628,693
- Tier 2 capital	**158,164**	154,232
Total capital	**822,487**	782,925
Tier 1 capital adequacy ratio	**13.81%**	14.08%
Total capital adequacy ratio	**17.10%**	17.53%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2019 and 31 December 2018 calculated in accordance with CBK circular number 2/BS/342/2014 dated 21 October 2014 are shown below:

	2019 KD 000's	2018 KD 000's
Tier 1 capital	**664,323**	628,693
Total Exposure	**7,110,158**	6,851,387
Financial leverage ratio	**9.34%**	9.18%

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 2019 and 31 December 2018 are included under the 'Risk Management' section of the annual report.

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