

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

30 SEPTEMBER 2021



Building a better
working world

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KUWAIT BANK REVIEW
30 SEPTEMBER 2021

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C.P. (the "Bank") as at 30 September 2021, and the related interim condensed statement of income, interim condensed statement of comprehensive income for the three months and nine months periods then ended and the related interim condensed statement of cash flows and interim condensed statement of changes in equity for the nine months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the nine months period ended 30 September 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the nine months period ended 30 September 2021 that might have had a material effect on the business of the Bank or on its financial position.

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

TALAL YOUSEF AL-MUZAINI
LICENCE NO. 209 A
DELOITTE & TOUCHE
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GULF BANK K.S.C.P.
Interim Condensed Statement of Income
(Unaudited)

PERIOD ENDED 30 SEPTEMBER 2021

		<i>3 months ended</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 September</i> <i>2020</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2020</i> <i>KD 000's</i>
Interest income	13	46,739	49,300	137,968	162,569
Interest expense		13,469	17,818	39,400	69,785
Net interest income		33,270	31,482	98,568	92,784
Net fees and commissions		6,017	5,604	19,701	17,095
Net gains from dealing in foreign currencies and derivatives		2,554	1,832	6,519	5,425
Dividend income		314	120	379	472
Other income		124	113	359	588
Operating income		42,279	39,151	125,526	116,364
Staff expenses		11,402	7,653	34,657	28,042
Occupancy costs		633	673	1,964	2,084
Depreciation		1,712	1,925	5,158	5,795
Other expenses		5,191	3,848	17,298	11,652
Operating expenses		18,938	14,099	59,077	47,573
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES		23,341	25,052	66,449	68,791
Charge of provisions:					
- specific		13,444	17,725	42,705	49,971
- general		1,310	1,549	2,185	4,301
Loan recoveries, net of write-off		(2,941)	(1,101)	(7,376)	(4,968)
Net provision on other financial assets		28	(17)	105	(101)
Impairment loss on other assets	12	-	-	-	372
OPERATING PROFIT		11,500	6,896	28,830	19,216
Directors' remuneration		15	-	45	-
Contribution to Kuwait Foundation for the Advancement of Sciences		115	69	289	192
National Labour Support Tax		285	171	714	478
Zakat		115	69	289	192
PROFIT FOR THE PERIOD		10,970	6,587	27,493	18,354
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	4	2	9	6

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

GULF BANK K.S.C.P.
Interim Condensed Statement of Comprehensive Income
(Unaudited)


PERIOD ENDED 30 SEPTEMBER 2021

	<i>3 months ended</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 September</i> <i>2020</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2020</i> <i>KD 000's</i>
Profit for the period	10,970	6,587	27,493	18,354
Other comprehensive income				
<i>Items that will not be reclassified subsequently to interim condensed statement of income :</i>				
Net changes in fair value of investment securities -equity	(1)	372	980	(4,087)
<i>Items that are reclassified or may be reclassified subsequently to interim condensed statement of income:</i>				
Net changes in fair value of debt instruments at FVOCI	-	-	-	1
Other comprehensive (loss) income for the period	<u>(1)</u>	<u>372</u>	<u>980</u>	<u>(4,086)</u>
Total comprehensive income for the period	<u><u>10,969</u></u>	<u><u>6,959</u></u>	<u><u>28,473</u></u>	<u><u>14,268</u></u>

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

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

		<i>(Unaudited)</i> 30 September 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 30 September 2020 KD 000's
ASSETS				
Cash and cash equivalents		876,497	1,105,925	826,365
Kuwait Government treasury bonds		91,000	108,500	108,500
Central Bank of Kuwait bonds		281,371	280,724	279,799
Deposits with banks and other financial institutions		112,588	3,033	-
Loans and advances to banks	14	246,766	192,063	193,586
Loans and advances to customers	14	4,422,071	4,116,537	4,206,899
Investment securities		150,120	174,855	165,491
Other assets	12	115,715	97,018	118,941
Premises and equipment		33,471	34,053	34,596
TOTAL ASSETS		6,329,599	6,112,708	5,934,177
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		563,568	550,543	310,067
Deposits from financial institutions		718,531	705,337	828,162
Customer deposits		4,154,199	4,033,719	3,971,357
Other borrowed funds	15	150,000	100,000	100,000
Other liabilities		89,659	85,745	102,318
TOTAL LIABILITIES		5,675,957	5,475,344	5,311,904
EQUITY				
Share capital	4	304,813	304,813	304,813
Statutory reserve		42,135	42,135	39,106
Share premium		153,024	153,024	153,024
Property revaluation reserve		18,169	18,169	18,425
Treasury share reserve		-	-	2,395
Fair valuation reserve		4,161	3,686	3,086
Retained earnings		149,497	140,073	135,472
		671,799	661,900	656,321
Treasury shares	5	(18,157)	(24,536)	(34,048)
TOTAL EQUITY		653,642	637,364	622,273
TOTAL LIABILITIES AND EQUITY		6,329,599	6,112,708	5,934,177


Jassim Mustafa Boodai
(Chairman)


Antoine Daher
(Chief Executive Officer)

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

GULF BANK K.S.C.P.
Interim Condensed Statement of Cash Flows
(Unaudited)
PERIOD ENDED 30 SEPTEMBER 2021

	Notes	<i>9 months ended 30 September 2021 KD 000's</i>	<i>9 months ended 30 September 2020 KD 000's</i>
OPERATING ACTIVITIES			
Profit for the period		27,493	18,354
Adjustments:			
Effective interest rate adjustment		-	(16)
Dividend income		(379)	(472)
Depreciation		5,158	5,795
Loan loss provisions		44,890	54,272
Net provision on other financial assets		105	(101)
Impairment loss on other assets	12	-	372
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		77,267	78,204
<i>Decrease/(increase) in operating assets:</i>			
Kuwait Government treasury bonds		17,500	123,500
Central Bank of Kuwait bonds		(647)	(1,124)
Deposits with banks and other financial institutions		(109,562)	128,450
Loans and advances to banks		(54,709)	19,457
Loans and advances to customers		(347,501)	(75,550)
Other assets		(16,434)	(7,984)
<i>Increase/(decrease) in operating liabilities:</i>			
Due to banks		13,025	(88,646)
Deposits from financial institutions		13,194	(190,325)
Customer deposits		120,480	21,456
Other liabilities		997	(14,949)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(286,390)	(7,511)
INVESTING ACTIVITIES			
Purchase of investment securities		(19,698)	(5,452)
Proceeds from sale of investment securities		43,052	8,808
Purchase of premises and equipment		(4,576)	(3,727)
Dividend income received		379	472
NET CASH FLOWS FROM INVESTING ACTIVITIES		19,157	101
FINANCING ACTIVITIES			
Net proceeds from other borrowed funds	15	50,000	-
Dividend paid	6	(15,056)	(31,947)
Proceeds from sale of treasury shares		2,861	17,841
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		37,805	(14,106)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(229,428)	(21,516)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,105,925	847,881
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		876,497	826,365
<i>Additional cash flows information</i>			
Interest received		135,698	161,426
Interest paid		40,533	78,290

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

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

PERIOD ENDED 30 SEPTEMBER 2021

	RESERVES								Treasury shares KD 000's	Total KD 000's
	Share capital KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury share reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Sub-total reserves KD 000's		
At 1 January 2020	304,813	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
Profit for the period	-	-	-	-	-	-	18,354	18,354	-	18,354
Other comprehensive loss for the period	-	-	-	-	-	(4,086)	-	(4,086)	-	(4,086)
Total comprehensive (loss) income for the period	-	-	-	-	-	(4,086)	18,354	14,268	-	14,268
Dividend paid (Note 6)	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Modification loss on consumer lending (Note 13)	-	-	-	-	-	-	(42,212)	(42,212)	-	(42,212)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(350)	350	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	39,557	39,557
Loss on sale of treasury shares	-	-	-	-	(21,716)	-	-	(21,716)	-	(21,716)
At 30 September 2020	304,813	39,106	153,024	18,425	2,395	3,086	135,472	351,508	(34,048)	622,273
At 1 January 2021	304,813	42,135	153,024	18,169	-	3,686	140,073	357,087	(24,536)	637,364
Profit for the period	-	-	-	-	-	-	27,493	27,493	-	27,493
Other comprehensive income for the period	-	-	-	-	-	980	-	980	-	980
Total comprehensive income for the period	-	-	-	-	-	980	27,493	28,473	-	28,473
Dividend paid (Note 6)	-	-	-	-	-	-	(15,056)	(15,056)	-	(15,056)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(505)	505	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	6,379	6,379
Loss on sale of treasury shares	-	-	-	-	-	-	(3,518)	(3,518)	-	(3,518)
At 30 September 2021	304,813	42,135	153,024	18,169	-	4,161	149,497	366,986	(18,157)	653,642

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

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 September 2021

1. INCORPORATION AND REGISTRATION

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

The interim condensed financial information of the Bank for the nine months period ended 30 September 2021 was authorised by the Board of Directors for issue on 13 October 2021.

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

2. BASIS OF PRESENTATION

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

The financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) with the following amendments:

- Expected credit loss ("ECL") on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular No. 2/BS/IBS/461/2020. Modification losses referred to in the circular, should be recognized in retained earnings instead of income statement as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in income statement in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognized in the income statement. The application of the policy will result in application of different accounting presentation for modification loss in 2020 compared to 2021 (Note 13).

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

The accounting policies used in the preparation of the interim condensed financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2020, except for the amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest; and
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

These amendments had no material impact on the interim condensed financial statements of the Bank. The Bank intends to use the practical expedients in future periods if they become applicable.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2020. Further, operating results for the nine months period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

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

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 September 2021

3. BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>3 months ended 30 September 2021 KD 000's</i>	<i>3 months ended 30 September 2020 KD 000's</i>	<i>9 months ended 30 September 2021 KD 000's</i>	<i>9 months ended 30 September 2020 KD 000's</i>
Profit for the period	<u>10,970</u>	<u>6,587</u>	<u>27,493</u>	<u>18,354</u>
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	<u>3,011,127,898</u>	<u>2,920,213,052</u>	<u>3,007,627,246</u>	<u>2,908,595,638</u>
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>2</u>	<u>9</u>	<u>6</u>

4. SHARE CAPITAL

	<i>(Unaudited) 30 September 2021 KD 000's</i>	<i>(Audited) 31 December 2020 KD 000's</i>	<i>(Unaudited) 30 September 2020 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2020: 3,048,127,898 and 30 September 2020: 3,048,127,898) shares of 100 fils	<u>304,813</u>	<u>304,813</u>	<u>304,813</u>

5. TREASURY SHARES

	<i>(Unaudited) 30 September 2021</i>	<i>(Audited) 31 December 2020</i>	<i>(Unaudited) 30 September 2020</i>
Number of treasury shares	<u>37,000,000</u>	<u>50,000,000</u>	<u>69,384,536</u>
Percentage of treasury shares	<u>1.21%</u>	<u>1.64%</u>	<u>2.28%</u>
Cost of treasury shares (KD 000's)	<u>18,157</u>	<u>24,536</u>	<u>34,048</u>
Weighted average market value of treasury shares (KD 000's)	<u>8,473</u>	<u>11,450</u>	<u>15,958</u>

The balance in the treasury share reserve of **KD Nil** (31 December 2020: KD Nil and 30 September 2020: KD 2,395 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 and retained earnings through out the holding period of treasury shares.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 September 2021

6. DIVIDEND

The shareholders at the Annual General Meeting (AGM) held on 27 March 2021 approved a cash dividend of **5 fils** per share (2019: 11 fils) for the year ended 31 December 2020. The cash dividend was recorded and paid subsequently.

7. SEGMENTAL ANALYSIS

By Business Unit

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

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

Segmental information for the nine months period ended 30 September is as follows:

	<u>Commercial Banking</u>		<u>Treasury & Investments</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>
Operating income (excluding unallocated income provided below)	<u>104,804</u>	<u>100,890</u>	<u>9,324</u>	<u>(1,956)</u>	<u>114,128</u>	<u>98,934</u>
Segment result	<u>46,259</u>	<u>37,090</u>	<u>8,223</u>	<u>(2,880)</u>	<u>54,482</u>	<u>34,210</u>
Unallocated income					<u>11,398</u>	<u>17,430</u>
Unallocated expense					<u>(38,387)</u>	<u>(33,286)</u>
Profit for the period					<u>27,493</u>	<u>18,354</u>
Segment assets	<u>4,774,793</u>	<u>4,517,933</u>	<u>1,465,051</u>	<u>1,335,161</u>	<u>6,239,844</u>	<u>5,853,094</u>
Unallocated assets					<u>89,755</u>	<u>81,083</u>
Total Assets					<u>6,329,599</u>	<u>5,934,177</u>
Segment liabilities	<u>3,342,027</u>	<u>3,003,576</u>	<u>2,184,761</u>	<u>2,145,443</u>	<u>5,526,788</u>	<u>5,149,019</u>
Unallocated liabilities and equity					<u>802,811</u>	<u>785,158</u>
Total Liabilities and Equity					<u>6,329,599</u>	<u>5,934,177</u>

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

30 September 2021

8. RELATED PARTY TRANSACTIONS

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

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

	<i>Number of Board Members or executive management (Audited)</i>		<i>Number of related parties (Audited)</i>		<i>KD 000's</i>		<i>KD 000's</i>	
	<i>30 September 2021</i>	<i>31 December 2020</i>	<i>30 September 2021</i>	<i>31 December 2020</i>	<i>30 September 2021</i>	<i>31 December 2020</i>	<i>30 September 2021</i>	<i>31 December 2020</i>
Board members:								
Balances								
Loans and advances	1	-	12	12	13	163,681	152,896	213,916
Credit cards	2	1	4	4	4	9	19	19
Deposits	8	7	74	72	67	46,936	30,774	29,341
Commitments/derivatives								
Guarantees / letters of credit	-	-	10	9	7	7,820	7,454	5,131
Transactions								
Interest income	1	2	15	22	20	3,100	5,783	4,465
Interest expense	4	5	12	20	19	245	412	328
Net fees and commissions	-	-	10	11	7	66	51	25
Other expenses	-	-	13	12	12	765	1,654	1,232
Purchase of equipment	-	-	3	3	2	95	231	146
Executive management:								
Balances								
Loans and advances	3	3	-	-	-	246	83	38
Credit cards	13	10	-	-	-	26	19	14
Deposits	15	14	-	-	-	2,033	1,695	1,990
Transactions								
Interest income	4	3	-	-	-	7	3	2
Interest expense	16	16	-	-	-	15	21	17

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of 2% to 5.5% (2020: 2% to 6%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 30 September 2021 was **KD 108,152 thousand** (31 December 2020: KD 106,708 thousand and 30 September 2020: KD 116,247 thousand).

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

	<i>9 months ended 30 September 2021</i>	<i>9 months ended 30 September 2020</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Salaries and other short-term benefits	3,012	1,995
End of service/termination benefits	78	633
	3,090	2,628

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 30 September 2021</i>	<i>(Audited) 31 December 2020</i>	<i>(Unaudited) 30 September 2020</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Guarantees	1,145,038	1,135,900	1,159,233
Letters of credit and acceptances	247,328	243,879	159,125
Undrawn irrevocable commitments	16,000	23,947	37,340
Undrawn revocable commitments	1,041,138	958,082	1,090,408
	2,449,504	2,361,808	2,446,106

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

10. DERIVATIVES

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

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

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

			<i>Notional amounts by term to maturity</i>		
At 30 September 2021:	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within 3 months</i>	<i>3-12 months</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	6	(4)	3,928	3,928	-
	6	(4)	3,928	3,928	-

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

10. DERIVATIVES (continued)

At 31 December 2020:	<i>Notional amounts by term to maturity</i>				
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	25	(28)	5,235	3,257	1,978

At 30 September 2020:	<i>Notional amounts by term to maturity</i>				
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	75	(21)	36,616	35,389	1,227

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

At 30 September 2021:

	<i>Level 1 KD '000</i>	<i>Level 2 KD '000</i>	<i>Level 3 KD '000</i>	<i>Total KD '000</i>
Financial assets at FVOCI:				
Equity securities	11,289	583	24,771	36,643
Debt securities	-	201	-	201
	<u>11,289</u>	<u>784</u>	<u>24,771</u>	<u>36,844</u>

The amortized cost and fair value of investment securities at amortised cost as at 30 September 2021 were **KD 113,276 thousand** (31 December 2020: KD 136,493 thousand; 30 September 2020: KD 136,662 thousand) and **KD 111,962 thousand** (Level 1) (31 December 2020: KD 118,551 thousand; 30 September 2020: KD 118,571 thousand) and **KD 3,000 thousand** (Level 2) (31 December 2020: KD 20,800 thousand; 30 September 2020: KD 20,800 thousand) respectively.

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2020:

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	12,104	642	25,415	38,161
Debt securities	-	201	-	201
	<u>12,104</u>	<u>843</u>	<u>25,415</u>	<u>38,362</u>

At 30 September 2020:

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	10,829	651	17,148	28,628
Debt securities	-	201	-	201
	<u>10,829</u>	<u>852</u>	<u>17,148</u>	<u>28,829</u>

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

	At 1 January KD 000's	Change in fair value KD 000's	Additions/ disposals KD 000's	Exchange rate movements KD 000's	At 30 September KD 000's
<i>Financial assets at FVOCI:</i>					
Equity securities					
2021	25,415	2	(632)	(14)	24,771
2020	17,128	-	-	20	17,148

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

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

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

12. OTHER ASSETS

	<i>(Unaudited)</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 September</i> <i>2020</i> <i>KD 000's</i>
Accrued interest receivable	16,750	14,480	23,330
Sundry debtors and others (Note 13)	39,533	22,300	23,157
Repossessed collaterals (refer movement below)	59,432	60,238	72,454
	<u>115,715</u>	<u>97,018</u>	<u>118,941</u>

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

12. OTHER ASSETS (continued)

Movement in repossessed collaterals:

	<i>(Unaudited)</i> 30 September 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 30 September 2020 KD 000's
Beginning balance	60,238	72,826	72,826
Disposals	(806)	(12,216)	-
Impairment loss	-	(372)	(372)
Closing balance	59,432	60,238	72,454

Investment securities amounting to KD Nil (31 December 2020: KD 806 thousand and 30 September 2020: KD 2,522 thousand) are fair valued using quoted market prices (Level 1). The fair values of the real estate properties are not materially different from their carrying values.

13. COVID-19 IMPACT

COVID-19 Pandemic 2020

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

Business continuity

In response to the pandemic, the Bank has implemented workplace return protocols and controls to prioritize the health of its customers, employees and community partners by keeping the working environment as safe as possible. These measures include: opening branches under strict safety guidelines, allowing staff to work remotely, leveraging our online platforms and business continuity plans, and pre-planned contingency strategies for critical site-based operations. These capabilities have allowed us to continue to service our customers. The Bank will continue to manage the increased operational risk related to the execution of our business continuity plans in accordance with Risk Management policies.

2021-Consumer and instalment loans deferral

Kuwait banks announced postponement of payment of consumer and instalment loans to eligible citizen customers, upon their request, in accordance with the CBK circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 ("the Law") regarding the deferral of the financial liabilities for a six-month period with cancellation of interest resulting from this deferral ("the 2021 scheme"). The instalment deferrals are considered as short-term liquidity support to address borrower's potential cash-flow issues, the cost of which is fully borne by the Government of Kuwait in accordance with the Law.

The Bank implemented the 2021 scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows amount of **KD 26,084 thousand** in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant in accordance with the Law. The Bank has recorded the Government Grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the interim condensed statement of financial position.

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

13. COVID-19 IMPACT (continued)

2020-Consumer and instalment loans deferral

In response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals are considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42,212 thousand arising from the modification of contractual cash-flows, as on 1 April 2020. The modification loss is charged to retained earnings in accordance with the Bank's accounting policy as stated in Note 2.

2020-Other impacted non-retail customers

Deferral of instalments: Based on CBK instructions, the Bank has provided an option for other impacted non-retail customers to defer the payment of instalments for a period of 6 months, without any penalties and charges. The Bank has also communicated to these customers that interest at existing contractual rates would continue to accrue during the grace period and this was paid after completion of the grace period September 2020.

New soft loans: In line with CBK guidelines on soft loans for clients negatively affected by Covid-19 pandemic to cover the cash flow deficit, the Bank has granted loans to SME and Corporate customers. The tenor of loans is maximum of 3 years with one-year grace period at a fixed interest rate of 2.5% per annum. The interest cost in full for the first year and 50% of interest cost for the second year will be borne by the State of Kuwait Government.

Support measures on COVID-19

On April 2, 2020, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. Below are the measures valid up to 31 December 2021:

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

Expected Credit Loss updates

The Bank has considered the potential impact of the uncertainties caused by the COVID-19 pandemic while estimating the Expected Credit Loss (ECL) requirements for the period ended 30 September 2021.

Significant increase in credit risk

The Bank takes into account their historic experience of losses updated to reflect current conditions as well as forecasts of future economic conditions to assess if there is significant increase in credit risk or objective evidence of impairment in the light of Covid-19 situation. Key areas that the Bank has given focus for ECL computation for the period ended 30 September 2021 to reflect the increased level of risk are as under:

- Staging review based on sector impact
- PD and LGD model update with macroeconomic scenarios
- Temporary financial difficulties of the borrowers versus longer-term or permanent impact
- Sector analysis of retail loans that have increase likelihood of job losses and pay cuts; Expatriates unable to return to the country and some cases where their residency expired
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available
- Deferral of instalments will not automatically trigger significant increase in credit risk

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

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

13. COVID-19 IMPACT (continued)

Staging review

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

Macro-economic factors

As the IFRS 9 impairment model is forward-looking, the Bank is required to consider a range of possible future economic scenarios and their probability to calculate ECL. During the prior year 2020, the economies were impacted due to shutdowns and with uncertainties creeping into economic activities, the Bank faced challenges to quantify the impact with the existing forward-looking models in place. Therefore, based on expert credit judgement, adjustments to models as appropriate were carried out.

Nevertheless, the Bank has undertaken the exercise of updating the PD and LGD models used for ECL calculation with historical experience to derive links between changes in economic conditions and customer behaviour. The Bank has applied the latest macroeconomic overlays to reflect the present economic conditions in the PD and LGD model. The Bank has also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays are reflected in the ECL requirements for the period ended 30 September 2021.

Notwithstanding the above, ECL requirements for credit facilities estimated as at 30 September 2021 continue to be lower than the provisions required as per CBK instructions (Note 14). In accordance with Bank's accounting policy, the higher amount being provision required as per CBK instructions is recognized as provisions for credit losses on credit facilities.

14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent amounts paid to banks and customers.

	<i>(Unaudited)</i> 30 September 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 30 September 2020 KD 000's
Gross loans and advances to banks	247,929	193,220	194,601
Less: Provision for impairment	(1,163)	(1,157)	(1,015)
Loans and advances to banks	246,766	192,063	193,586
Gross loans and advances to customers	4,699,563	4,384,072	4,514,926
Less: Provision for impairment	(277,492)	(267,535)	(308,027)
Loans and advances to customers	4,422,071	4,116,537	4,206,899

Provision for non-cash facilities of **KD 18,323 thousand** (31 December 2020: KD 15,406 thousand and 30 September 2020: KD 17,120 thousand) is included under other liabilities.

GULF BANK K.S.C.P.

**Notes to the Interim Condensed Financial Information
(Unaudited)**

30 September 2021

14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (continued)

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

	<i>(Unaudited)</i> 30 September 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 30 September 2020 KD 000's
Provision on cash facilities	278,655	268,692	309,042
Provision on non-cash facilities	18,323	15,406	17,120
Total provisions on credit facilities	296,978	284,098	326,162
IFRS 9 ECL on credit facilities	182,970	171,978	228,578
Excess of total provisions over IFRS 9 ECL on credit facilities	114,008	112,120	97,584
Excess provisions as a percentage of total provisions	38%	39%	30%

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

At 30 September 2021:

	<i>Stage 1</i> KD 000's	<i>Stage 2</i> KD 000's	<i>Stage 3</i> KD 000's	<i>Total</i> KD 000's
Loans and advances to banks and customers	4,602,527	277,861	67,104	4,947,492
Contingent liabilities and commitments (Note 9)	2,306,365	124,461	18,678	2,449,504
IFRS 9 ECL on credit facilities	39,939	80,306	62,725	182,970

At 31 December 2020:

	<i>Stage 1</i> KD 000's	<i>Stage 2</i> KD 000's	<i>Stage 3</i> KD 000's	<i>Total</i> KD 000's
Loans and advances to banks and customers	4,246,664	278,077	52,551	4,577,292
Contingent liabilities and commitments (Note 9)	2,221,223	122,196	18,389	2,361,808
IFRS 9 ECL on credit facilities	40,972	75,196	55,810	171,978

At 30 September 2020:

	<i>Stage 1</i> KD 000's	<i>Stage 2</i> KD 000's	<i>Stage 3</i> KD 000's	<i>Total</i> KD 000's
Loans and advances to banks and customers	4,273,388	362,973	73,166	4,709,527
Contingent liabilities and commitments (Note 9)	2,297,413	128,519	20,174	2,446,106
IFRS 9 ECL on credit facilities	39,098	110,744	78,736	228,578

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2021

14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS (continued)

An analysis of the movement in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines:

At 30 September 2021:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL balance as at 1 January 2021	40,972	75,196	55,810	171,978
Impact due to transfer between stages	(26)	(1,654)	1,680	-
ECL charge for the period	(1,007)	6,764	38,225	43,982
ECL release on written off facilities	-	-	(32,990)	(32,990)
	<u>39,939</u>	<u>80,306</u>	<u>62,725</u>	<u>182,970</u>

At 30 September 2020:

	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL balance as at 1 January 2020	33,692	107,625	48,625	189,942
Impact due to transfer between stages	3,027	(9,861)	6,834	-
ECL charge for the period	2,379	12,980	49,194	64,553
ECL release on written off facilities	-	-	(25,917)	(25,917)
	<u>39,098</u>	<u>110,744</u>	<u>78,736</u>	<u>228,578</u>

15. OTHER BORROWED FUNDS

	<i>Effective interest rate</i>	<i>(Unaudited)</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 September</i> <i>2020</i> <i>KD 000's</i>
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	4.00%	25,000	-	-
Subordinated Tier 2 bonds- KWD 2031 (Floating tranche capped at 5%)	CBK+2.25%	25,000	-	-
Medium term borrowings	2.625% to 2.70%	100,000	-	-
Subordinated Tier 2 bonds- KWD 2026 (Fixed tranche)*	6.00%	-	50,000	50,000
Subordinated Tier 2 bonds- KWD 2026 (Floating tranche capped at 7%)*	CBK+4.00%	-	50,000	50,000
		<u>150,000</u>	<u>100,000</u>	<u>100,000</u>

*Subordinated Tier 2 bonds have been fully repaid during the period.