Annual Report
2014

بنك الخليج
GULF BANK
GROWING WITH YOU

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

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

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

"IT IS NOW TIME TO THANK OUR CUSTOMERS, EMPLOYEES, CENTRAL BANK, BOARD OF DIRECTORS, SHAREHOLDERS AND PUBLIC AUTHORITIES *FOR SUPPORTING THIS SUCCESSFUL TURNAROUND THAT HAS BEEN METICULOUSLY EXECUTED"*

Omar Kutayba Alghanim
Chairman

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Head Office:
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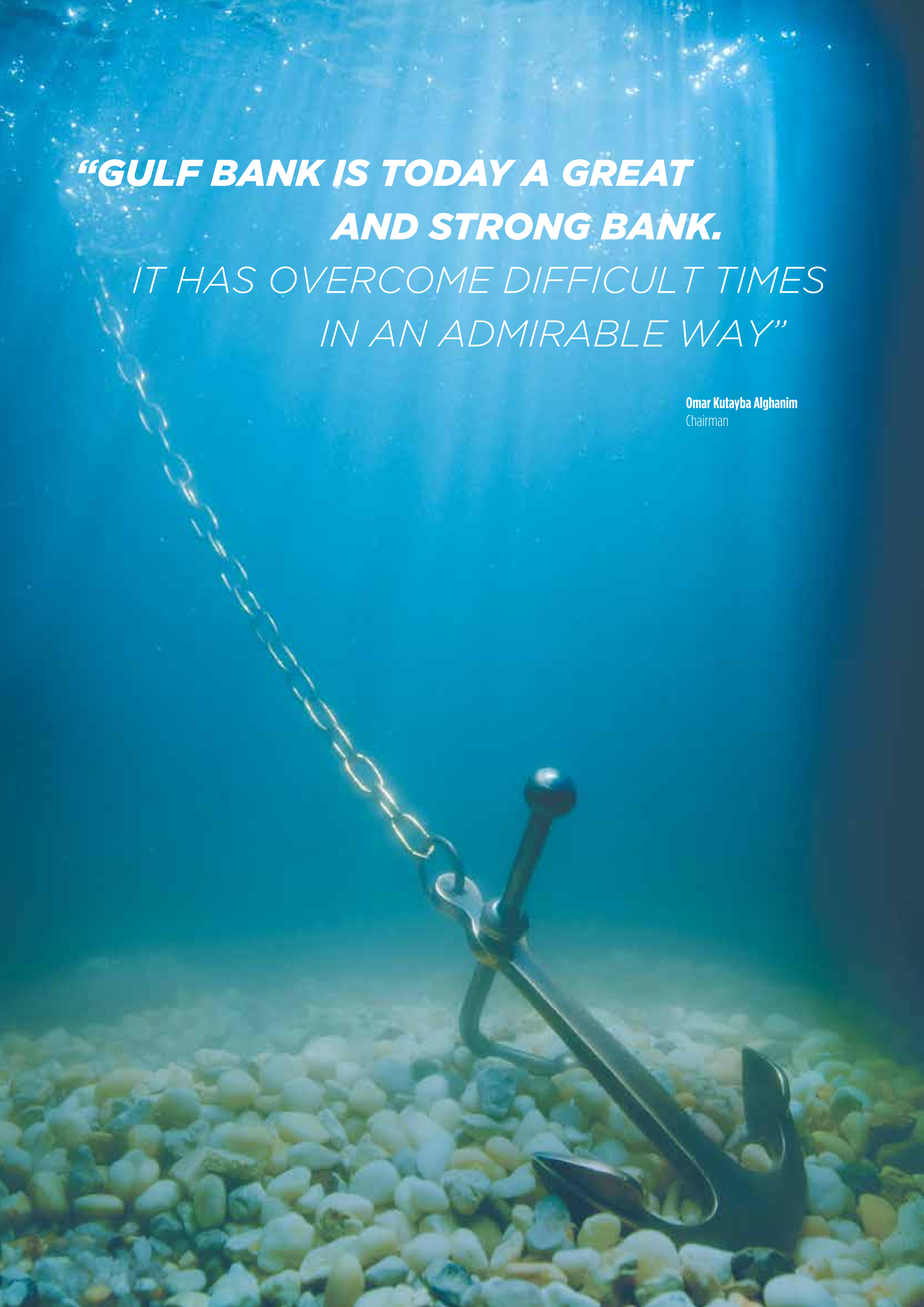
www.e-gulfbank.com



"GULF BANK IS TODAY A GREAT AND STRONG BANK.

IT HAS OVERCOME DIFFICULT TIMES IN AN ADMIRABLE WAY"

Omar Kutayba Alghanim
Chairman

Omar Kutayba Alghanim
Chairman

Chairman's Message

Dear Valued Shareholders,

It is my great privilege to report on your Bank's financial performance during 2014.

I am very pleased to report that over the past year we have maintained and have even accelerated the progress we have seen in previous years. Gulf Bank is today a great and strong bank. It has overcome the difficult times in an admirable way.

The strategy is clear and the mandate of the Board is to grow. In wholesale, we will reinforce our advisory and products capabilities. In Retail, products and newer channels are being upgraded. We will execute under strict risk criteria and as per our policies that have helped make Gulf Bank safe and sound. In doing so, we have continued to focus on developing our customer services, invest in our employees, our systems and our branch network and maintain our promise to customers to deliver the best and fastest banking services in Kuwait.

During 2014, the Bank continued the focus on its core competence of commercial and retail lending within the Kuwaiti market, and on strengthening its domestic franchise. The strategy has shifted to risk adjusted growth following a period starting in 2009 during which the focus was on strengthening the balance sheet and managing down a substantial portfolio of impaired loans. The Bank continued to make progress during 2014 in strengthening systems, controls, enhancing risk management, corporate governance and also in improving product offerings and delivery channels.

This progress was also being recognised by the international credit rating agencies. During 2014, Moody's upgraded Gulf Bank long-term rating to Baa1 from Baa2 and the Stand Alone Financial Strength Rating to D from D-, maintaining a positive outlook. Standard & Poor's also affirmed the Bank's long-term credit rating at BBB+ with a positive outlook. Both agencies, in their assessments, affirmed the Bank's asset quality, capitalisation, solid revenue generating capacity and sound risk management systems and practices.

Gulf Bank's financial results in 2014 reflected these healthy and consistent advances, allowing us to announce an operating profit before provisions of KD 106.8 million for the year and a net profit of KD 35.5 million in 2014, a 10% increase over 2013. As of 31 December 2014, the Bank's total assets were KD 5,331 million, an increase of 5% on the previous year, while deposits stood at KD 4,340 million, up 6% on 2013, and total shareholders' equity stood at KD 511 million, reflecting an increase of 6% on 2013.

The Board of Directors are pleased to recommend the distribution of bonus shares of 5% on the outstanding issued share capital as of 31 December 2014, which is subject to approval of the shareholders at the Annual General Meeting (AGM).

The Bank also maintained its positive trend of reducing its non-performing loan ('NPL') ratio, which decreased from 6.5% in 2013 to 3.2% by December 2014. Decreasing the NPL ratio is a strategic objective and a key focus area and I am particularly pleased to see how much progress we have made in this area. In addition, the Bank has increased its total coverage ratio of non-performing loans to over 266%.

Our Wholesale Banking Group performed in-line with the market, and we continue to streamline our operations there to deliver a faster and more efficient customer service. During 2014, as part of our new strategic approach, we also reorganised our Corporate Banking Group to focus on local companies and market segments, such as the construction sector, and we are well placed to support the 'Kuwait Development Plan' with financing of key infrastructure, healthcare and oil sector projects, amongst others. At the same time we refined our diversified corporate product suite so that we are now being able to offer clients a more comprehensive range of products and services to better serve current market needs.

I am also proud to add that we have continued to increase our branch network, which now stands at 59 branches across

Kuwait. In doing so, we will be ever closer to our customers, and better placed to deliver them the best possible banking services in Kuwait. It was pleasing that we continued to be acknowledged by our industry peers for service excellence with the Bank receiving several awards over the course of 2014, including 'Bank of the Year' from Arabian Business, 'Best Retail Bank in Kuwait' award from International Finance Magazine, 'Best Domestic Retail Bank' and 'Best Human Resources Development' awards from Banker Middle East, 'Best Customer Experience Overall Branch' from Ethos Integrated Solutions, 'Best Domestic Payments and Cash Management Bank in Kuwait' from Asian Banker, 'STP' Award from Citibank and 'HR Professional of the Year' award at the 6th Annual MENA HR Excellence Awards.

In the long term we remain committed to growing our business and investing in every aspect of our operations to produce improvement right across the board and deliver strong performance for you, our shareholders.

Gulf Bank continues to invest in youth, entrepreneurship and talent development in the local community through its Corporate Social Responsibility initiatives by participating in programs such as INJAZ local and regional competitions, the annual gathering of National Union of Kuwaiti Students - USA branch, as well as a wide variety of job shadowing programs. Our annual sponsorship of the memorial journey for pearl diving continues to strengthen our position as an integral part of the Kuwaiti society. Gulf Bank has numerous staff volunteers working together with our youth on various development programs throughout the year.

With our relentless focus on talent; Gulf Bank places great value on its Human Resources and continuously delivers exceptional initiatives that help the progress and development of its staff. This was culminated with the launch of Durrat Al Khaleej training center early 2014 and the recent launch of a customised Graduate Development Program in collaboration with the Institute of Banking Studies (IBS). The program focuses on the development of local talent and aiming at creating a pool of holistic bankers and leaders of the future.

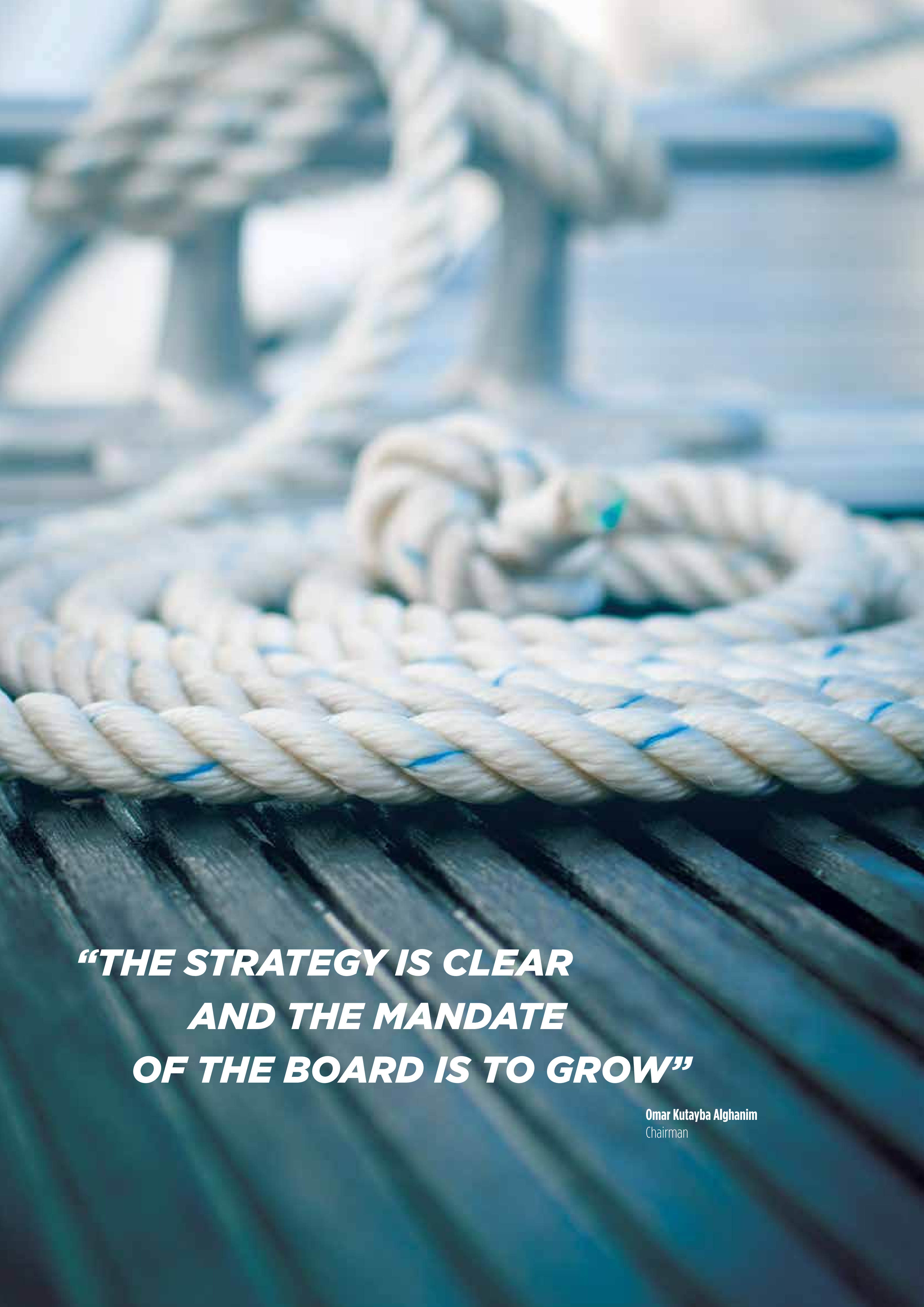
Our progress could not have taken place without the dedication of our staff and I would like to particularly thank them for their immense efforts. I am also very grateful to our customers for their faith and trust, to our Board of Directors for its wisdom and support and to you, our shareholders for your continued loyalty as we continue our development.

On behalf of Gulf Bank's Board of Directors, I also want to express my sincere gratitude to His Highness, the Amir Sheikh Sabah Al Ahmed Al Jaber Al Sabah, H.H. the Crown Prince Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, and H.H. the Prime Minister Sheikh Jaber Al Mubarak Al Hamad Al Sabah, for their benevolent leadership and guidance. A special thanks to the Kuwaiti regulators and their team for their support throughout the year.

Omar Kutayba Alghanim
Chairman

The Award Winning Bank

- *'Best Domestic Payments and Cash Management Bank in Kuwait' Award - Asian Banker*
- *'HR Executive of the Year' Award - Naseba, Human Assets Expansion Summit*
- *'Best Human Resources Development Program' Award - Banker Middle East*
- *'Best Domestic Retail Bank' Award - Banker Middle East*
- *'Best Retail Bank in Kuwait' Award - International Finance Magazine*
- *'STP Award 2013' - Citibank*
- *'Bank of the Year' Award - Arabian business*
- *'Best Car Loan'Award - Banker Middle East*
- *'Best Customer Service Retail' Award - Banker Middle East*
- *'Best Customer Experience Overall Branch Kuwait' Award – Ethos Integrated Solutions*



"THE STRATEGY IS CLEAR AND THE MANDATE OF THE BOARD IS TO GROW"

Omar Kutayba Alghanim
Chairman

Board of Directors

Omar Kutayba Alghanim

Chairman

Ali Morad Behbehani

Deputy Chairman

Farouk Ali Bastaki

Board Member

Sayer Bader Al-Sayer

Board Member

Omar Hamad Yousef Al-Essa

Board Member

Bader Nasser Al-Kharafi

Board Member

Ahmed Abdel Latif Al-Hamad

Board Member

Jasem Mustafa Boodai

Board Member

Bader Abdulmohsen El-Jeaan

Board Member

The Board is constituted of elected members whose skills and experience are selected to ensure an appropriate mix having regard to matters such as specialist skill representation, Board experience, age spread, and diversity in industries and geographic experience. Other matters for explicit consideration are personal qualities, communication capabilities, ability and commitment to devote appropriate time to the task, the complementary nature of the distinctive contribution each director might make, professional reputation and community standing.

	**Omar Kutayba Alghanim** Chairman, Board of Directors, Gulf Bank K.S.C.P. Chairman, Corporate Governance Committee
Date of Appointment:	Chairman - Gulf Bank, March 16, 2013 - present Vice Chairman, March 17, 2012 – March 15, 2013 Board Member, April 11, 2009 - March 16, 2012
Academic Qualifications:	- Master of Business Administration, June 2002, Harvard Business School, Harvard University, Boston, MA, USA - Bachelor of Business Administration, June 1997, Stern School of Business, New York University, NY, USA
Experience:	- Alghanim Industries, Kuwait Chief Executive Officer, 2005 – present Executive Director, 2004 – 2005 General Manager, 2002 – 2005 - Morgan Stanley, London Financial Analyst, ME Coverage, 1999 – 2000 Financial Analyst, M&A, 1998 – 1999 - Asiya Investments, Kuwait Chairman, 2005 – 2013 Member, Investment Committee, 2005 – 2013 - AI International, New York Board Member, 2002 – present - Perella Weinberg Partners, New York Founding Member, 2006 – present - INJAZ, Kuwait Founder and Chairman of the Board, 2005 – present - INJAZ AL-ARAB, Jordan Board Member, 2005 – present

	**Ali Morad Behbehani** Deputy Chairman Deputy Chairman, Board Risk Committee
Date of Appointment:	Deputy Chairman, March 15, 2013 Board Member, April 11, 2009
Academic Qualifications:	BA, English Literature, Kuwait University
Experience:	- Board Member - Kuwait Insurance Company - Board Member - National Industries Company - President of Morad Yousuf Behbehani Company - Formerly Board Member of Kuwait National Cinema Company (S.A.K.), Kuwait - Formerly Board Member of Kuwait Pipe Industries Company

	**Farouk Ali Akbar Bastaki** Board Member Chairman, Audit Committee
Date of Appointment:	Representative of Kuwait Investment Authority, April 11, 2009
Academic Qualifications:	Bachelor of Science in Industrial Engineering, University of Miami, USA
Experience:	- Executive Director- Alternative Investments Sector, Kuwait Investment Authority - Formerly Chairman of Sassoon Holdings Pte. Ltd, Singapore - Formerly Chairman of St. Martin Property Corporation, United Kingdom - Formerly Director of the Board of Livestock Transport & Trading Co., Kuwait - Formerly Director of the Board of HomePlace of America, USA - Formerly Director of the Board of Kuwait Consulting & Investment Company, Kuwait - Formerly Director of the Board of Autobar Group Limited, United Kingdom - Formerly Director of the Board of C.I.T.A, France

	**Sayer Bader Al-Sayer** Board Member Member, Corporate Governance Committee
Date of Appointment:	March 17, 2012
Academic Qualifications:	Degree in Engineering, Scotland
Experience:	- Chief Executive Officer of Al Sayer Group of Companies, Kuwait - Owner and Chairman of Astrolabe W.L.L-Kuwait - Formerly Vice Chairman of Al Farabi Investment Company, Kuwait - Member of the Board of Kuwait Chamber of Commerce and Industry, Kuwait - Member of the Board of Miami International Holdings Inc., Miami-USA - Formerly Managing Director of Computers and Communications Concepts, Kuwait - Formerly Member of the Board of Europhenix Management Company S.A., Luxembourg - Formerly Member of the Board of International Investor (KSC), Kuwait - Formerly Member of the Board of FIM Bank, Malta - Formerly Member of the Board of Lebanon Invest, Lebanon - Formerly Member of the Board of Bank of Kuwait and Middle East, Kuwait - Formerly Advisor to the Board of Audi Bank, Lebanon

	**Omar Hamad Yousef Al-Essa** Board Member Member, Board Audit Committee
Date of Appointment:	April 11, 2009
Academic Qualifications:	BA in law, Faculty of Law, Kuwait University, Kuwait
Experience:	- Founder and Managing Director of The Law Office Of Al-Essa & Partners - Formerly President of the Admission Committee of the Kuwait Bar Association - Formerly President of the Arbitration Center of the Kuwait Bar Association - Formerly Chairman of the Kuwait Bar Association - Formerly Chairman of Nichan Holding Company - Vice Chairman of Abu Hasaniya International Real Estate Company, Kuwait - Head of the Kuwaitization Group at the Workforce Restructuring Program and the Executive Branch of the Government - Chairman of Kuwaiti Touristic Enterprises Company, Egypt - Formerly Vice Chairman of the Kuwait Bar Association - Formerly Secretary of the Kuwait Bar Association - Formerly Secretary of the Development and Training Committee of the Kuwait Bar Association - Formerly Member of the Board of Arabi Company - Appointed Advisor to the Public Authority Compensation for Iraqi Invasion

	**Bader Nasser Mohammed Al-Kharafi** Board Member Member, Corporate Governance Committee & Board Risk Committee
Date of Appointment:	March 17, 2012
Academic Qualifications:	Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait
Experience:	- Chairman and Head of Investment Committee of Gulf Cables and Electrical Industries Company, Kuwait - Director of Group Executive Committee of Mohammed Abdulmohsin AlKharafi & Sons W.L.L.,Kuwait - Member of the Board, Member of the Executive Committee and Member of the Investment Committee of Mobile Telecommunications Company K.S.C (Group), Kuwait - Member of the Board of Atheer Telecom Iraq Limited (Zain Iraq), Iraq - Managing Director of Al-Khatem (Zain Iraq) - Vice Chairman of Sudanese Mobile Telephone Co. (Zain Sudan), Sudan - Chairman of Mobile Interim Com (MAC2) S.A.L Lebanon - Board Member of Bank of Coutts & Co., United Kingdom - General Manager of Al Khair National for Stocks and Real Estate Co., W.L.L - 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), Egypt - Member of the Board of EMAK-Paper Manufacturing, Egypt - Vice Chairman of Arab Aluminum Company SAE, Egypt - Vice Chairman of MAK Holding Industry, Egypt - Vice Chairman of EMAK Brake Systems, Egypt - Member of the Board of National Paper Company, Egypt - Member of the Board of Arab Company for Computer Manufacturing, Egypt - Member of the Board of MAKXALTO Advanced Cards Technology, Egypt - Member of the Board of Injaz Kuwait, Kuwait - Member of Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait - Member of the Board of Kazma Sports Club, Kuwait

	Ahmad Abdullatif Yousef Al-Hamad Board Member Chairman, Nomination and Remuneration Committee Deputy Chairman, Board Audit Committee
Date of Appointment:	March 17, 2012
Academic Qualifications:	A.B. in Architecture, Princeton University, USA
Experience:	- Vice Chairman & Group CEO of Kuwait China Investment Company, Kuwait - Head of Private Equity of the Capital Partnership, United Kingdom - Senior Manager, Private Equity of Gulf International Bank UK, United Kingdom - Director, Corporate Finance of PrimeCorp Finance Limited (HSBC Group), United Kingdom - Co-Founder of Equinox Finance Limited, Dublin, Ireland - Fund Acquisition Analyst for Morgan Stanley & Co, New York, USA - Director, Asiya Asset Management (Cayman) Ltd., Cayman Islands - Director, Asiya Gateway Fund (Master) Ltd., Cayman Islands - Director, Asiya Proprietary Trading Ltd., Cayman Islands - Director, Asiya Century Fund Ltd., Cayman Islands - Director, Asiya Managed Account Platform SPC, Cayman Islands - Group CEO, Asiya Investments Hong Kong Limited, Hong Kong - Director, Asiya Capital Partners Ltd., Cayman Islands - Group CEO, Asiya Investments Dubai Limited, Dubai, UAE - Director, Asia Islamic Trade Finance Fund Ltd., Cayman Islands - Director, Asiya Panda Mauritius Ltd., Mauritius - Director, Asiya Proprietary Trading Mauritius Ltd, Mauritius - Director, Asiya Panda Fund (Master) Ltd., Cayman Islands - Director, Asiya Panda Fund Ltd., Cayman Islands - Director, Asiya Equity Fund (Master) Ltd., Cayman Islands - Director, Asiya Equity Fund Ltd., Cayman Islands - Director, Asiya Islamic Equity Fund Ltd., Cayman Islands - Director, Asiya Gateway Fund Ltd., Cayman Islands - Director, AG&P, British Virgin Islands

Jassim Mustafa Boodai

Board Member
Member, Board Nomination and Remuneration Committee

Date of Appointment:	March 17, 2012
Experience:	- Chairman of Integrated Holding Company K.C.S.C. Kuwait - Board Member of Kuwait Insurance Company, Kuwait - Former Vice Chairman of Kuwait China Investment Company, Kuwait - Former Chief Operating Officer of Boodai Corporation, Kuwait - Former Vice Chairman of Hilal Cement Company, Kuwait - Former Chairman of Transport & Warehousing Group Company, Kuwait

Bader Abdulmohsen El-Jeaan

Board Member
Chairman, Risk Committee
Deputy Chairman, Board Nomination and Remuneration Committee

Date of Appointment:	March 16, 2013
Academic Qualifications:	AB in Economics, Harvard University, United States MA in Law, Oxford University, United Kingdom
Experience:	- Formerly Director and Senior Executive Officer of Carlyle MENA Investment Advisors (since 2007), United Arab Emirates - Formerly Group General Counsel and Member of Senior Management Board of Agility Logistics, Kuwait - Formerly Attorney, Corporate Finance at Sherman & Sterling, New York / Abu Dhabi - Formerly Vice President, Private Equity of Kuwait Investment Authority, Kuwait Investment Office, Kuwait/London

Remuneration

The proposed remuneration for the Directors of KD 135 thousand (2013 : KD 135 thousand) is in accordance with local regulations and is subject to the approval of the shareholders at the Annual General Meeting.

Related Party Transactions

Certain related parties (Major Shareholders, Board Members and Officers of the Bank, their families and companies of which they were the principal owners) are customers of the Bank in the normal course of business. Such transactions are made on substantially the same terms as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than the normal amount of risk. The details of such transactions are detailed in Note 23 of the Financial Statements.

"DURING 2015, GULF BANK WILL CULMINATE PROJECTS *THAT WILL HELP US TO SERVE OUR CLIENTS BETTER AND PROVIDE BETTER RESULTS."*

Omar Kutayba Alghanim
Chairman

Management

(left to right):
Mona Mansour, General Manager – Customer Service Delivery, **Saleem Sheikh**, Chief Risk Officer and Acting General Manager - Legal Affairs, Board Affairs and Compliance, **Khaled Al-Mutawa**, General Manager – International Banking and Investments, **Salma Al Hajjaj**, General Manager - Human Resources, **César González-Bueno**, Chief Executive Officer, **Omar Kutayba Alghanim**, Chairman, **Antoine Daher**, Deputy CEO and GM of Wholesale Banking, **Vikram Issar** General Manager – Consumer Banking, **Thomas George** Acting Chief Financial Officer, **Peter Roberts**, General Manager - IT and CIO, **Hussam Mustafa** General Manager – Internal Audit, **Sudad Hamam**, General Manager – Treasury

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

The Bank ensures that all Executive Management have suitable academic qualifications, relevant experience and personal integrity to run the Bank's business. The Executive Management is provided with ongoing training to ensure it remains up to date with best practices within the banking sector.

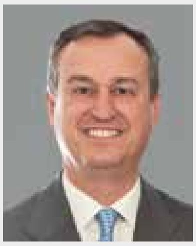
The Executive Management primarily contribute to the sound corporate governance of the Bank through its personal conduct, leadership and encouragement of a culture conducive to corporate governance and risk management.

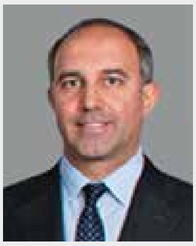
The Executive Management is responsible for assigning tasks to the employees and promoting an organizational design and culture which supports accountability and transparency.

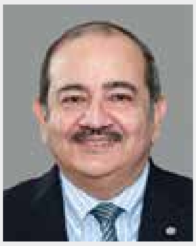
The Executive Management is responsible for ensuring that the Bank's compliance and risk functions have adequate autonomy and segregation of tasks is practiced without creating any conflicts.

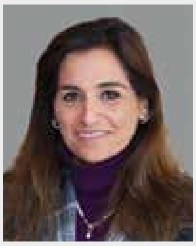
The Executive Management provides the Board of Directors with financial and administrative reports at periodic intervals as agreed with the Board. These reports provided by the Executive Management have to comply with the principles of transparency and objectivity. The Board shall rely on the Executive Management's expertise in the execution of the Board's resolutions.

The Executive Management ensures that the Bank has all the required documentation to provide the Bank's staff with adequate direction to fulfill their role in carrying out the day-to-day activities of the Bank in a safe and prudent manner. Included in this is ensuring that adequate policy and procedures are in place, communicated to all relevant staff and made available on an ongoing basis. The Executive Management has established, as part of its governance practices of the Bank, a rigorous document management framework to ensure that regulatory compliance and risk management forms an embedded part of the assessment of the Bank's decision-making process.

	**Cesar Gonzalez-Bueno Mayer** Chief Executive Officer
Date of Appointment:	March 18, 2014
Academic Qualifications:	- M.B.A, Yale School of Management, New Haven, USA - Double Degree, Law & Business Administration, ICADE, Madrid, Spain
Experience:	- Formerly CEO for Novagalicia Banco, Vigo, Spain - Formerly Regional Head of Europe, ING Bank, Amsterdam - Formerly General Manager ING Direct, Amsterdam - Formerly Founder & CEO, ING Direct, Spain, Madrid - Formerly Director of Alternative Channels, Argentaria, Madrid - Formerly Associate Principal, McKinsey & Co., Lisbon, Mexico City & Madrid - Formerly Consultant, the Boston Consulting Group, Boston, London & Madrid - Formerly Financial Analyst, Asesores Bursatiles, Madrid - Formerly Financial Analyst, Citibank, Madrid

	**Antoine J. Daher** Deputy Chief Executive Officer and GM Wholesale Banking
Date of Appointment:	July 7, 2013
Academic Qualifications:	- MBA, Finance, Case Western Reserve University, Cleveland, Ohio, USA - B.Sc. Civil Engineering- Magna Cum Laude, Cleveland State University, Cleveland, Ohio, USA
Experience:	- Formerly Head of Domestic Corporate Banking of National Bank of Kuwait, Kuwait - Formerly Head of Domestic Multi-National Unit of the National Bank of Kuwait, Kuwait - Formerly Vice President of Corporate Banking/ Capital Markets of PNC Bank, Cleveland, Ohio, USA - Formerly Relationship Manager, Corporate Banking, Real Estate Division of PNC Bank, Cleveland, Ohio, USA - Formerly Project Manager at Fuller Engineering Group, Pennsylvania, USA

	**Saleem Sheikh** Chief Risk Officer and Acting General Manager - Legal Affairs, Board Affairs and Compliance
Date of Appointment:	December 1, 2009
Academic Qualifications:	- Master's Degree in Marketing and Finance, Department of Business Administration, Punjab University, Pakistan - Bachelor’s Degree in Commerce
Experience:	- Formerly Group Chief Credit Officer for Arab Bank Group - Formerly CEO MENA for Barclay’s Bank Plc, Middle East & North Africa, UAE - Formerly Chief Operating Officer – Africa and Middle East for Barclay’s Bank Plc, Johannesburg, South Africa - Formerly Chief Risk Officer – Southern and East Africa Region for Citigroup, Johannesburg, South Africa - Served as Director on the Boards of Barclays Bank Egypt, Emerging Africa Infrastructure Fund, Figurefile Limited, Barclays Factoring Limited, Nigerian American Chamber of Commerce and Citibank Nigeria Limited

	**Salma Al Hajjaj** General Manager – Human Resources
Date of Appointment:	February 1, 2013
Academic Qualifications:	- Master’s Degree in Organizational Management, University of Phoenix, Arizona, USA - B.Sc in Mathematics, Kuwait University, Kuwait
Experience:	- Formerly Director, Center for Leadership Development for Kuwait Petroleum Corporation (KPC), Kuwait - Formerly Human Resources Director for Kuwait Petroleum Corporation (KPC) ,Kuwait - Formerly Assistant Vice President, Human Resources for Gulf Investment Corporation, Kuwait - Member of GUST University Computer Science Accreditation Committee, Kuwait - Member of the Kuwait Development Project Sub Committee for Utilization of Private Universities in enhancing Government Employee Performance - Member of the Society of Petroleum Engineers (SPE) Regional Advisory Training Committee - Member of the SHRM and ASHRM professional Human Resources societies

Thomas George Panampunnayil

Acting Chief Financial Officer

Date of Appointment:	September 26, 2002
Academic Qualifications:	- Advanced Management Program - Harvard Business School, USA - Chartered Accountant – Institute of Chartered Accountants of India - Cost & Management Accountant – Institute of Cost and Management Accountants of India
Experience:	- Formerly Financial Controller at Kuwait National Marketing Company, Kuwait - Formerly Finance Manager (Finance & MIS) at Al Khorafi National Group, Kuwait - Formerly Manager at Kirby Building Systems Kuwait – Alghanim Industries, Kuwait - Formerly Manager at Tata Iron and Steel Company, India - Formerly Consultant at A.F Ferguson and Company, India - Member of the Association of Certified Fraud Analysts, USA

Vikram Issar

General Manager – Consumer Banking

Date of Appointment:	March 24, 2013
Academic Qualifications:	- Bachelor's Degree in Commerce from University of Delhi, India - Chartered Accountant – Institute of Chartered Accountants of India
Experience:	- Formerly Head of Consumer Banking for Standard Chartered Bank, Thailand - Formerly Head of Consumer Banking for Standard Chartered Bank, Bangladesh - Formerly Head of Wealth Management and Distribution for Standard Chartered Bank, India - Formerly Head, Wealth Management and Group Head, Deposits for Standard Chartered Bank, India - Formerly Head, Wealth Management for Standard Chartered Bank, India - Formerly General Manager, Marketing, Banking Products for Standard Chartered Bank, India - Formerly Senior Manager, Consumer Banking, India Hubbing Project from Standard Chartered Bank, India - Formerly Manager, Process Design for Standard Chartered Bank, India - Formerly Manager, Internal Control for Standard Chartered Bank, India - Formerly Assistant Manager, Internal Control for Standard Chartered Bank, India - Formerly Consultant for A.F. Ferguson & Co., India

Khaled Al-Mutawa

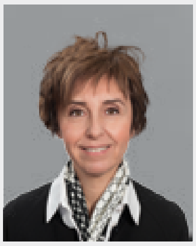
General Manager - International Banking and Investments

Date of Appointment:	June 18, 1989
Academic Qualifications:	- Bachelor's Degree in Economics, University of Southern California, Los Angeles, USA - General Certificate of Education "GCE O Levels", University of London, United Kingdom
Experience:	- Formerly Acting General Manager of Investments Banking Group for Gulf Bank K.S.C., Kuwait - Formerly Acting General Manager of Risk Management for Gulf Bank K.S.C, Kuwait - Formerly Senior Manager, Deputy Head of International Banking Group for Gulf Bank K.S.C., Kuwait - Formerly Manager – Oil Trade Finance Division for Gulf Bank K.S.C., Kuwait - Formerly worked in the Middle East Corporate Finance Department for Bankers Trust Co., London, United Kingdom - Formerly Assistant Manager – Multinational Corporate Division, Commercial Banking Group for Gulf Bank K.S.C - Formerly Assistant Manager, Financial Institutions – International Banking Group for Gulf Bank K.S.C., Kuwait - Formerly Board Member of CI-NET (Credit Information Network), Kuwait - Formerly Board Member of Masaleh Real Estate Company, Kuwait

Mona Mansour Ali

General Manager – Customer Service Delivery

Date of Appointment:	August 15, 2004
Academic Qualifications:	Bachelor of Business Administration, Kuwait University
Experience:	- Formerly Computer Programmer, NBK, Kuwait - Formerly Head of Member Services Department, Cards Services Division, NBK, Kuwait - Formerly Senior Manager, Cards Services Division, NBK, Kuwait - Formerly Executive Manager, Domestic Consumer Banking, NBK, Kuwait - Formerly Executive Manager, Retail Support, Gulf Bank, Kuwait - Formerly Deputy General Manager, Operations, Gulf Bank, Kuwait - Board Member of the Shared Electronic Banking Services Company (K-Net)



Sudad Hamam

General Manager – Treasury

Date of Appointment:	January 18, 2015
Academic Qualifications:	M.B.A Bilkent University – Ankara, Turkey
Experience:	- Formerly Chief Financial Risk Officer for ING Bank Istanbul, Turkey - Formerly Senior Vice President (Treasurer) for ING Bank, Istanbul, Turkey - Formerly Head of Treasury for Oyak Bank, Istanbul, Turkey - Formerly Foreign Exchange Desk Manager for Bank of Boston, Istanbul, Turkey

Hussam Sulieman Mustafa

General Manager – Internal Audit

Date of Appointment:	August 10, 2014
Academic Qualifications:	- BA in Accounting, Yarmouk University – Irbid, Jordan - Certified Bank Auditor (CBA) - Certified Information System Auditor (CISA) - Certified Fraud Examiner (CFE) - Certified Internal Control Auditor (CICA)
Experience:	- Formerly Senior Vice President, Head of Basel II for Abu Dhabi Islamic Bank, UAE - Formerly Senior Vice President, Group Internal Audit Division for Abu Dhabi Islamic Bank, UAE - Formerly Head of Internal Audit for Abu Dhabi Investment Company, UAE - Formerly Manager Audit Department for National Bank of Abu Dhabi, UAE - Formerly Manager, Fraud & Operational Error Investigation Unit for National Bank of Abu Dhabi, UAE - Formerly Assistant Manager, Audit Department for National Bank of Abu Dhabi, UAE - Formerly Auditor/ Senior Auditor/ Senior Supervisory Auditor for National Bank of Abu Dhabi, UAE - Formerly Head of Section for Central Bank of Jordan, Jordan

	**Peter Roberts** General Manager – IT & Chief Information Officer
Date of Appointment:	November 3, 2013
Academic Qualifications:	Degree in Geography and Economics, University of London, United Kingdom
Experience:	- Formerly Executive Vice President – Head of Group Operations for National Commercial Bank, Kingdom of Saudi Arabia - Formerly Head of Barclays Technology Centre UK (BTC-UK) - Formerly Global Head of E- Channel Programme Delivery and Support – Barclays Global Retail and Commercial Banking - Formerly CIO for Barclays Africa / Lead Tech Partner Absa Integration - Formerly Regional Chief Operating Officer for Barclays Bank East Africa & Indian Ocean (based in Nairobi, Kenya) - Formerly Chief Operating Officer for Barclays Bank of Bostswana, United Kingdom - Formerly Head of Barclays Corporate Service Centre (Corporate Recovery and Re-structuring) - North, United Kingdom - Formerly Assistant Retail Director for Barclays Bank North London and Luton Region, United Kingdom - Formerly UK Credit Risk Management Project Manager for Barclays Bank, United Kingdom - Formerly Corporate Relationship Manager for Barclays Bank, United Kingdom - Associate of the Institute of Bankers

"NOW WE HAVE ALL THE ELEMENTS IN PLACE TO GROW BETTER AND FASTER
AS WE HAVE STARTED TO DO IN 2014, WHEN WE LAUNCHED SIGNIFICANT INITIATIVES THAT WILL MATURE AND BE ANNOUNCED DURING THE COURSE OF 2015."

Omar Kutayba Alghanim
Chairman

Financial Review

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Management Discussion and Analysis

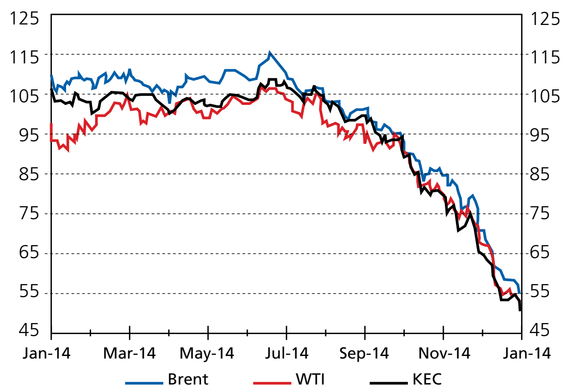
The Management Discussion and Analysis is intended to provide an overview of Gulf Bank's (the Bank's) financial position, a summary of the business and operating performance and an outlook on the business for 2015 and beyond.

During the course of preparing the Management Discussion and Analysis, judgments and estimates of the expected outcomes of current events and transactions with appropriate consideration to materiality were required to be made. Actual results in the future may differ materially from our present assessment of this information because events and circumstances in the future may not occur as expected.

Business Environment

There were signs of an acceleration of economic growth fuelled by the Kuwait Development Plan projects implementation. However, the overall economic conditions in Kuwait during 2014 were generally subdued and the environment remained challenging for the banking sector, coupled with ample liquidity and money supply within the system perpetuating a low interest rate environment and affecting the margins of banks.

During the latter half of 2014, the price of oil collapsed as rising supplies coincided with weak global demand.



Oil prices crashed to near six-year lows and almost 60% below their June highs to touch levels of below USD 50 per barrel by the end of the year. Oil exports generate substantial surpluses for the government and dominate the economy, which has seen little diversification.

The decline in oil prices might adversely affect the economy in the long run, if the oil prices continue to remain at the present levels, as Government spending, which is a primary driver for economic growth, may slow down which would adversely affect credit growth in the country.

Most of the GCC stock markets have been down, particularly after the recent decline in oil prices. The Kuwait stock exchange index declined by 14% during the last quarter of 2014. If the trend continues, this might affect the economy and specifically the collateral position of assets pledged to the banks.

Personal consumption was robust, stimulated by larger government transfers in the form of grants and subsidies, which has underlined the growth in the personal loan segment. Strong consumer spending provided support to the economy during the year.

In the Wholesale segment, all banks had surplus liquidity and therefore the competition has been intense for large projects, which in turn squeezed margins. For most part of the year corporate credit growth remained subdued.

Money Supply (M2) grew by 2.7% YTD November 2014. The activity in the local Inter-Bank market has been picking up. However, interest rates are slowly hardening which is reflected in the increase in the 1 month KIBOR from 0.75% as at 31st December 2013 to 0.8125% as at December 2014.

In June 2014, Central Bank of Kuwait ("CBK") issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in the 2005 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). This regulation includes the new capital adequacy requirements for calculating and maintaining the minimum capital required for credit risk, market risk and operational risk based on the standardised approach.

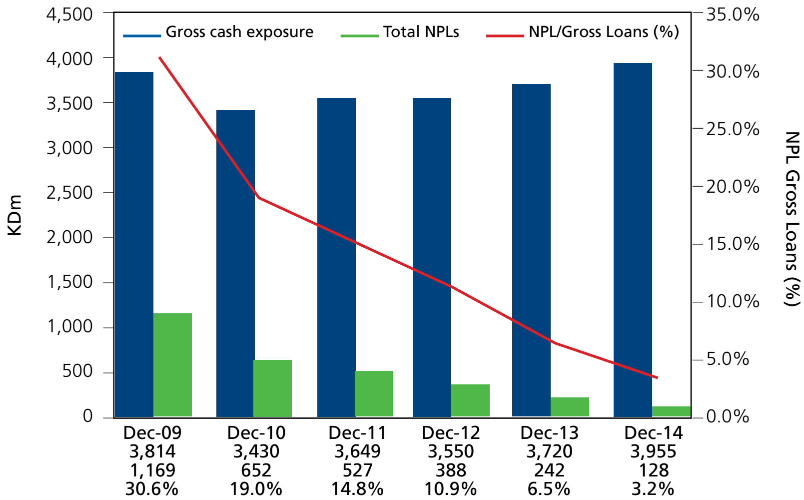
Financial Performance

	Amounts in KD Millions	
	2014	2013
INCOME STATEMENT		
Net Interest Income	**117.7**	121.4
Net Fees and Commissions	**27.9**	26.2
Other incomes	**17.2**	19.4
Operating Incomes	**162.8**	166.9
Operating Expenses	**(56.0)**	(57.5)
Operating Profit before provisions / Impairment losses	**106.8**	109.4
Loan and Investments Impairments	**(101.9)**	(84.4)
Net Recoveries	**32.4**	8.8
Net Profit	**35.5**	32.1
FINANCIAL POSITION		
Loans and Advances	**3,583.1**	3,361.2
Total Deposits	**4,340.4**	4,086.0
Shareholders' Funds	**511.4**	483.1
KEY METRICS		
Capital Adequacy Ratio	**15.4%**	17.4%
Precautionary General Provisions – KD Millions	**137**	158
Non Performing Loan Ratio	**3.2%**	6.5%
NPL coverage ratio (including collateral)	**266.4%**	187.4%
Cost to Income Ratio	**34.4%**	34.5%

At the end of December 2014, the Bank's total assets were KD 5,331 million. There has been a significant gain in market share in loans, mainly attributable to the 23% growth in retail loans. Overall, this resulted in a growth of 9% vs 6% market growth. The growth in low cost deposits was 16%, increasing the total deposits at the Bank to KD 4,340 million.

Operating profits for 2014 have declined marginally over 2013 mainly from tightening of the net interest margins. The one off recoveries from loan settlements and exceptional incomes during the year helped increase the net profits by 10 % over last year.

The Bank maintained its positive trend of reducing the non-performing loan ratio, which decreased from 6.5% at the beginning of the year to 3.2% by December 2014 and increased the total coverage ratio of non-performing loans to 266%.



Ratings

		2014	2013
Fitch Ratings	**FITCH** Long Term Short Term Viability Rating Outlook	A+ F1 bb- Stable	A+ F1 bb- Stable
Moody's	**MOODY'S** Long Term Short Term Financial Strength Outlook	Baa1 P-2 D Positive	Baa2 P-2 D- Positive
STANDARD & POOR'S RATINGS SERVICES McGRAW HILL FINANCIAL	**STANDARD AND POOR'S** Long Term Short Term Outlook	BBB+ A-2 Positive	BBB+ A-2 Positive

All the major international credit rating agencies Standard & Poor's (S&P), Fitch and Moody's, which issued their rating reports during this period were complimentary of the progress achieved by the Bank.

Moody's: Moody's has **upgraded** the Long-term deposit Rating to **'Baa1'** from **'Baa2'** and the standalone Bank's Financial Strength Rating (BFSR) to **'D'** from **'D-'** with a **'Positive'** outlook. The upgrade reflects the Bank's significant improvement in asset quality and provisioning coverage, replenished capital buffers, strengthening of the Banks risk management practices and a reduction of balance sheet risk; and the resilience of the Bank's pre-provision profitability . Moody's noted that the positive outlook reflects that the asset quality will improve further and converge with the system average by 2015.

Standard and Poor (S&P): S&P has affirmed the long term rating at **'BBB+'** and outlook **'Positive'**. The positive outlook reflects that the Bank's credit risk profile or business position may further improve over the next 18-24 months without impairing the Bank's strong capitalisation.

Fitch: Fitch Ratings has affirmed the Bank's, Long-term Issuer Default Rating (IDR) at **'A+'** with a **'Stable'** Outlook. The Viability Rating (VR) has been affirmed at **'bb-'** The VR reflects the Bank's substantial and sustained improvement in asset quality and capitalisation since 2009, the Bank's sound liquidity and its relatively cautious growth plans, focusing on its core market.

Corporate Social Responsibility (CSR)

The Bank continues to invest in youth, entrepreneurship and talent development in the local community through its Corporate Social Responsibility initiatives by participating in programs such as "INJAZ" local and regional competitions, the Annual Gathering of National Union of Kuwaiti Students - USA Branch, as well as a wide variety of job shadowing programs. Our annual sponsorship of the memorial journey for pearl diving continues to strengthen our position as an integral part of the Kuwaiti society. The Bank has numerous staff volunteers working together with our youth on various development programs throughout the year. These range from work with schools, hospitals, sponsorship of sporting occasions and people, as well as initiatives with the ministries.

With our relentless focus on talent; the Bank places great value on its Human Resources and continuously delivers exceptional initiatives that help the progress and development of its staff. This was culminated with the launch of Durrat Al Khaleej training center early 2014 and the recent launch of a customised Graduate Development Program in collaboration with the Institute of Banking Studies (IBS). The program focuses on the development of local talent and aiming at creating a pool of holistic bankers and leaders of the future.

During 2014, the Bank also reached out to a large segment of society by supporting a wide range of CSR events organised by community institutions and non-profit organisations, as well as fulfilling its internal responsibilities by arranging various sporting events and health awareness programmes for our employees.

Awards

During 2014, the Bank was honoured with prestigious awards and accolades, including 'Bank of the Year' award from Arabian Business, 'Best Retail Bank in Kuwait' award from International Finance Magazine, the 'Best Domestic Payments and Cash Management Bank in Kuwait' by Asian Banker, 'Best Domestic Retail Bank' and 'Best Human Resources Development' awards for 2014 from Banker Middle East, 'HR Professional of the Year' award for the private sector at the 6th Annual MENA HR Excellence Awards, the 'Best Customer Experience Overall Branch in Kuwait' award from Ethos Integrated Solutions (Ethos) at the 10th Annual Customer Experience Benchmarking Index and STP Award from Citibank.

Bank's Overall Strategy

During 2014, the Bank continued the focus on its core competence of commercial and retail lending within the Kuwaiti market, and on strengthening its domestic franchise. The strategy has shifted to risk adjusted growth following a period starting in 2009 during which the focus was on strengthening the balance sheet and managing down a substantial portfolio of impaired loans. The Bank continued to make progress during 2014 in strengthening systems, controls, enhancing risk management, corporate governance and also in improving product offerings and delivery channels.

This progress is also being recognised by the international credit rating agencies. During 2014, Moody's upgraded the Bank's long term rating to 'Baa1' from 'Baa2' and the standalone Bank's Financial Strength Rating (BSFR) to 'D' from 'D-, maintaining a positive outlook. Standard and Poor's also affirmed the Bank's long-term credit rating at 'BBB+' with a positive outlook. Both agencies, in their assessments, affirmed the Bank's asset quality, capitalisation, solid revenue generating capacity and sound risk management systems and practices.

Significant upgrades were made within the Information Technology (IT) department to both improve the existing infrastructure and upgrade the technology. A strategic plan aimed at delivering a robust capability in terms of Infrastructure, Governance, Solution Delivery and Security Framework was also launched.

To become the leading Kuwaiti Bank, Gulf Bank needs to achieve three strategic goals by 2016

Strategic Goals	Target Deliverables	Focus
Complete the Recovery	• Reduce NPLs • Maximize recoveries • Build best-in-class credit	• Create a "Bad Bank" • Reinforce credit management to world-class standards
Maximize Organic Growth	• Build best-in-class sales engines • Deliver competitive services • Leverage analytics • Assemble a superior team	• Organize around customers • Invest in data and staff • Re-engineer sales and service platforms • Upgrade human capital
Create Option Value	• Get "Permission" for growth • Build-up financial strength • Create scalable operating platform	• Expand capital base • Invest in operating platform

Risk Appetite and Portfolio Strategy

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 risk based 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 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 Board of Directors. 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, which is periodically revised in response to changes in risk and market conditions. The Credit Policy Manual sets out the guiding principles and the credit risk philosophy governing extension of credit to 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, and evaluating and controlling cross border risk. The individual country limits are approved and reviewed by the Executive Credit Committee (ECC) which is the highest credit approving committee delegated by the Board of Directors within the CBK guidelines.

The Bank classifies its exposure as per North American Industry Classification System (NAICS) Code. Such classifications are in addition to the classification based on purpose codes as defined by the 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 has also introduced a Portfolio Risk Rating process through which the overall portfolio quality is being assessed at regular intervals and deliberated upon in the Executive Risk Committee (ERC). Portfolio Risk Rating has been extended up to the relationship manager level and risk measures are introduced for business performance appraisal that will lead to further improvement in asset quality.

The Bank also introduced a RAROC (Risk Adjusted Return on Capital) model as a pricing tool for credit facilities granted to corporate clients. It is based on the premise that pricing is to be aligned with the risk embedded in the proposal. The model helps to make the informed decisions, create shareholder value and allow proper pricing to its clients. The RAROC Model has been fully automated and integrated into the decision making process. The Bank has introduced the RAROC in the Balanced Scorecard of the Business Heads to measure the risk adjusted returns across the various business groups.

Funding Strategy

The Bank maintains a well diversified deposit base and maintains an optimal mix between CASA (Current and Savings Accounts) and term deposits.

The Bank has a strong liquidity position with the liquidity ratio at 32% vis-a-vis the regulatory requirement of 18%. The regulatory Loan to Deposit Reserve ratio (LDR) as at 31st December 2014 had a surplus of KD 229 million, which provides a sufficient buffer to grow as well as a comfort should there be any large negative movements in deposits.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position; management of liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources with adequate back-up facilities; monitoring depositor concentration in order to avoid undue reliance on large individual depositors; 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 management is a key component, in line with the overall strategy. The liquidity is monitored regularly in line with the CBK guidelines.

Capital Management Strategy

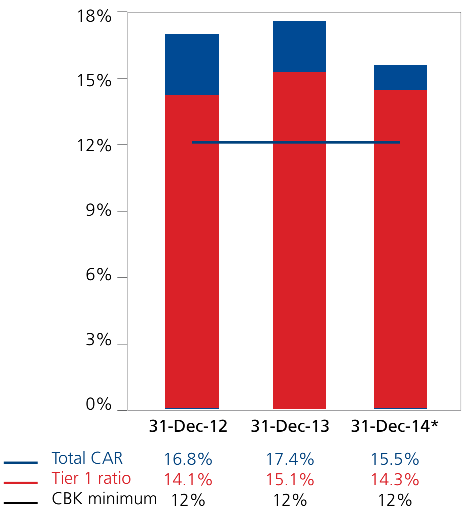
The Bank's capital management philosophy is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value.

The Bank's capital adequacy 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 off-balance-sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is done to ensure that the Bank's internal capital targets are consistent with the approved risk appetite of the Bank.

The Bank seeks to maintain a prudent balance between different components of capital The Bank's RAROC model, also helps the Bank in allocating capital and integrates to the decision making process.

The chart below depicts the Capital Adequacy Ratio as per Basel II for 2012 and 2013 whilst 2014 capital adequacy has been computed under Basel III. The capital for all the years is above the minimum regulatory requirement of 12%.

The table on the right shows the comparative Capital Adequacy Ratio under Basel II and Basel III for 2014.



KDm	Basel II	Basel III
	31-Dec-2014	
Tier 1		
Opening Equity + Reserves	549.8	480.4
Interim Retained Profit / (Loss)	-	69.4
Asset Revaluation Reserve	-	18.9
Fair Valuation Reserve (FVR)	-	9.2
Sub Total	**549.8**	**577.8**
Less: Treasury Shares	(66.5)	(66.5)
Total - Tier 1	**483.3**	**511.4**
Tier 2		
Asset Revaluation Reserve	8.5	-
Fair Valuation Reserve (FVR)	4.1	-
General Provision Excess	41.5	42.9
Total - Tier 2	**54.1**	**42.9**
Total	**537.4**	**554.3**
Risk Weighted Assets (RWA)	**3,373.6**	**3,587.7**
Capital Adequacy Ratio		
Tier 1	**14.33%**	**14.25%**
Total CAR	**15.93%**	**15.45%**

*Dec '12 and Dec '13 figures are computed as per Basel II, whereas Dec '14 is computed as per Basel III regulations.

The Internal Capital Adequacy Assessment Process ('ICAAP')

The Internal Capital Adequacy Assessment Process ('ICAAP') and the Risk Appetite and Portfolio Strategy guidelines are the two pillars of identifying, measuring, aggregating and monitoring of the Bank's risks and to maintain an appropriate level of internal capital in relation to the Bank's overall risk profile and business plan.

The Bank has a very low appetite for market risk, being focused on regular commercial banking. The Bank uses the standardised approach to determine capital required for both credit and market risk under Basel III. Credit risk is well managed and loan-underwriting standards are conservative.

The capital allocation for each of the Pillar III risks are reviewed and discussed at the Board Risk Committee 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 31st December 2014 was 15.45 % and the corresponding ICAAP (Pillar I & II) was 13.53%.

Board Affairs Division

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

It has a liaison and coordination function between the Board of Directors and the Executive Management in matters such as executing the policies and resolutions approved by the Board.

The Board Affairs Division also monitors the compliance function to ensure compliance with the regulatory authorities such as CBK, Capital Market Authority (CMA), Kuwait Stock Exchange and Ministry of Commerce.

The Board Affairs Division is responsible for shareholders' and investors' affairs. It addresses all queries from the shareholders or investors and liaises between the Bank and the local society.

Role of the Chairman

The Chairman of the Board of Directors played a crucial role in the proper functioning of the Board and the maintenance of mutual trust among members, he carried out the following:

- Ensured that Board decisions were taken on a sound and well-informed basis. The Chairman encouraged and promoted critical discussion and ensured that dissenting views were expressed and discussed within the decision-making process;
- Built a constructive relationship between the Board and the Executive Management of the Bank;
- Created a culture during Board meetings that encouraged constructive criticism in cases of differing views among the Board members, and encouraged discussions and voting on such cases.

Corporate Governance

Corporate Governance in Banking has become of paramount importance given the essential role of banks in the economy and the deep relationship with the society at large and the stakeholders such as customers and depositors, shareholders and employees.

The new Corporate Governance framework emphasises the fact that board members must be engaged in their supervisory role and assume responsibility in promoting general confidence in the Bank's management, taking into consideration, within the framework of enhancing the Bank's profits, the impact of risk on the interest of depositors and financial stability.

This report shows the extent of the Bank's compliance with the implementation of CBK Corporate Governance instructions.

Corporate Governance Compliance with CBK Instructions

In June 2012, CBK issued instructions relating to Corporate Governance in Banks i.e. 'Rules and Standards of Corporate Governance in Banks'.

The instructions included nine major pillars of sound Corporate Governance Standards, including:

i. Board of Directors;
ii. Corporate Values, Conflict of Interest and Group Structure;
iii. Executive Management;
iv. Risk Management and Internal Controls;
v. Remuneration Systems and Policy;
vi. Disclosure and Transparency;
vii. Complex Corporate Structure;
viii. Protection of Shareholder Rights; and
ix. Protection of Stakeholder Rights.

The Bank confirms that necessary policies, manuals and charters are put in place to comply with the provisions of the nine pillars for the year ended 31 December 2014.

The Bank under the leadership of its Chairman and Board of Directors is fully committed to the implementation of the new rules on Corporate Governance of 2012 as announced by the CBK. The Bank's vision is to implement Corporate Governance both in letter and spirit. The Bank's goal in terms of Corporate Governance is not only to be compliant with all the rules and regulations (including CBK, CMA, the Companies Law etc. but all other applicable laws and regulations) regarding Corporate Governance. The Bank also endeavours to adopt global best practices which we believe are vital to its financial and communal well-being.

Stakeholder Definition

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

1. Customers & Depositors;
2. Shareholders;
3. Regulatory Authorities;
4. Board & Directors;
5. Employees ;
6. Suppliers & Service Providers;
7. The Community where it operates.

Policies & Procedures

The Bank has adopted a comprehensive framework of Corporate Governance Guidelines, designed to properly balance performance and conformance. This enables the Bank to undertake, in an effective manner, the prudent risk-taking activities which are the basis for its business. In our view, governance must improve continuously and as such, our corporate governance framework is subject to ongoing review and assessment as we strive to raise the bar in all facets of our business and governance standards.

The set of policies and procedures that ensure that the road map and processes to good governance is clear include the following:

1. Corporate Governance Manual;
2. Disclosure & Notification Policy;
3. Ownership of Risk Policy;
4. Risk Appetite Document;
5. Ethical Standards;
6. Whistle Blowing Process;
7. Conflict of Interest;
8. Related Party Lending;
9. Customer Complaint Handling Policy & Procedures;
10. Internal Audit Charter;
11. Human Resources Manual;
12. Policy & Procedure Standards.

Roles & Responsibilities

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

Governance Structure – Overview

The Bank has aligned its organisational structure to provide sound governance practices to be embedded within the reporting lines, providing clear segregation of duties, independence of thought and action in areas such as Anti-Money Laundering, Compliance, Internal Audit and Risk Management. The structure also adheres to the CBK's regulatory bylaws.

The Bank's Governance structure follows a clear three tier approach to governance. This is firstly at the Executive Level through several Committees, secondly at the Board Level Committees and finally at the level of the Board itself.

a. Executive Governance Structure:

The structure of Executive Governance is demonstrated by the number of committees operating at the Executive levels of the Bank. These include several credit committees, risk committees and several other types of committees as depicted 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

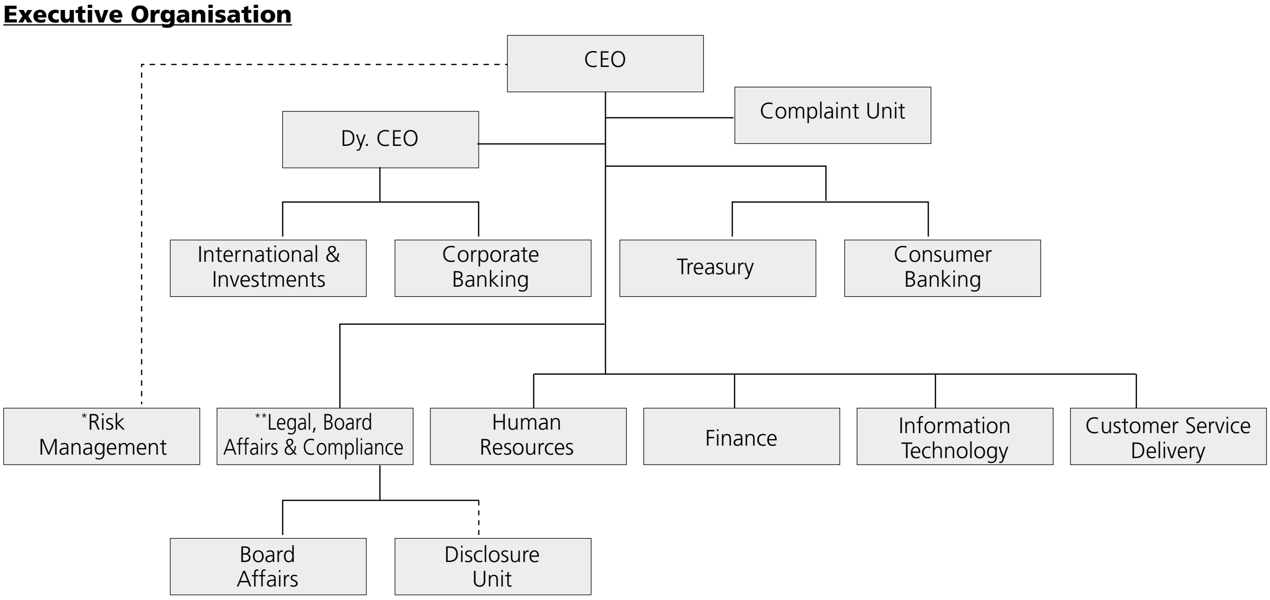
Management

- Management Committee
- Executive Risk Committee
- Asset & Liabilities Committee
- Fraud Committee
- Human Resources Committee

Others

- Operational Risk Management Committee
- IT Steering Committee
- Multiple Project Steering Committees

Executive Organisation



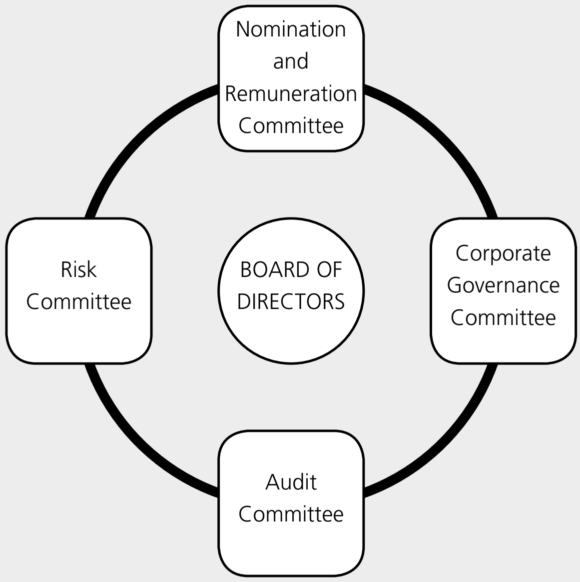
* Reports to the Board Risk Committee

** Reports to the Chairman of the Board with a line to the CEO for legal matters

b. Board Committee's Structure:

In line with CBK governance regulations, Gulf Bank has in place four Committees, which look after dedicated areas of the Bank. The committees are listed as follows

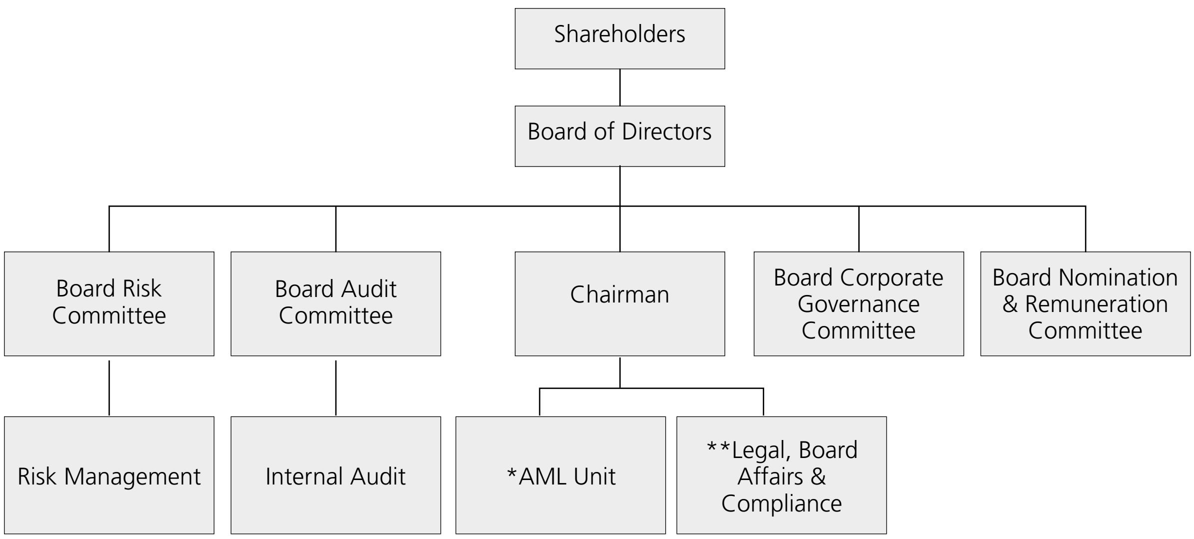
1. Board Corporate Governance Committee
2. Board Audit Committee
3. Board Risk Committee
4. Board Nomination & Remuneration Committee



Each of the above committees has its own bylaws approved by the Board with its own Chairman, Vice Chairman, Members, Secretary and other attendees. All committees review minutes of the relevant management committees as appropriate, receive relevant reports and data for discussions from management and others and then submit their reports to the Board for further discussions and deliberations.

The Bank has published a comprehensive Corporate Governance Manual as required by the CBK and published a summary on the Bank's web page.

Governance Organisation



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

** Reports to the CEO for legal matters

Board of Directors

The Board is constituted of elected members whose skills and experience are selected to ensure an appropriate mix having regard to matters such as specialist skill representation, Board experience, age spread, and diversity in industries and geographic experience. Other matters for explicit consideration are personal qualities, communication capabilities, ability and commitment to devote appropriate time to the task, the complementary nature of the distinctive contribution each director might make, professional reputation and community standing.

Board Overall Responsibilities

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

The Board's core responsibilities are set out below and include the following:

- Assume responsibility for the Bank's business, financial soundness, and fulfilment of all regulatory and legal requirements;
- Preserve the interests of shareholders, depositors, creditors, employees, and other stakeholders. Ensure that the Bank is run prudently and within the laws and instructions in force and in line with the Bank's policies, risk appetite, delegations and bylaws;
- Set out the Bank's strategic objectives and oversee its executive management which assumes responsibility for operating the Bank on a day-to-day basis;
- Approve the internal control framework and to ensure or be aware of its validity and/or limitations;
- Instil and embed the principle of Board independence and compliance by each Board member within the performance of their role towards the Bank and make decisions objectively;
- Ensure that transactions with related parties are reviewed and verified in terms of validity and reflect a correct position;
- Ensure that the Bank has policy standards in place and that there are written policies covering all areas in the Bank;
- Disclosure of reliable and timely information to shareholders - the shareholders depend on the Board to get them the right information;
- Evaluation, compensation and succession for key management roles.

The Bank's Board members take part in a range of training and continuing education programs. In addition to a formal induction program, the Board members also receive regular bulletins designed to keep them abreast of matters relating to their duties and responsibilities as Board members.

Organisation of the Board's Business

The Chairman in consultation with the Executive Management proposes key issues to be listed on the agenda for each Board meeting. The Board members are provided with sufficient information and details before the board meetings, allowing them to review the issues before taking appropriate decisions at the Board meetings. The Board will meet at least 6 times annually and at least once per quarter.

The Board Secretary shall note down all the Board's discussions, member's suggestions and the results of any voting taking place during the meetings. The Board Secretary, under the supervision of the Chairman, is responsible to ensure the execution of the actions approved by the Board in terms of follow-ups, exchanging information among Board members, committees and the executive management.

I. Board Corporate Governance Committee

a. Committee Duties

The Board Corporate Governance Committee oversees the overall process of the Corporate Governance in the Bank, ensures the compliance of the CBK rules on Corporate Governance, and defines the Corporate Governance practices in the banking world. The Committee ensures that the interests of the depositors are protected and the shareholders obligations are met taking into account the interest of the other stakeholders by implementing monitoring processes to report any conflict of interest and related parties transactions.

b. Composition of the Committee

• Omar Kutayba Yusuf Alghanim	Chairman
• Bader Nasser Mohammed Al Khorafi	Deputy Chairman
• Sayer Bader Al Sayer	Board Member
• Sadeq Al Saraf	Secretary

c. Committee Meetings

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

d. Key achievements in 2014

- Discussed and approved the amendments to the existing Board Corporate Governance committee bylaws in order to effectively supervise the compliance function.
- Approved the policies, procedures and reports pertaining to Compliance and Anti Money Laundering (AML).
- Reviewed the existing governance structure and approved the amendments.
- Reviewed and approved the Disclosure reports
- Reviewed the process of monitoring and reporting under the Whistle Blowing policy

e. Changes during the year

Upon the resignation of Dr. Ghaith Mismar (GM, Legal) from his post on 28th September, 2014, Mr. Sadeq Al Saraf (AGM, Board Affairs) was appointed as the Secretary of the Board Corporate Governance Committee.

II. Board Audit Committee

a. Committee Duties

The Board Audit Committee carries out its duties within the framework of governance principles and practices established by the Board of Directors. The Board Audit Committee promotes accountability of the key players, and ensures that they work in the best interests of the Bank and its shareholders to enhance shareholder value, while taking into account the legitimate interests of other stakeholders. The Audit Committee›s role is to ensure the adequacy of the Bank's internal and external audit, highlighting the accounting issues of material impact on the financial statements, reviews the Bank's internal control systems and ensures sufficiency of all resources provided for control functions. Furthermore, the Board Audit Committee appraises the performance of the Internal Audit General Manager and recommends to the Board of Directors the nomination, termination, appointment and remuneration of the external auditor. Since its effectiveness is directly linked to that of the Board of Directors, the Board Audit Committee works closely with the Executive Management to obtain any information required.

b. Composition of the Committee

• Farouk Ali Akbar Abdullah Bastaki	Chairman
• Ahmad Abdullatif Yousef Al Hamad	Deputy Chairman
• Omar Hamad Youssef Al-Essa	Board Member
• Sadeq Al Saraf	Secretary

c. Committee Meetings

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

d. Key achievements in 2014

- Supervised the activities of Internal Audit Division including review of its plans, strategies, procedures, follow-up activities, organisational structure, together with its financial and staffing budgets.
- The Committee also approved the Internal Audit Risk based Plan for 2014 and reviewed the issues, action plans and recommendations in the Internal Audit reports.
- Held meetings with the Chief Internal Auditor and External Auditors without the presence of Executive Management.
- Reviewed the scope and approach of External Auditor's audit plans for the year ending 31 December 2014.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed the issues, action plan and recommendations in the CBK mandated Internal Control report.
- Approved the Internal Audit revised organization structure.
- Further, in accordance with international best practices the Board Audit and Board Risk Committee had a joint meeting during the year to discuss issues which encompassed both the committees.

e. Changes during the year

Upon the resignation of Mr. Abdulaziz Al Balool (DGM, Board Affairs) from his post on 28th February, 2014, Mr. Sadeq Al Saraf (AGM, Board Affairs) was appointed as the Secretary of the Board Audit Committee on 9th March 2014.

III. Board Risk Committee

a. Committee Duties

The Board Risk Committee›s main duties are to assist the Board of Directors in assessing and identifying the financial and other different types of risks to which the Bank is exposed. The Board Risk Committee contributes to enhancing the effectiveness of the Board of Director’s monitoring of risk issues facing the Bank, submitting period reports to the Board of Directors and an update on the Bank’s current and future risk strategy and appetite as well as oversight of the executive’s management application of the strategy. The Board Risk Committee evaluates the risk exposures, concentration and tolerance limits and approves the aggregate transactional or trading limits for extraordinary or new risks. Furthermore, the Committee reviews quarterly credits risks-rated 6 or worse and which are more than 10% of the Bank’s capital. In addition, this Committee reviews any specific transaction or risk position that it deems relevant to managing the risks of the Bank.

b. Composition of the Committee

• Bader Abdulmohsen El-Jeaan	Chairman
• Ali Morad Yusuf Behbehani	Deputy Chairman
• Bader Nasser Mohammed Al Khorafi	Board Member
• Saleem Sheikh	Secretary

c. Committee Meetings

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

d. Key achievements in 2014

- Reviewed and recommended the risk policies and the frameworks for approval and ratification by the Board.
- Reviewed and updated the Risk Appetite document and Authority Matrix for approval.
- Reviewed and discussed the implementation of the Capital Requirements Directive, particularly in relation to the ICAAP and stress-testing results.
- Reviewed and approved the Risk Management Organisation Chart.
- Reviewed and approved the Country and Bank Limits for various countries.
- Reviewed the credit risk and portfolio reports and approved the risk management’s plans for the year.

e. Changes during the year

There was no change in the membership of the Committee for the year ended December 2014.

IV. Board Nomination and Remuneration Committee

a. Committee Duties

The Board Nomination and Remuneration Committee submits recommendations to the Board of Directors on the nomination of the Board members, reviews their skills, capabilities and qualifications in accordance with the approved policies and standards of the Bank and the CBK instructions. The Board Nomination and Remuneration Committee conducts an annual review of the Board of Directors structure as well as drawing recommendations on the changes that can be made in line with the best interest of the Bank. Furthermore, this Committee ensures that the Board members are constantly informed on the latest banking issues.

The Committee reviews with the Risk Committee the compensation and benefits of all or some of the members of the Executive Management, including the principles and criteria used for their annual performance evaluation including an evaluation of the authority of the board members and their leadership characteristics. In concluding its role, the Board Nomination and Remuneration Committee prepares and reviews annually a Remuneration Grading Policy to the Board of Directors.

b. Composition of the Committee

• Ahmad Abdullatif Yousef Al Hamad	Chairman
• Bader Abdulmohsen El-Jeaan	Deputy Chairman
• Jassim Mustafa Boodai	Board Member
• Salma Al Hajjaj	Secretary

c. Committee Meetings

The Board Nomination and Remuneration Committee should convene not less than twice a year. The presence of two members is required to hold a meeting.

d. Key achievements in 2014

- Reviewed and approved the revised Remuneration policy.
- Approved CEO's Balanced Scorecard.
- Approved the report on Board Effectiveness Assessment.
- Reviewed and approved Training Plan to Board Members on Thought Leadership and Technical Updates.
- Reviewed and approved Talent Management and Succession Planning Policy.
- Discussed and approved Long Term Incentive Plan

e. Changes during the year

There was no change in the membership of the Committee for the year ended December 2014.

Board meetings and attendance

During 2014, the Board of Directors met regularly and Directors received information between meetings about the activities at the Bank and management committees. There were 6 Board meetings and 17 Board committee meetings during 2014.

	Board Meeting	Audit Committee	Corporate Governance Committee	Risk Committee	Nomination and remuneration Committee
Number of Meetings in 2014	**6**	**8**	**2**	**4**	**3**
Omar Kutayba Alghanim	6	*	2	*	*
Ali Morad Behbehani	4	*	*	3	*
Ahmad Abdullatif Al Hamad	6	8	*	*	3
Bader Abdulmohsen El-Jeaan	6	*	*	4	3
Bader Nasser Al Khorafi	5	*	2	3	*
Jassem Mustafa Boodai	5	*	*	*	3
Sayer Bader Al Sayer	4	*	2	*	*
Omar Hamad Youssef Al-Essa	6	8	*	*	*
Farouk Ali Bastaki	4	7	*	*	*

*Not member of the committee

The minutes of each meeting(s) is recorded and constitute part of the Bank's records.

Furthermore, all of the Board Committees' have submitted timely report to the Board Chairman regarding the follow up on committees' work on a quarterly basis. The Board of Directors was also evaluated by an external agency and was rated very high in relation to their peers.

Adequacy of Internal Control Systems:

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 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 (such as Board Risk committee, Board Audit Committee, Board Corporate Governance Committee, Board Nomination and Remuneration Committee, ALCO, Credit Committees, etc) which provides governance and oversight on all significant areas. It also ensures that key objectives are monitored and supervised through these specialised Committees formed for this purpose.
- Existence of specialised 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 independent review process by Internal Audit Group, which assesses the Bank's Operations, processes and systems, 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 Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports; Management Letters; Internal Control Review reports etc. and monitors periodically the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.

The Bank also conducts an Internal Control Review by an external audit firm, as required by CBK regulations. The latest report was issued in June 2014 and there were no significant findings (Annexure-A). A summary of ICR report for the year ended 31 Dec 2013 was presented to the Board of Directors during 2014, which was reviewed and approved by the Board.

Annexure-A

Report on Accounting and Other Records and Internal Control Systems

29 June 2014

PricewaterhouseCoopers
Al-Shatti and Co., Arraya Tower II
23rd - 24th Floor
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The Board of Directors
Gulf Bank K.S.C.
State of Kuwait

Dear Sirs,

In accordance with our letter of engagement dated 19 February 2014, we have examined your accounting and other records and have also examined and evaluated the internal control systems, which were applied during the year ended 31 December 2013 with regard to the following areas of your bank:

1. Corporate Governance
2. Consumer Banking
3. Corporate Banking
4. Treasury
5. Investments
6. International Banking
7. Anti-money Laundering
8. Risk Management
9. Operations
10. Information Technology
11. Human Resources
12. Finance
13. Legal Affairs
14. Facilities Management
15. Customer Complaints
16. Internal Audit
17. Preservation of Confidentiality of Customer Information and Data
18. Securities Activities

The examination was conducted in accordance with International Auditing Standards and the requirements stated in the:

- Central Bank of Kuwait's (CBK) General Guidelines Manual dated 14 November 1996;
- CBK instructions on Corporate Governance (Instruction No. 2/BSIIBS/284/2012) dated 20 June 2012, including Pillar 4 of the instructions related to Risk Management and Internal Control Systems;
- CBK Instructions No. (2/BS/IDS/308/2013) dated 23 July 2013 on Combating Money Laundering Operations and the Financing of Terrorism;

- CBK Instructions No. (2/BS/IBS/278/2012) concerning "Preservation of the Confidentiality of their Customer Information and Data" issued on 9 February 2012.

The report includes the follow-up on observations raised in the previous internal controls review report for the year ended 31 December 2012 and our opinion on the adequacy of the actions taken by the bank in that regard.

As members of the Board of Directors of Gulf Bank K.S.C, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems. In fulfilling that responsibility, estimates and judgments must be made to assess the expected benefits and related costs of management information and of control procedures. The objective is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that 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 in any accounting or 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.

In our opinion, having regard to the nature and scale of its business, during the year ended 31 December 2013, the accounting and other records and internal control systems in the areas examined by us were established and maintained satisfactorily in accordance with the requirements of the General Guidelines Manual issued by the Central Bank of Kuwait on dated 14 November 1996; CBK instructions on Corporate Governance (Instruction No. 2/BS/IBS/284/2012) dated on 20 June 2012 including Pillar 4 of the instructions related to Risk Management and Internal Control Systems; CBK Instructions No. (2/BS/IDS/308/2013) issued on 23 July 2013 on Combating Money Laundering Operations and the Financing of Terrorism; CBK Instructions No. (2/BS/IDS/278/2012) concerning Preservation of the Confidentiality of their Customer Information and Data dated 9 February 2012 and in accordance with International Auditing Standards, with the exception of the matters set out in Appendices 3 and 4 attached to this report. These exceptions do not have a material impact on the fairness of the financial statements for the year ended 31 December 2013, except for a fraud incident against which the Bank has taken a provision in 2014.

Furthermore, the Bank has established a process of quarterly follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the exceptions identified during the course of the Internal Control Review.

Yours faithfully,

Khalid Ebrahim Al-Shatti
License No. 175A
PricewaterhouseCoopers (Al-Shatti and Co.)

Major Shareholders

The major shareholder(s) who own or have control over 5% or more of the Bank's share capital as at 31st December 2014 were:

• Kuwait Investment Authority	18.3%
• Alghanim Industries	14.0%
• Alghanim Trading Company	13.2%
• Behbehani Investment Company	6.1%

The Bank also confirms that there is no arrangement known to the Bank, the operation of which may at a subsequent date result in a change in control of the Bank.

Remuneration Policy

Philosophy

The Bank's Executive Remuneration is designed to aid in attracting, motivating and retention of leadership talent responsible for strategic growth of the Bank and ensuring a sustained shareholder value. Executive remuneration is intended to be based on a philosophy of 'Differentiation' to establish an ethos of meritocracy, create a strong alignment between business performance and executive payout as well as compliance with CBK and 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 employee, retention of key talent, internal mobility and differentiation based on performance; and
- Fair and equitable – ensures the mix of fixed and variable reward is relevant at 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 not withstanding that the variable remuneration pool encourages strengthening the capital base of the Bank yet prevents them from taking undue and excessive risks.

The Remuneration policy is based on ensuring that the disclosure of payouts are 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 staff in a way, which is externally competitive and internally fair. The Bank's remuneration policy applies in a consistent way from the lowest to the highest grade.

The Bank's salary structure is designed to ensure internal and external salary equity, whilst providing flexibility to recognise different degrees of individual performance and levels of responsibility.

Annual Merit Increment

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

Promotion Increment

The Bank promotes competent and experienced employees to higher positions whenever a position becomes available. The promotion shall place an employee into the grade of the new job that will warrant an increase in 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 for 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 employees with a range of Bank services either free of charge or at reduced rates.

The Bank has a Shadow Equity Plan, which presents an opportunity to those executives who contribute to the Bank's success and growth to benefit from the organisation's future development. 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, 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.

Remuneration paid to key management including executive management

The details of remuneration paid to different executive categories for the year 2014 are as below:

KD 000's

Particulars	No. of Staff	Salary	Variable Salary	Termination Benefits	Total
Key Management/ Executive Team	14	1,971	2,020	119	4,110
Financial Control	3	324	381	16	721
Risk Management	5	385	338	25	748
Material Risk Takers	37	1,922	1,005	254	3,181

Definitions

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

The key management and executive team include CEO, DY CEO, CFO, CRO and also other business heads. Material risk takers are those executives whose activities have a material impact on the risk profile of the group.

The total remuneration paid to the five senior executives was KD 2,554K. The total remuneration paid to the CEO, CFO, CRO, and CIA was KD 2,042K.

Capital Management And Allocation

Introduction

In June 2014, Central Bank of Kuwait ("CBK") issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2005 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). This regulation include the new capital adequacy requirements for calculating and maintaining the minimum capital required for credit risk,market risk and operational risk based on the standardized approach.

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 12% by 2014 and 12.5%,13% by 2015 and 2016 respectively. Tier 1 capital comprising Common Equity Tier 1 (CET1) and Additional Tier 1(AT1) capital.CET1 comprising paid up share capital and reserves including property revaluation reserve and fair valuation reserve less treasury shares and Tier 2 comprising allowed portion of general provisions(1.25% of the risk weighted assets). Gulf 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%.The additional requirement is to be met by 2016.

The table below details the regulatory capital for Gulf Bank (the "Bank") as at 31 December 2014 .The figures are not directly comparable since the data for 2013 were based on Basel II regulations

	(KD Million)
Composition of Capital	**31-Dec-14**
Common Equity Tier 1 Capital : instruments and reserves	
Directly issued qualifying common share capital plus stock surplus	304.8
Retained earnings	54.9
Accumulated other comprehensive income (and other reserves)	218.1
Common Equity Tier 1 capital before regulatory adjustments	**577.8**
Common Equity Tier 1 Capital : regulatory adjustments	-
Investments in own shares (if not already netted off paid-in capital on reported balance Sheet	(66.5)
Total regulatory adjustments to Common equity Tier 1	**(66.5)**
Common Equity Tier 1 capital (CET1)	511.3
Additional Tier 1 capital : instruments	-
	-
Additional Tier 1 capital : regulatory adjustments	-
	-
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1=CET1+AT1)	**511.3**
Tier 2 capital : instruments and provisions	**-**
General provisions included in Tier 2 capital	42.9
Tier 2 capital before regulatory adjustments	**42.9**
Tier 2 capital : regulatory adjustments	-
Tier 2 capital	**42.9**
Total capital (TC= T1+T2)	**554.2**
Total risk weighted assets	**3,587.7**
Capital ratios and buffers	**-**
Common Equity Tier 1 (as a percentage of risk weighted assets)	**14.3%**
Tier 1 (as a percentage of risk weighted assets)	**14.3%**
Total capital (as a percentage of risk weighted assets)	**15.4%**
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%
of which : bank specific countercyclical buffer requirement	-
of which : D-SIB buffer requirement	-
Common Equity Tier 1 available to meet buffers (as a percentageof risk weighted assets)	2.5%
National minima	-
National Common Equity Tier 1 minimum ratio	8.5%
National Tier 1 minimum ratio	10.0%
National total capital minimum ratio excluding CCY and DSIB buffers	12.0%
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 temporaray differences(net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-
Cap on inclusion of provisions in Tier 2 under standardized approach	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	-

Capital Management

The Bank's capital management policy is to ensure and maintain an adequate capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in off-balance-sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is done to ensure that the Bank's internal capital targets are consistent with the approved risk appetite of the Bank.

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 2014

	(KD Million)
	31-Dec-14
Credit Risk Exposures	
Credit risk weighted assets	3,433.1
Less: Excess general provision	(133.8)
Net credit risk weighted exposures	**3,299.3**
Market risk weighted assets	2.2
Operational risk weighted exposures	286.2
Total Risk Weighted exposures	**3,587.7**
Regulatory Capital Requirements	
Credit Risk	
Cash items	-
Claims on sovereigns	-
Claims on public sector entities (PSEs)	4.9
Claims on banks	20.1
Claims on corporates	180.3
Credit derivative claims (protection seller)	2.5
Regulatory retail exposures	118.2
Past due exposures	6.2
Other exposures	79.8
Credit risk capital requirement	412.0
Less : Excess general provision	(16.1)
Net Credit Risk Capital Requirement	**395.9**
Market Risk	
Interest rate position risk	**-**
Foreign exchange risk	0.3
Capital requirement for market risk	**0.3**
Capital requirement for operational risk	**34.3**
TOTAL CAPITAL REQUIREMENT	**430.5**
Capital adequacy ratios (per cent)	
Tier 1 ratio	**14.3%**
Total capital adequacy ratio	**15.4%**

The total risk-weighted exposure as at 31 December 2014 is KD 3,587.7 million, requiring a regulatory capital at 12%, of KD 430.5 million.

The Bank's regulatory capital as at 31 December 2014 is KD 554.3 million, translating to a capital adequacy ratio of 15.5%.

Risk Management

Organization of Governance and Risk Management

The Risk Management Policy document, approved by the Board on 8th October 2012 provides the necessary information on risk management philosophy, objectives, management and organization structure. The risk management policies and procedures are constantly reviewed and where necessary, modified and enhanced to reflect changes in products and the market. The Enterprise Risk Management (ERM) System encompassing all areas of Risk Management further strengthens the Risk Management system in the Bank.

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 submit periodic reports to the Board as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Bank. BRC reviews high risk credit which are more than 10% of the Bank's capital or as deemed appropriate by the Committee. The Risk Management of the Bank provides regular reports to the BRC so that the committee members are well informed of all risk taking activities of the Bank.The Board of Directors has delegated all authority (except credit facilities to Board of Directors and related names) for credit decisions to ECC within the CBK guidelines.

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. Broad roles and responsibilities of the Committees are separately covered in Note 24 to the financial statements.

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. 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 rates, including currency rates, interest rates and credit spreads will reduce the Bank's income or the value of its portfolios.

The Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis. The treasury group manages the Bank's foreign exchange and interest rate risk. The investment 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 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 degrees of mismatch permitted by ALCO are minimal.

The Bank's primary treasury business involves foreign exchange transactions on behalf of corporate customers. Customer transactions are 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 trading is 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 any material element of interest rate risk.

The Bank's treasury group also maintains a portfolio of Kuwait Government treasury bonds and CBK bonds to meet the CBK statutory liquidity requirements and to manage surplus domestic currency 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.

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 of future cash flows of the financial instruments. Note 24 (B) to the financial statements explains interest rate risk in detail and also outlines Bank's policy and framework to manage it.

Equity Risk (Banking Book)

The investments group is responsible for managing the investment securities portfolio in the Banking (i.e. non-trading) book. In accordance with IAS 39, the investments are classified as 'available-for-sale', i.e. assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The investments are initially recognised at fair value and the subsequent unrealised gains or losses arising from changes in fair value are taken to the fair valuation reserve in equity. When an investment is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

CBK also sets a maximum limit of 50% of the Bank's capital for investment in securities.

The Bank treats available-for-sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Liquidity Risk

Liquidity risk is the risk arising from the inability of the Bank to meet its obligations on time without incurring unacceptable losses. 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 policy or procedural breaches or a process breakdown. It also includes fraud, unauthorised activities, errors, omissions, inefficiencies, systems failures and external events. Note 24 (E) to the financial statements explains operational risk in detail and also outlines the Bank's policy and framework to manage it.

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

The Bank's Operational Risk Management framework encompasses Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRI's). The framework is being implemented in each business unit of the Bank. Besides, the Bank has Incident reporting mechanism, whereby any deviations from the standard operation are internally reported and appropriate remedial measures are implemented in a timely manner. Also, the Bank collates internal operational loss information and the data facilitates the Bank to put in place appropriate remedial measures to prevent instances of such losses in future. The Bank uses the SunGard Operational Risk solution for the purpose of monitoring operational risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows 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.

Credit Risk Exposure

The Bank uses the Moody's Risk Rating system for risk rating its credit exposures. Note 24 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 2014 is shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

	(KD Million)
	31-Dec-14
Gross Credit Risk Exposure	
Funded Gross Credit Exposure	5,497.4
Unfunded Gross Credit Exposure	1,492.9
Total Gross Credit Risk Exposure	**6,990.3**

Funded gross credit risk exposure for 2014 is 78.6% 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 2014 is detailed below:

Funded and Unfunded credit facilities (Average) as at 31 December 2014

		2014	
(KD Thousands)	**Funded**	**Unfunded**	**Total**
Cash items	57,807	-	**57,807**
Claims on sovereigns	1,047,565	16	**1,047,581**
Claims on public sector entities (PSEs)	119,859	270	**120,129**
Claims on banks	394,845	266,305	**661,150**
Claims on corporates	1,579,332	1,011,853	**2,591,185**
Credit derivative claims (Protection seller)	-	99,784	**99,784**
Retail exposures	1,001,255	44,980	**1,046,235**
Past due exposures	191,048	1,308	**192,356**
Other exposures	999,893	11,127	**1,011,020**
Total	**5,391,604**	**1,435,643**	**6,827,247**

Average funded gross credit risk exposure for 2014 is 78.97% 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 2013 to 31 December 2014 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 2014 is shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2014 - Region wise

(KD Thousands)	**Kuwait**	**Other Middle East**	**Western Europe**	**USA & Canada**	**Asia Pacific**	**Rest of World**	**Total**
Cash items	49,511	-	-	-	-	-	**49,511**
Claims on sovereigns	1,112,077	20,869	-	-	-	-	**1,132,946**
Claims on public sector entities (PSEs)	85,881	38,956	-	-	21,155	-	**145,992**
Claims on banks	9,576	269,278	150,686	22,381	171,805	545	**624,271**
Claims on corporates	2,397,281	158,002	-	7,313	121,897	-	**2,684,493**
Credit derivative claims (Protection seller)	-	86,376	-	-	-	-	**86,376**
Retail exposures	1,136,785	226	586	242	473		**1,138,312**
Past due exposures	111,266	-	-	-	-	-	**111,266**
Other exposures	1,006,104	3,882	1,200	5,488	-	476	**1,017,150**
Total	**5,908,481**	**577,589**	**152,472**	**35,424**	**315,330**	**1,021**	**6,990,317**
Percentage of gross credit risk exposure by geographical region	**84.5%**	**8.3%**	**2.2%**	**0.5%**	**4.5%**	**0.0%**	**100.0%**

The majority of the Bank's credit exposure is in Kuwait which comprises KD 5.91 billion (84.5% of total gross credit exposure) at 31 December 2014.

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2014, broken down by geographical region and standard credit risk portfolio is shown below:

Total gross credit risk exposures as at 31 December 2014 (Average) - Region wise

(KD Thousands)	**Kuwait**	**Other Middle East**	**Western Europe**	**USA & Canada**	**Asia Pacific**	**Rest of World**	**Total**
Cash items	57,807	-	-	-	-	-	**57,807**
Claims on sovereigns	1,024,798	22,235	-	-	548	-	**1,047,581**
Claims on public sector entities (PSEs)	62,090	40,067	-	-	17,972	-	**120,129**
Claims on banks	15,518	193,914	193,755	52,579	204,871	513	**661,150**
Claims on corporates	2,380,748	109,500	231	4,942	95,712	52	**2,591,185**
Credit derivative claims (Protection seller)	-	99,784	-	-	-	-	**99,784**
Retail exposures	1,044,777	186	572	245	265	190	**1,046,235**
Past due exposures	192,356	-	-	-	-	-	**192,356**
Other exposures	994,100	4,760	694	4,944	-	6,522	**1,011,020**
Total	**5,772,194**	**470,446**	**195,252**	**62,710**	**319,368**	**7,277**	**6,827,247**
Percentage of gross credit risk exposure by geographical region	**84.5%**	**6.9%**	**2.9%**	**0.9%**	**4.7%**	**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 2014 is shown below:

Total gross credit risk exposures as at 31 December 2014- Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Constru-ction	Manufac-turing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	49,511	**49,511**
Claims on sovereigns	-	132,318	-	-	22	-	-	1,000,606	**1,132,946**
Claims on public sector entities (PSEs)	-	-	8,513	41,468	-	-	-	96,011	**145,992**
Claims on banks	-	611,367	289	-	12,615	-	-	-	**624,271**
Claims on corporate	6,279	376,196	421,118	114,963	970,690	372,706	-	422,541	**2,684,493**
Credit derivative claims (Protection seller)	-	86,376	-	-	-	-	-	-	**86,376**
Retail exposures	1,078,753	139	24,244	77	23,089	3,368	-	8,642	**1,138,312**
Past due exposures	6,406	-	17,929	-	7,245	-	76,327	3,359	**111,266**
Other exposures	123,251	-	-	-	-	-	713,285	180,614	**1,017,150**
Total	**1,214,689**	**1,206,396**	**472,093**	**156,508**	**1,013,661**	**376,074**	**789,612**	**1,761,284**	**6,990,317**
Percentage of gross credit risk exposure by industry segment	**17.4%**	**17.3%**	**6.8%**	**2.2%**	**14.5%**	**5.4%**	**11.3%**	**25.1%**	**100.0%**

Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2014 is shown below:

Total gross credit risk exposures as at 31 December 2014

(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	49,511	-	-	-	-	-	**49,511**
Claims on sovereigns	476,842	416,339	135,308	74,644	22,302	7,511	**1,132,946**
Claims on public sector entities (PSEs)	-	3	10,015	5,520	13,312	117,142	**145,992**
Claims on banks	173,208	29,577	71,420	45,694	171,517	132,855	**624,271**
Claims on corporates	101,158	893,571	359,173	358,811	461,594	510,186	**2,684,493**
Credit derivative claims (Protection seller)	-	-	-	-	86,376	-	**86,376**
Retail exposures	142,186	18,025	15,281	17,170	101,543	844,107	**1,138,312**
Past due exposures	-	-	-	-	-	111,266	**111,266**
Other exposures	60,918	482,160	156,188	48,560	86,426	182,898	**1,017,150**
Total	**1,003,823**	**1,839,675**	**747,385**	**550,399**	**943,070**	**1,905,965**	**6,990,317**
Percentage of gross credit risk exposure by residual maturity	**14.4%**	**26.3%**	**10.7%**	**7.9%**	**13.5%**	**27.2%**	**100.0%**

Impaired Loans and Provisions

Impaired Loans and Provisions by Industry Segments

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2014 is shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2014

	Impaired Loans (NPLs)			
(KD Thousands)	**Past due portion**	**Balance outstanding**	**Specific Provision Cash and Non cash**	**Specific Provision Cover**
Personal	9,125	20,560	11,435	55.6%
Financial	-	-	-	-
Trade and commerce	17,878	21,137	3,313	15.7%
Crude oil and gas	-	-	-	-
Construction	5,022	5,044	3,729	73.9%
Manufacturing	-	-	-	-
Real estate	70,847	70,847	-	-
Others	7,113	8,337	1,268	15.2%
Total	**109,985**	**125,925**	**19,745**	**15.7%**

Non-performing loans ('NPL's') have decreased by KD 114.8 million in 2014 (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 2014 (by Industry Segments)

	Charge/(Release) for impairment provision		
(KD Thousands)	**Specific Charge**	**General Charge**	**Total Charge**
Personal	4,485	2,744	**7,229**
Financial	13,963	4,815	**18,778**
Trade and commerce	5,236	(111)	**5,125**
Crude oil and gas	-	367	**367**
Construction	(151)	476	**325**
Manufacturing	-	16,490	**16,490**
Real estate	65,525	364	**65,889**
Others	1,792	(18,655)	**(16,863)**
Total	**90,850**	**6,490**	**97,340**

Specific charge mentioned above excludes KD 85.9 million 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 2014 is shown below:

Impaired loans and provisions (by Geographical Region) as at 31 December 2014

	Impaired Loans (NPLs)			
(KD Thousands)	**Past due portion**	**Balance outstanding**	**Specific Provision Cash and Non cash**	**Specific Provision Cover**
Kuwait	109,985	125,925	19,745	15.7%
Other Middle East	-	-	-	-
Western Europe	-	-	-	-
USA & Canada	-	-	-	-
Asia Pacific	-	-	-	-
Rest of World	-	-	-	-
Total	**109,985**	**125,925**	**19,745**	**15.7%**

Credit Exposure

Total Credit Exposure after applying Credit conversion factor but before Credit Risk Mitigation (CRM)

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2014, broken down by standard credit risk portfolio, is shown below:

Gross credit risk exposure before CRM as at 31 December 2014

	Gross credit exposure			Credit exposure before CRM			
(KD Thousands)	**Funded**	**Unfunded**	**Total**	**Funded Credit Exposure**	**Unfunded Credit After CCF**	**FX Contracts After CCF**	**Total Before CRM**
Cash items	49,511	-	**49,511**	49,511	-	-	**49,511**
Claims on sovereigns	1,132,924	22	**1,132,946**	1,132,924	11	311	**1,133,246**
Claims on PSEs	145,719	273	**145,992**	145,719	195	-	**145,914**
Claims on banks	378,337	245,934	**624,271**	378,337	120,842	404	**499,583**
Claims on corporates	1,576,814	1,107,679	**2,684,493**	1,576,814	500,286	287	**2,077,387**
Credit derivative claims(protection seller)	-	86,376	**86,376**	-	86,376	-	**86,376**
Retail exposures	1,096,519	41,793	**1,138,312**	1,096,519	18,153	-	**1,114,672**
Past due exposures	109,985	1,281	**111,266**	109,985	641	-	**110,626**
Other exposures	1,007,586	9,564	**1,017,150**	1,007,586	8,930	-	**1,016,516**
Total	**5,497,395**	**1,492,922**	**6,990,317**	**5,497,395**	**735,434**	**1,002**	**6,233,831**

Credit Risk Mitigation

Under the Basel III standardised 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 the Bank's policy and framework to manage it. As per Basel III, real estate as collateral will be derecognized in five years, with additional hair cut of 10% in each year.

The Bank's credit policy requires very conservative minimum collateral coverage ratios, supported by top-up ratios. 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 in order to restore the prescribed collateral coverage ratio. Real estate collateral is valued once a year by two independent real estate valuers (the lower of the two valuations being taken) and quoted shares are valued daily using current stock exchange prices for direct pledge and monthly if held through a portfolio manager.

In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The personal/corporate guarantees do not constitute eligible CRM techniques for capital adequacy purposes under the Basel III standardised approach.

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 rare 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 2014 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 ('RWA's) as at 31 December 2014

	Credit Exposure/CRM					Risk - Weighted Assets		
		CRM						
(KD Thousands)	Exposure before CRM	Eligible Real Estate	Eligible Financial Collateral	Eligible Guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	49,511	-	-	-	**49,511**	-	-	**-**
Claims on sovereigns	1,133,246	-	11	-	**1,133,235**	-	-	**-**
Claims on PSEs	145,914	-	14,395	-	**131,519**	41,226	-	**41,226**
Claims on banks	499,583	-	929	-	**498,654**	166,125	1,666	**167,791**
Claims on corporates	2,077,387	80,042	494,984	-	**1,502,361**	-	1,502,362	**1,502,362**
Credit derivative claims(protection seller)	86,376	-	-	-	**86,376**	20,789	-	**20,789**
Retail exposures	1,114,672	126	124,066	-	**990,480**	-	984,746	**984,746**
Past due exposures	110,626	56,498	1,211	-	**52,917**	-	51,672	**51,672**
Other exposures	1,016,516	188,921	325,313	-	**502,282**	-	664,558	**664,558**
Total	**6,233,831**	**325,587**	**960,909**	**-**	**4,947,335**	**228,140**	**3,205,004**	**3,433,144**

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 and a limited amount of money market trading is also undertaken.

The Bank uses standardised approach for determining the capital required for market risk. The Bank uses trading Value at Risk (VAR) to track and observe foreign exchange risks. As per Basel III, total market risk exposure is determined by multiplying the market risk capital charge by 12.5 for the purpose of calculating Bank's total risk weighted assets.

The details of the market risk capital charge for the Bank as at 31 December 2014 is shown in the following table:

	(KD thousands)
	31-Dec-14
Market Risk	
Interest rate position risk	-
Foreign exchange risk	173
Total Capital requirement for market risk	**173**
Market risk - weighted assets	**2,163**

On 31 December 2014 total market risk capital charge of KD 173 thousand was equivalent to market risk-weighted assets of KD 2.2 million.

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 2014 are shown in the following table:

Operational Risk as at 31 December 2014

(KD Thousands)	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	21,477	18%	3,866
Commercial banking	79,580	15%	11,937
Retail banking	59,113	12%	7,094
Total	**160,170**	**-**	**22,897**
Total operational risk weighted exposure	**-**	**-**	**286,213**

As per Basel III,total operational risk exposure is determined by multiplying the market risk capital charge by 12.5 for the purpose of calculating the Bank's total risk weighted assets. Gross income includes net interest income and net non-interest income, but excludes realised profits from the sale of securities in the banking book. As of 31 December 2014 total operational risk capital charge of KD 22.9 million was equivalent to operational risk-weighted exposure of KD 286.2 million.

Equity Risk in the Banking Book

The Bank does not trade in equities. All of the Bank's investment securities are held in the Banking (i.e. non-trading) book and are classified as 'available-for-sale' financial assets, i.e. they represent assets acquired to be held for an indefinite period of time which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate for the instrument. The fair values of unquoted instruments require significant estimation. The fair values of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid prices.

The fair value of the investment securities held at 31 December 2014 is 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 2014

(KD Thousands)	**Publicly traded**	**Privately traded**	**Total investment securities**
Total fair value of investment securities	54,166	28,173	82,339
Unrealised gains in equity (part of CET1)	4,747	4,427	9,174
Regulatory capital details			
Regulatory capital requirement	**6,214**	**3,190**	**9,404**
Income statement details			
Income from disposal of investment securities			6,108

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

Interest Rate Risk in the Banking Book

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

The sensitivity of net interest income to interest rate changes is provided in note 24 (B) to the financial statements.

Counter Party Credit Risk

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

For derivatives, 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 limits including for daily maximum delivery risk.

Remuneration Policy

The Nomination and Remuneration Committee submits recommendations to the Board of Directors on the nomination of the board members, reviews their skills, capabilities and qualifications in accordance with the approved policies and standards of the Bank and the CBK instructions. The Nomination and Remuneration Committee conducts an annual review of the Board of Directors structure as well as drawing recommendations on the changes that can be made in line with the best interest of the Bank. Furthermore, this Committee ensures that the board members are constantly informed on the latest banking issues.

The Committee reviews with the Risk Committee the compensation and benefits of all or some of the members of the Executive Management, including the principles and criteria used for their annual performance evaluation including an evaluation of the authority of the board members and their leadership characteristics. In concluding its role, the Nomination and Remuneration Committee prepares and reviews annually a Remuneration Grading Policy to the Board of Directors.

Composition of the Committee

• Ahmad Abdullatif Yousef Al Hamad	Chairman
• Bader Abdulmohsen El-Jeaan	Deputy Chairman
• Jassim Mustafa Boodai	Board Member
• Salma Al Hajjaj	Secretary

Committee Meetings

The Nomination and Remuneration Committee convenes not less than twice a year. The presence of two members is required to hold a meeting.

The Bank's Executive Remuneration is designed to aid in attraction, motivation and retention of 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 payouts as well as compliance with CBK and CMA guidelines. These fixed and variable rewards are an integral part of the Bank's total 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 employee, retention of key talent, internal mobility and differentiation based on performance; and
- Fair and equitable – ensures the mix of fixed and variable reward is relevant at different levels of seniority

Gulf 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 not withstanding that the variable remuneration pool encourages strengthening the capital base of the bank yet prevents them from taking undue and excessive risks.

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

- **Salary Structure:**

  The Bank seeks to recruit and retain staff in a way, which is externally competitive and internally fair. The Bank's pay policy applies in a consistent way from the lowest to the highest grade.

Gulf Bank's salary structure is designed to ensure internal and external salary equity, whilst providing flexibility to recognize different degrees of individual performance and levels of responsibility.

- **Annual Merit Increment:**

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

- **Promotion Increment:**

  Gulf Bank promotes competent and experienced employees to higher positions whenever a position becomes available. The promotion shall place an employee into the grade of the new job that will warrant an increase in basic salary and a change in allowances and benefits applicable to the new position.

- **Employee Benefits:**

  Gulf Bank provides a range of employment related benefits. An employee may be eligible for 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 practice. The Bank also provides employees with a range of banking services either free of charge or at reduced rates.

  The Bank has 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 future development. These shadow shares reflect the market value of Gulf Bank's ordinary shares and will be redeemed for cash by Gulf Bank upon vesting at a price equal to Gulf Bank's ordinary share's market price at Vesting Date, in accordance with the Plan's Terms, 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 Gulf Bank.

Remuneration paid to key management including executive management:

Total value of remuneration awards for the current fiscal year	Unrestricted	Deferred
Fixed remuneration		
- Cash - based	1,617	-
- Shares and share-linked instruments	-	-
- Other	-	-
Variable remuneration		
- Cash - based	1,412	-
- Shares and share-linked instruments	230	83
- Other	216	-

Employee categories	Number of employees in the category	Total remuneration paid
Senior Management	9	1,377
Material risk takers	6	927
Financial & Control functions	7	1,171

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

The key management and executive team includes CEO,DY CEO,CFO,CRO and also other business heads.

Material risk takers are staff in the management team in each of the business lines that undertake risk as part of their normal business activities.

The total remuneration paid to five senior executives was KD 694 K.The total remuneration paid to the CEO,DY CEO,CFO,CRO and CIA was KD 694 K.

For details refer annual report - Part 4 of Corporate Governance.

Leverage ratio common disclosure template

In accordance with the CBK guidelines (CBK circular No.2/BS/342/2014, Kuwait banks must maintain minimum leverage ratio of 3% effective from 31 December 2014.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.

Sr	Items	*(KD Thousands)*
	Leverage ratio framework	
	On-balance sheet exposures	
1.	On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	5,330,878
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)	**5,330,878**
	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)	2,343,693
18.	(Adjustments for conversion to credit equivalent amounts)	(1,477,278)
19.	Off-balance sheet items (sum of lines 17 and 18)	**866,415**
	Capital and total exposures	
20.	Tier 1 capital	**511,361**
21.	Total exposures (sum of lines 3, 11, 16 and 19)	**6,197,293**
	Leverage ratio	

22.	**Basel III leverage ratio (Tier 1 capital (20) / Total exposures (21))**	**8.25%**

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

Sr	Item	*(KD Thousands)*
1.	Total consolidated assets as per published financial statements	5,330,878
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	866,415
7.	Other adjustments	-
8.	**Leverage ratio exposure**	**6,197,293**

“EVERYTHING WE DO WILL BE UPGRADED UNDER STRICT RISK CRITERIA, *AS PER OUR POLICIES THAT HAVE HELPED MAKE GULF BANK SAFE AND SOUND”*

Omar Kutayba Alghanim
Chairman

Financial Statements

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

Report on the Financial Statements

We have audited the accompanying financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

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 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 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 2014 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)

BADER A. AL-WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
(AL WAZZAN & CO.)

14 January 2015
Kuwait

Income Statement

Year Ended 31 December 2014

	NOTES	**2014 KD 000's**	2013 KD 000's
Interest income	3	**166,409**	166,695
Interest expense	4	**(48,718)**	(45,291)
Net interest income		**117,691**	121,404
Net fees and commissions	6	**27,852**	26,158
Net gains from dealing in foreign currencies and derivatives	7	**8,617**	13,628
Realised gains from disposal of investments available-for-sale		**6,108**	2,299
Dividend income		**1,529**	674
Other income		**986**	2,795
Operating Income		**162,783**	166,958
Staff expenses		**41,260**	39,546
Occupancy costs		**3,693**	3,424
Depreciation		**2,552**	2,972
Other expenses		**8,494**	11,575
Operating expenses		**55,999**	57,517
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**106,784**	109,441
Charge of provisions:			
- specific	5	**114,047**	73,202
- general	12,18	**(16,707)**	9,988
Loan recoveries net of write-off	12	**(32,413)**	(8,775)
Impairment loss on investments available-for-sale		**4,590**	1,216
		69,517	75,631
OPERATING PROFIT		**37,267**	33,810
Directors' remuneration	22	**135**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**378**	339
National Labour Support Tax		**916**	837
Zakat		**378**	339
PROFIT FOR THE YEAR		**35,460**	32,160
EARNINGS PER SHARE			
Basic and diluted earnings per share (Fils)	8	**13**	11

The attached notes 1 to 31 form part of these financial statements.

Statement of Comprehensive Income

Year Ended 31 December 2014

	2014 KD 000's	2013 KD 000's
Profit for the year	**35,460**	32,160
Other comprehensive income		
Other comprehensive income reclassified to income statement:		
Investments available- for-sale :		
- Net realised gain on disposal	**(4,564)**	(1,398)
- Impairment loss	**4,590**	1,216
Other comprehensive income to be reclassified to income statement in subsequent periods:		
Net unrealised (losses) /gains on investments available-for-sale	**(4,965)**	7,591
Other comprehensive income not to be reclassified to income statement in subsequent periods:		
Revaluation of premises and equipment	**1,239**	937
Other comprehensive income for the year	**(3,700)**	8,346
Total comprehensive income for the year	**31,760**	40,506

The attached notes 1 to 31 form part of these financial statements.

Statement of Financial Position

As at 31 December 2014

	NOTES	2014 KD 000's	2013 KD 000's
ASSETS			
Cash and cash equivalents	9	**607,367**	533,421
Treasury bills and bonds	10	**188,086**	177,142
Central Bank of Kuwait bonds	11	**588,216**	539,521
Deposits with banks and other financial institutions		**22,000**	14,102
Loans and advances to banks	12	**127,596**	125,415
Loans and advances to customers	12	**3,583,103**	3,361,234
Investments available-for-sale	13	**82,339**	123,982
Other assets	14	**104,444**	164,103
Premises and equipment		**27,727**	25,839
TOTAL ASSETS		**5,330,878**	5,064,759
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**354,677**	307,840
Deposits from financial institutions	15	**678,669**	759,803
Customer deposits	16	**3,661,724**	3,326,251
Subordinated loans	17	**43,920**	84,615
Other liabilities	18	**80,527**	103,116
TOTAL LIABILITIES		**4,819,517**	4,581,625
EQUITY			
Share capital	19	**290,298**	276,474
Proposed bonus shares	22	**14,515**	13,824
Statutory reserve	20	**12,824**	9,097
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**18,874**	17,635
Treasury shares reserve	21	**24,246**	24,246
Fair valuation reserve		**9,174**	14,113
Retained earnings		**54,874**	37,656
		577,829	546,069
Treasury shares	21	**(66,468)**	(62,935)
		511,361	483,134
TOTAL LIABILITIES AND EQUITY		**5,330,878**	5,064,759

Omar Kutayba Alghanim
(Chairman)

César González-Bueno
(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 31 form part of these financial statements.

Statement of Cash Flows

Year Ended 31 December 2014

	NOTES	**2014 KD 000's**	2013 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**35,460**	32,160
Adjustments:			
Effective interest rate adjustment		**(347)**	(2,645)
Unrealised fair value gains on credit default swaps	7	**(276)**	(2,995)
Realised gains from disposal of investments available-for-sale		**(6,108)**	(2,299)
Dividend income		**(1,529)**	(674)
Depreciation		**2,552**	2,972
Loan loss provisions	5,12,18	**97,340**	83,190
Impairment loss on investments available-for-sale		**4,590**	1,216
Foreign exchange movement on subordinated loans		**1,688**	240
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**133,370**	111,165
(Increase)/decrease in operating assets:			
Treasury bills and bonds		**(10,944)**	113,090
Central Bank of Kuwait bonds		**(48,695)**	(115,146)
Deposits with banks and other financial institutions		**(7,898)**	18,586
Loans and advances to banks		**(2,215)**	(32,810)
Loans and advances to customers		**(317,263)**	(119,945)
Other assets		**59,659**	(111,024)
Increase /(decrease) in operating liabilities:			
Due to banks		**46,837**	180,486
Deposits from financial institutions		**(81,134)**	(86,800)
Customer deposits		**335,473**	78,622
Other liabilities		**(23,878)**	15,315
NET CASH FLOWS FROM OPERATING ACTIVITIES		**83,312**	51,539
INVESTING ACTIVITIES			
Purchase of investments available-for-sale		**(824)**	(2,835)
Proceeds from sale of investments available-for-sale		**39,046**	9,697
Purchase of premises and equipment		**(3,201)**	(2,271)
Dividends received		**1,529**	674
NET CASH FLOWS FROM INVESTING ACTIVITIES		**36,550**	5,265
FINANCING ACTIVITIES			
Repayment of subordinated loans		**(42,383)**	-
Purchase of treasury shares		**(3,533)**	(6,630)
Proceeds from sale of treasury shares		**-**	17
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(45,916)**	(6,613)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**73,946**	50,191
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**533,421**	483,230
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**607,367**	533,421
Additional cash flow information			
Interest received		**167,101**	158,696
Interest paid		**44,835**	45,873

The attached notes 1 to 31 form part of these financial statements.

Statement of Changes in Equity

Year Ended 31 December 2014

			RESERVES								
	Share Capital KD 000's	Proposed bonus shares KD 000's	Statutory Reserve KD 000's	Share Premium KD 000's	Property Revaluation Reserve KD 000's	Treasury Share Reserve KD 000's	Fair Valuation Reserve KD 000's	Retained earnings KD 000's	Subtotal Reserves KD 000's	Treasury Shares KD 000's	Total KD 000's
At 1 January 2013	263,309	13,165	5,716	153,024	16,698	24,258	6,704	22,701	229,101	(56,334)	449,241
Profit for the year	-	-	-	-	-	-	-	32,160	32,160	-	32,160
Other comprehensive income for the year	-	-	-	-	937	-	7,409	-	8,346	-	8,346
Total comprehensive income for the year	-	-	-	-	937	-	7,409	32,160	40,506	-	40,506
Issue of bonus shares (Note 19)	13,165	(13,165)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(6,630)	(6,630)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	29	29
Loss on sale of treasury shares	-	-	-	-	-	(12)	-	-	(12)	-	(12)
Transfer to reserve	-	-	3,381	-	-	-	-	(3,381)	-	-	-
Proposed bonus shares (Note 22)	-	13,824	-	-	-	-	-	(13,824)	(13,824)	-	-
At 31 December 2013	276,474	13,824	9,097	153,024	17,635	24,246	14,113	37,656	255,771	(62,935)	483,134
At 1 January 2014	**276,474**	**13,824**	**9,097**	**153,024**	**17,635**	**24,246**	**14,113**	**37,656**	**255,771**	**(62,935)**	**483,134**
Profit for the year	-	-	-	-	-	-	-	35,460	35,460	-	35,460
Other comprehensive income for the year	-	-	-	-	1,239	-	(4,939)	-	(3,700)	-	(3,700)
Total comprehensive income for the year	-	-	-	-	1,239	-	(4,939)	35,460	31,760	-	31,760
Issue of bonus shares (Note 19)	13,824	(13,824)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(3,533)	(3,533)
Transfer to reserve	-	-	3,727	-	-	-	-	(3,727)	-	-	-
Proposed bonus shares (Note 22)	-	14,515	-	-	-	-	-	(14,515)	(14,515)	-	-
At 31 December 2014	**290,298**	**14,515**	**12,824**	**153,024**	**18,874**	**24,246**	**9,174**	**54,874**	**273,016**	**(66,468)**	**511,361**

The attached notes 1 to 31 form part of these financial statements.

Notes to the Financial Statements

31 December 2014

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 2014 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 14 January 2015. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets classified as "investments available-for-sale", derivative contracts and freehold land and buildings.

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

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standard ("IFRS") as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("CBK"). These regulations require adoption of all IFRS except for the International Accounting Standards ("IAS") 39: Financial Instruments: Recognition and Measurement requirement for a collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment and uncollectibility of financial assets.

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 has adopted the following standards effective for the annual periods beginning on or after 1 January 2014. The adoption of these standards did not have any effect on the financial performance or financial position of the Bank.

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)

These amendments are effective for annual periods beginning on or after 1 January 2014 and clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment has not resulted in any impact on the financial position or performance of the Bank.

IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Though these amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments have not resulted in any impact on the financial position or performance of the Bank.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Bank as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 also did not have any material impact on the accounting policies, financial position or performance of the Bank.

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

The Bank classifies its financial assets as "at fair value through income statement", "loans and receivables" and

"available-for-sale"; and its financial liabilities as "non-trading financial liabilities''.

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

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

Financial assets which are not classified as above are classified as "available-for-sale", and are principally those 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.

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

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

Recognition/de-recognition

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:

o the contractual rights to receive cash flows from the asset have expired, or

o 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

o the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Measurement

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

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

Unrealised gains and losses arising from changes in fair value of those classified as "available-for-sale" are taken to the statement of comprehensive income.

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

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

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

Impairment and uncollectibility of financial assets

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

Impairment is determined as follows:

a) for financial assets with fixed interest rates, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate; and for financial assets with variable interest rates, carried at amortised cost, discounted at the current effective interest rate as determined under the contract;

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

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

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

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

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

Fair values measurement

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

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

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

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable ;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair values of quoted instruments are based on quoted closing bid prices or net asset values provided by the administrators of the fund or using the current market rate of interest for that instrument.

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.

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 Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Renegotiated loans

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

b. Derivative financial instruments and hedging

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. 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.

In order to qualify for hedge accounting, the hedge is expected to be highly effective and should be reliably measurable. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the year for which the hedge is designated are expected to offset in a range of 80 per cent to 125 per cent. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

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

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

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

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

c. Collateral pending sale

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

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 provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Bank makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

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. 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 the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

h. Impairment of non-financial assets

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

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

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

i. Revenue recognition

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

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

j. Interest income and expenses

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

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

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

l. Leases

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

m. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the statement of financial position.

n. Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Kuwaiti Dinars at the rates of exchange ruling at the reporting date. Forward exchange contracts are valued at the forward rates ruling at the statement of reporting date. Any resultant gains or losses are taken to the income statement.

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. The guarantee liability is subsequently measured as a higher of the amount initially recognized less amortisation or the value of any financial obligation that may arise therefrom. 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

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

Impairment losses on loans and advances

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

Impairment of available-for-sale investments

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

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

Valuation of unquoted financial instruments

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

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

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

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

2.5 Standards issued but not effective

The relevant standards and interpretations issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Bank intends to adopt those standards, if applicable, when they become effective.

IFRS 9: Financial Instruments:

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with a permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Bank's financial assets, but is not expected to have a significant impact on the classification and measurement of Banks's financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Bank is in the process of evaluating the effect of IFRS 15 on the Bank and do not expect any significant impact on adoption of this standard.

Annual improvements for 2010-2012 and 2011-2013 cycle which are effective from 1 July 2014 are not expected to have a material impact on the Bank.

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. The Bank, however, expects no material impact from the adoption of the amendments on its financial position or performance.

3. INTEREST INCOME

	2014 KD 000's	2013 KD 000's
Treasury bills, bonds and Central Bank of Kuwait Bonds	**6,668**	7,275
Placements with banks	**1,812**	1,834
Loans and advances to banks and customers	**157,929**	157,586
	166,409	166,695

4. INTEREST EXPENSE

	2014 KD 000's	2013 KD 000's
Sight and savings accounts	**4,686**	4,230
Time deposits	**39,068**	36,810
Bank borrowings	**4,964**	4,251
	48,718	45,291

5. SPECIFIC PROVISIONS

	2014 KD 000's	2013 KD 000's
Loans and advances to customers		
– Cash (Note 12)	**113,871**	73,194
– Non-cash (Note 18)	**176**	8
	114,047	73,202

6. NET FEES AND COMMISSIONS

	2014 KD 000's	2013 KD 000's
Total fees and commission income	**34,077**	30,916
Total fees and commission expense	**(6,225)**	(4,758)
	27,852	26,158

Total fees and commission income includes **KD 330 thousand** (2013: KD 278 thousand) from fiduciary activities.

7. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	2014 KD 000's	2013 KD 000's
Realised gain on structured derivative transactions with customers	**-**	2,434
Unrealised fair value gains on credit default swaps (Note 28)	**276**	2,995
Income from credit default swaps	**401**	680
Net trading income	**677**	6,109
Foreign exchange operations	**7,940**	7,519
	8,617	13,628

8. BASIC AND DILUTED EARNINGS PER SHARE

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 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 2014.

	2014 KD 000's	2013 KD 000's
Profit for the year	**35,460**	32,160
	Shares	Shares
Weighted average number of Bank's issued shares and paid up shares	**2,902,978,951**	2,902,978,951
Less: Weighted average number of treasury shares	**(107,115,512)**	(96,921,107)
	2,795,863,439	2,806,057,844
	Fils	Fils
Basic and diluted earnings per share	**13**	11

Earnings per share calculations for the year ended 31 December 2013 have been adjusted to take account of the bonus shares issued in 2014. Earnings per share for the year ended 31 December 2013 was 12 fils per share before retroactive adjustment to the number of shares following the bonus issue.

9. CASH AND CASH EQUIVALENTS

	2014 KD 000's	2013 KD 000's
Balances with the Central Bank of Kuwait	**199,155**	186,204
Cash in hand and in current accounts with other banks and other financial institutions	**164,004**	154,763
Deposits with banks and other financial institutions maturing with in 30 days	**244,208**	192,454
	607,367	533,421

10. TREASURY BILLS AND BONDS

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

	2014 KD 000's	2013 KD 000's
Maturing within one year	**161,769**	159,409
Maturing after one year	**26,317**	17,733
	188,086	177,142

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.

	2014 KD 000's	2013 KD 000's
Central Bank of Kuwait Bonds	**588,216**	539,521

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 2014:

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**	**Total KD 000's**
Personal	**1,226,102**	**-**	**-**	**-**	**1,226,102**
Financial	**239,024**	**51,254**	**-**	**-**	**290,278**
Trade and commerce	**330,584**	**8,513**	**-**	**-**	**339,097**
Crude oil and gas	**65,548**	**-**	**-**	**56,219**	**121,767**
Construction	**272,773**	**51,240**	**-**	**-**	**324,013**
Manufacturing	**362,800**	**-**	**-**	**-**	**362,800**
Real estate	**781,963**	**-**	**-**	**-**	**781,963**
Others	**293,883**	**81,627**	**-**	**-**	**375,510**
Gross loans and advances to customers	**3,572,677**	**192,634**	**-**	**56,219**	**3,821,530**
Less: Provision for impairment					**(238,427)**
Loans and advances to customers					**3,583,103**
B. Loans and advances to banks					
Gross loans and advances to banks	**110**	**32,048**	**77,592**	**19,033**	**128,783**
Less: Provision for impairment					**(1,187)**
Loans and advances to banks					**127,596**

At 31 December 2013:

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	Total KD 000's
Personal	1,021,198	-	-	-	1,021,198
Financial	271,531	49,527	-	-	321,058
Trade and commerce	332,169	10,096	-	-	342,265
Crude oil and gas	42,349	-	-	27,852	70,201
Construction	322,410	-	-	-	322,410
Manufacturing	283,835	-	-	-	283,835
Real estate	856,448	-	-	-	856,448
Others	265,540	106,658	172	-	372,370
Gross loans and advances to customers	3,395,480	166,281	172	27,852	3,589,785
Less: Provision for impairment					(228,551)
Loans and advances to customers					3,361,234
B. Loans and advances to banks					
Gross loans and advances to banks	430	21,078	87,436	17,624	126,568
Less: Provision for impairment					(1,153)
Loans and advances to banks					125,415

Movement in provision for impairment

	2014 KD 000's	2013 KD 000's
At 1 January	**229,704**	209,721
Amounts written-off*	**(85,865)**	(63,867)
Charge to the income statement	**95,775**	83,850
At 31 December	**239,614**	229,704

*This includes KD 80 million written off during the fourth quarter of the year.

The specific and general provisions are based on the requirements of the CBK and IFRS. According to the CBK instructions, minimum general provision of 1% is provided on regular cash facilities and 0.5% on regular non-cash facilities, (net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision).

The general provisions were **KD 170,779 thousand** (2013: KD 188,875 thousand).

Loan recoveries represent the net difference between loans written off during the year of **KD 11,132 thousand** (2013: KD 6,974 thousand) and realizations of **KD 43,545 thousand** (2013: KD 15,749 thousand) from loans written off.

The Bank has initiated legal proceedings against a customer in connection with structured derivative transactions and is awaiting a final outcome.

	2014 KD 000's			2013 KD 000's		
Movement in provisions for impairment of loans and advances by class is as follows:	**Corporate lending**	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**214,026**	**15,678**	**229,704**	191,923	17,798	209,721
Amounts written-off	**(85,865)**	**-**	**(85,865)**	(63,867)	-	(63,867)
Charge/(write back) to the income statement	**89,219**	**6,556**	**95,775**	85,970	(2,120)	83,850
At 31 December	**217,380**	**22,234**	**239,614**	214,026	15,678	229,704

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

Provision on non-cash facilities of **KD 10,656 thousand** (2013: KD 9,091 thousand) is included under other liabilities (Note 18).

13. INVESTMENTS AVAILABLE-FOR-SALE

	2014 KD 000's	2013 KD 000's
Equity securities		
Quoted	**28,727**	46,228
Unquoted	**28,173**	29,077
Debt securities		
Quoted	**25,439**	30,774
Unquoted	**-**	17,903
	82,339	123,982

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are certain investments where this estimation cannot be reliably determined, and are carried at cost net of impairment with a carrying amount of **KD 21,820 thousand** (2013: KD 41,012 thousand).

14. OTHER ASSETS

	2014 KD 000's	2013 KD 000's
Accrued interest receivable	**28,520**	29,212
Sundry debtors and others (Note 29)	**12,241**	94,030
Repossessed collaterals*	**63,683**	40,861
	104,444	164,103

*The Bank obtained possession of investment securities valued at **KD 11,889 thousand** (2013: KD 24,943 thousand), real estate properties valued at **KD 12,293 thousand** (2013: KD 15,918 thousand) and treasury shares valued at KD Nil (2013: KD 5,488 thousand) (Note 21) held as collaterals in settlement of debts from customers. These repossessed collaterals will be disposed within the stipulated time limit prescribed by the CBK. Investment securities amounting to **KD 16,706 thousand** (2013: KD 14,879 thousand) are accounted for as investments available for sale and are consequently fair valued using quoted market prices (Level 1) and the balance amounting to **KD 18,766 thousand** (2013: KD 10,064 thousand) is fair valued using observable market data (Level 2).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

	2014 KD 000's	2013 KD 000's
Due to banks		
Current accounts and demand deposits	**7,379**	8,533
Time deposits	**347,298**	299,307
	354,677	307,840
Deposits from financial institutions		
Current accounts and demand deposits	**56,571**	53,999
Time deposits	**622,098**	705,804
	678,669	759,803

16. CUSTOMER DEPOSITS

	2014 KD 000's	2013 KD 000's
Current accounts	**1,154,550**	968,332
Savings accounts	**346,965**	327,037
Time deposits	**2,160,209**	2,030,882
	3,661,724	3,326,251

Customer deposits include **KD 12,952 thousand** (2013: KD 14,604 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees. (refer to Note 26).

17. SUBORDINATED LOANS

As at 31 December 2014, the Bank has subordinated loan of USD 150 million equivalent to **KD 43,920 thousand** (2013: KD 84,615 thousand). This comprises of one 10 year subordinated loans: USD 150 million due in October 2016 with effective interest rate of 2.46% per annum. The loan was obtained from financial institutions outside of Kuwait and qualify as Tier 2 subordinated loan capital. The loan is repayable at maturity, with an option for early pre-payment with the prior approval of CBK, and interest is variable and related to interbank offer rates. The Bank has since repaid the subordinated loan on 5 January 2015 with the approval of CBK.

18. OTHER LIABILITIES

	2014 KD 000's	2013 KD 000's
Accrued interest payable	**16,807**	12,924
Deferred income	**9,744**	9,293
Provisions for non-cash facilities (refer movement below)	**10,656**	9,091
Fair value loss provision on credit default swaps (Note 28)	**144**	420
Staff related provisions	**11,636**	10,899
Others	**31,540**	60,489
	80,527	103,116

Movement in provisions for non-cash facilities:

	2014 KD 000's	2013 KD 000's
At 1 January	**9,091**	9,751
Charge/ (write-back) to the income statement	**1,565**	(660)
At 31 December	**10,656**	9,091

19. SHARE CAPITAL

	2014 KD 000's	2013 KD 000's
Authorised, issued and fully paid shares	**290,298**	276,474

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2014 is 2,902,978,951

(2013: 2,764,741,858). Bonus of 5% on the outstanding shares proposed as at 31 December 2013 was approved at the 2013 Annual General Meeting and was issued in 2014 following that approval (Note 22).

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' fees, contribution to KFAS, NLST and Zakat has been transferred to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50 percent of paid up share capital.

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2014	2013
Number of treasury shares	**116,816,493**	100,194,952
Percentage of treasury shares	**4.02%**	3.62%
Cost of treasury shares (KD 000's)	**66,468**	62,935
Weighted average market value of treasury shares as at 31 December (KD 000's)	**40,652**	39,878

Movement in treasury shares was as follows:

	No. of shares	
	2014	2013
Balance as at 1 January	**100,194,952**	79,665,829
Purchases	**11,551,645**	16,571,810
Bonus shares	**5,069,896**	4,002,313
Sales	**-**	(45,000)
Balance as at 31 December	**116,816,493**	100,194,952

The balance in the treasury share reserve of **KD 24,246 thousand** (2013: KD 24,246 thousand) is not available for distribution. An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from statutory reserve,share premium,treasury shares reserve and retained earning through out the holding period of treasury shares.

22. PROPOSED BONUS SHARES AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of bonus shares of **5%** (2013: 5%) on the outstanding issued share capital as at 31 December 2014 amounting to **KD 14,515 thousand** (2013: KD 13,824 thousand) which is subject to approval of shareholders at the Annual General Meeting (AGM). Proposed bonus shares, if approved shall be distributed to shareholders registered in Bank's records as at the date of the AGM.

During the year, the shareholders at the Annual General Meeting (AGM) held on 23 March 2014 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2013 amounting to **KD 13,824 thousand** (2013: KD 13,165 thousand) representing 138,237,093 shares of 100 fils each.

Directors' remuneration of **KD 135 thousand** (2013: 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 officers of the Bank, their families and companies of which they are the principal owners) were customers of the Bank in the ordinary course of business. The terms of these transactions were approved as per the Bank's policies.

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

	Number of Board Members or executive management members		*Number of related parties*			
	2014	2013	**2014**	2013	**2014 KD 000's**	2013 KD 000's
Board members						
Balances						
Loans and advances	**-**	-	**4**	4	**60,209**	59,115
Investments available-for-sale	**-**	-	**1**	1	**31**	40
Deposits	**6**	7	**20**	14	**375,326**	205,481
Commitments						
Guarantees /letters of credit	**-**	-	**7**	3	**7,593**	6,292
Transactions						
Interest income	**-**	-	**10**	4	**1,959**	1,809
Interest expense	**2**	2	**7**	6	**2,677**	1,350
Executive management						
Balances						
Loans and advances	**2**	1	**-**	-	**98**	55
Deposits	**10**	10	**-**	-	**1,279**	659
Commitments						
Guarantees /letters of credit	**1**	1	**-**	-	**1**	1
Transactions						
Interest income	**2**	1	**-**	-	**3**	3
Interest expense	**11**	11	**-**	-	**15**	15

The loans issued to directors and key management personnel are repayable within CBK regulatory limits and have interest rates of **2% to 5%** (2013: 2 % to 6.75%) per annum. Some of the loans advanced to Board members and their related parties during the year are collateralised. The fair value of these collaterals as of 31 December 2014 was **KD 56,528 thousand** (2013: KD 48,060 thousand).

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

	2014 KD 000's	2013 KD 000's
Salaries and other short-term benefits	**3,418**	2,839
End of service/termination benefits	**108**	85
	3,526	2,924

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 derivatives 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 risk-based 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 following sections describe the several risks inherent in the banking process, their nature and how they are managed.

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises principally from lending, trade finance and treasury activities.

Concentrations of credit risk arise when a number of counter parties 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 or geographic location.

A brief description of the risk management framework is given below:

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimised by monitoring credit exposures, limiting transactions with individual counterparties and continually assessing collateral coverage/quality and the creditworthiness of counterparties.

Individual customer, industry segment and cross-border 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.

Risk Management function is headed by Chief Risk Officer (CRO) who reports to the Board Risk Committee. An independent Credit Department, reporting to Chief Risk Officer, is responsible for providing centralised management of credit risk. The responsibilities of this team 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 categorise 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 guidelines for each of its individual retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment. Applicants must also provide a reference from their employer, specifying salary and length of service, and 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.

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 submit periodic reports to the Board as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Bank. BRC reviews high risk credit which are more than 10% of the Bank's capital or as deemed appropriate by the Committee.

The Risk Management of the Bank provides regular reports to the BRC so that the committee members are well informed of all risk taking activities of the Bank.

Other than BRC, the Bank has six credit committees: the Executive Credit Committee ('ECC'), the Management, Credit Committee ('MCC'), Business Banking Credit Committee ('BBCC) the Consumer Banking Credit Committee ('CBCC'), Remedial Credit Committee and the 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 ECC within the Central Bank of Kuwait guidelines. The responsibilities of the ECC are to review and approve, reject, modify or conditionally approve credit proposals upto the legal lending limit of the bank in compliance with the credit policies of the Bank. The ECC has also the authority to approve credit criteria, credit programs and treasury limits within the approved risk appetite of the Bank.

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.

Business Banking Credit Committee ('BBCC') has the responsibility for facilitating asset creation and monitoring exposure management upto 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. There is a well defined organisational structure and risk management mechanism for business banking which offers specific products to the SME segment based on turnover and its priority for the Bank.

The CBCC meets regularly 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. 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.

Remedial Credit Committee reviews all remedial management credits and/or approves or recommends for 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 may be referred to the ECC as well.

Depending on the amount and risk profile of the client, credit applications for corporate and international lending may be reviewed by the BRC, 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 prepared by the Bank's independent credit review unit; 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 lending approval is being considered in respect of relevant applications or participations.

The Bank has a detailed credit policy approved by the Board and is periodically revised. The Credit Policy Manual sets out the guiding principles and credit risk philosophy 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, and evaluating and controlling cross border risk. The individual country limits are approved and reviewed by the ECC. This approval is based on the country analysis and assessment of business requirements undertaken by the Bank's international banking division and recommended by the MCC.

The International Banking division regularly reviews the Bank's overall cross border limits and exposure risk ratings. The review focuses on the overall spread of cross border 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 provide 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 our business.

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 2014 KD 000's**	Maximum exposure 2013 KD 000's
Cash and cash equivalents (excluding cash in hand)	**557,856**	486,359
Treasury bills and bonds	**188,086**	177,142
Central Bank of Kuwait bonds	**588,216**	539,521
Deposits with banks and other financial institutions	**22,000**	14,102
Loans and advances to banks	**127,596**	125,415
Loans and advances to customers:		
Corporate lending	**2,499,409**	2,483,773
Consumer lending	**1,083,694**	877,461
Investments available-for-sale (Note 13)	**25,439**	48,677
Other assets	**40,761**	123,242
Total	**5,133,057**	4,875,692
Contingent liabilities and commitments	**1,577,606**	1,260,834
Credit default swaps	**86,376**	116,487
Foreign exchange contracts (including spot contracts)	**51,005**	17,790
Total	**1,714,987**	1,395,111
Total credit risk exposure	**6,848,044**	6,270,803

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2014 is **17%** (2013: 19%).

Collateral and other credit enhancements

The Bank employs a range of policies and practices to reduce credit risk. The Bank seeks collateral coverage, assignment of contract proceeds and other forms of protection to secure lending and minimise 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 largely secured by collateral, 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 2014, 42% (2013 – 46%) 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.

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 account operations, liquidity, capital structure and debt coverage while business assessment is based on industry risk, management quality and company standing. A validation exercise for the rating Model was conducted with the help of external consultants.

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

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

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

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

Facility Risk Rating

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

North American Industry Classification System (NAICS) Code:

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

Portfolio Risk Rating

The Bank has also introduced a Portfolio Risk Rating process through which the overall portfolio quality is being assessed at regular intervals and deliberated upon in Executive Risk Committee (ERC). Portfolio Risk Rating has been extended upto the relationship manager level and risk measures are introduced for business performance appraisal that will lead to further improvement in asset quality.

RAROC Model

The Bank also introduced a RAROC (Risk Adjusted Return on Capital) model as a pricing tool for credit facilities granted to corporate clients. It is based on the premise that pricing is to be aligned with risk embedded in the proposal. After having satisfied that all the prerequisites (such as good and consistent Obligor Risk Ratings, system of Facility Risk Ratings based on collateral mitigation, estimation of Probability of Defaults, Calculation of Loss Norms by each facility rating and Reasonable Validation & Calibration) are in place, RAROC Model has been introduced in the Bank and this will help to make the right decisions, create shareholder value and allow proper pricing to customers. RAROC Model has been fully automated and integrated to the decision making process.

Credit Infrastructure:

Bank has a specialized unit with core objective of support the development, approval and monitoring of credit or product programmes, 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.

2014	**Neither past due nor impaired**				
	High KD 000's	**Standard KD 000's**	**Acceptable KD 000's**	**Past due but not impaired KD 000's**	**Total KD 000's**
Cash and cash equivalents (excluding cash on hand)	**557,856**	**-**	**-**	**-**	**557,856**
Treasury bills and bonds	**188,086**	**-**	**-**	**-**	**188,086**
Central Bank of Kuwait bonds	**588,216**	**-**	**-**	**-**	**588,216**
Deposits with banks and other financial institutions	**22,000**	**-**	**-**	**-**	**22,000**
Loans and advances to banks	**128,783**	**-**	**-**	**-**	**128,783**
Loans and advances to customers:					
- Corporate lending	**982,657**	**1,318,947**	**280,188**	**28,253**	**2,610,045**
- Consumer lending	**1,023,852**	**-**	**-**	**61,708**	**1,085,560**
Debt investments available-for-sale (Note 13)	**25,439**	**-**	**-**	**-**	**25,439**
Other assets	**40,761**	**-**	**-**	**-**	**40,761**
	3,557,650	**1,318,947**	**280,188**	**89,961**	**5,246,746**

2013	Neither past due nor impaired				
	High KD 000's	Standard KD 000's	Acceptable KD 000's	Past due but not impaired KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash on hand)	486,359	-	-	-	486,359
Treasury bills and bonds	177,142	-	-	-	177,142
Central Bank of Kuwait bonds	539,521	-	-	-	539,521
Deposits with banks and other financial institutions	14,102	-	-	-	14,102
Loans and advances to banks	123,046	3,522	-	-	126,568
Loans and advances to customers:					
- Corporate lending	633,543	1,508,402	299,581	16,622	2,458,148
- Consumer lending	850,459	-	-	40,432	890,891
Debt investments available-for-sale (Note 13)	48,677	-	-	-	48,677
Other assets	123,242	-	-	-	123,242
	2,996,091	1,511,924	299,581	57,054	4,864,650

93% (2013: 91%) of the past due but not impaired category is below 60 days and **7%** (2013: 9%) is between 60-90 days.

Financial assets by class individually impaired

2014	**Gross exposure KD 000's**	**Impairment provision KD 000's**	**Fair value of collateral KD 000's**
Loans and advances to customers:			
- Corporate lending	**105,389**	**4,459**	**101,154**
- Consumer lending	**20,536**	**11,480**	**-**
	125,925	**15,939**	**101,154**

2013	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
Loans and advances to customers:			
- Corporate lending	227,408	3,693	223,820
- Consumer lending	13,338	7,126	-
	240,746	10,819	223,820

	2014		2013	
	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)	**4,484,085**	**1,268,558**	4,305,931	1,025,378
Other Middle East	**458,100**	**115,961**	314,985	146,156
Europe	**98,116**	**77,739**	123,794	43,135
USA and Canada	**17,642**	**12,294**	72,561	6,110
Asia Pacific	**75,103**	**239,900**	58,405	173,022
Rest of world	**11**	**535**	16	1,310
	5,133,057	**1,714,987**	4,875,692	1,395,111
Industry sector:				
Personal	**1,202,721**	**3,156**	1,003,768	6,809
Financial	**778,364**	**496,409**	763,327	399,871
Trade and Commerce	**324,418**	**232,954**	326,973	205,165
Crude Oil and Gas	**94,524**	**36,586**	63,996	23,080
Construction	**321,000**	**707,080**	340,261	568,248
Government	**1,058,362**	**-**	974,239	-
Manufacturing	**333,850**	**45,094**	271,335	36,829
Real Estate	**773,420**	**25,808**	847,203	24,751
Others	**246,398**	**167,900**	284,590	130,358
	5,133,057	**1,714,987**	4,875,692	1,395,111

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, comprising foreign exchange and interest rate contracts, allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

This amount is subject to credit risk and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers. These instruments are disclosed in Note 28.

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. The Bank 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 (excluding loan commitments) held at year end.

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

Currency	Movement in basis points	**2014 KD 000's**	2013 KD 000's
KWD	(+/-) 25	**2,654**	2,300
USD	(+/-) 25	**267**	114

C. CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows 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 Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

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

	2014			2013		
Currency	**Change in currency rate in %**	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	**+5**	**(821)**	**717**	+5	(1,466)	1,397

Bank's investments are held in well diversified portfolio of equity and hedge funds which invest in a variety of securities and products which are denominated in different currencies whose performance cannot necessarily be measured with relation to movement in any particular currency rate. Only the impact on the carrying amount of these securities has been considered in the sensitivity analysis.

D. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities. Liquidity risk can 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 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 with adequate back-up facilities; 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 minimised by adherence to the strict CBK liquidity requirements, namely: 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; and the requirement to hold 18% of KD customer deposits in Kuwait Government treasury bills and bonds, current account/ deposit balances with CBK and/or any other financial instruments issued by CBK.

The table below summarises the maturity profile of the assets and liabilities at the year end based on residual contractual repayment arrangements (assets and liabilities without a contractual maturity are based on management expectation):

At 31 December 2014

Assets	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	**607,367**	**-**	**-**	**-**	**-**	**-**	**607,367**
Treasury bills and bonds	**-**	**27,829**	**59,296**	**74,644**	**26,317**	**-**	**188,086**
Central Bank of Kuwait bonds	**133,716**	**388,500**	**66,000**	**-**	**-**	**-**	**588,216**
Deposits with banks and other financial institutions	**-**	**12,000**	**10,000**	**-**	**-**	**-**	**22,000**
Loans and advances to banks	**10**	**100**	**43,920**	**11,712**	**71,854**	**-**	**127,596**
Loans and advances to customers	**96,405**	**1,115,434**	**184,680**	**321,621**	**731,068**	**1,133,895**	**3,583,103**
Investments available-for-sale	**20,869**	**-**	**-**	**-**	**4,570**	**56,900**	**82,339**
Other assets	**27,640**	**3,992**	**-**	**-**	**72,812**	**-**	**104,444**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**27,727**	**27,727**
Total assets	**886,007**	**1,547,855**	**363,896**	**407,977**	**906,621**	**1,218,522**	**5,330,878**
Liabilities:							
Due to banks	**71,677**	**85,064**	**111,560**	**86,376**	**-**	**-**	**354,677**
Deposits from financial institutions	**102,769**	**164,370**	**215,140**	**191,784**	**4,606**	**-**	**678,669**
Customer deposits	**1,932,671**	**706,965**	**665,616**	**339,797**	**16,675**	**-**	**3,661,724**
Subordinated loans	**43,920**	**-**	**-**	**-**	**-**	**-**	**43,920**
Other liabilities	**36,551**	**16,252**	**16,862**	**10,501**	**361**	**-**	**80,527**
Total liabilities	**2,187,588**	**972,651**	**1,009,178**	**628,458**	**21,642**	**-**	**4,819,517**

At 31 December 2013

Assets	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	533,421	-	-	-	-	-	533,421
Treasury bills and bonds	6,337	18,427	55,621	79,024	12,971	4,762	177,142
Central Bank of Kuwait bonds	125,521	283,000	131,000	-	-	-	539,521
Deposits with banks and other financial institutions	-	14,102	-	-	-	-	14,102
Loans and advances to banks	150	27,197	24,109	47,240	26,719	-	125,415
Loans and advances to customers	73,049	678,779	127,856	612,278	731,934	1,137,338	3,361,234
Investments available-for-sale	-	-	19,534	-	28,695	75,753	123,982
Other assets	34,242	63,962	-	-	65,899	-	164,103
Premises and equipment	-	-	-	-	-	25,839	25,839
Total assets	772,720	1,085,467	358,120	738,542	866,218	1,243,692	5,064,759
Liabilities:							
Due to banks	107,021	49,359	98,718	52,742	-	-	307,840
Deposits from financial institutions	169,545	119,253	211,308	215,434	44,263	-	759,803
Customer deposits	1,940,741	485,050	412,218	400,598	87,644	-	3,326,251
Subordinated loans	-	-	14,103	28,205	42,307	-	84,615
Other liabilities	51,053	15,050	16,954	16,048	4,011	-	103,116
Total liabilities	2,268,360	668,712	753,301	713,027	178,225	-	4,581,625

The tables below summarise 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 2014

Financial liabilities:	**Less than 1 month KD 000's**	**1 to 3 months KD 000's**	**3 to 12 months KD 000's**	**1 to 5 years KD 000's**	**Over 5 years KD 000's**	**Total KD 000's**
Due to banks	**7,379**	**46,984**	**302,795**	**-**	**-**	**357,158**
Deposits from financial institutions	**67,019**	**8,420**	**419,071**	**196,358**	**-**	**690,868**
Customer deposits	**1,509,605**	**178,855**	**1,849,845**	**145,491**	**-**	**3,683,796**
Subordinated loans	**43,953**	**-**	**-**	**-**	**-**	**43,953**
Other liabilities	**27,450**	**3,950**	**43,363**	**5,764**	**-**	**80,527**
Total undiscounted liabilities	**1,655,406**	**238,209**	**2,615,074**	**347,613**	**-**	**4,856,302**

At 31 December 2013

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	38,550	34,687	237,078	-	-	310,315
Deposits from financial institutions	66,152	28,782	463,516	210,050	-	768,500
Customer deposits	1,323,964	243,288	1,474,072	307,062	-	3,348,386
Subordinated loans	421	-	43,954	44,005	-	88,380
Other liabilities*	32,634	7,005	50,664	12,813	-	103,116
Total undiscounted liabilities	1,461,721	313,762	2,269,284	573,930	-	4,618,697

* Other liabilities includes negative fair value of derivative financial instruments (note 18).

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

At 31 December 2014

	Less than 1 month KD 000's	**1 to 3 months KD 000's**	**3 to 12 months KD 000's**	**1 to 5 years KD 000's**	**Over 5 years KD 000's**	**Total KD 000's**
Contigent liabilities	**39,455**	**71,774**	**171,469**	**748,185**	**380,318**	**1,411,201**
Commitments	**50**	**46,232**	**120,123**	**-**	**-**	**166,405**
	39,505	**118,006**	**291,592**	**748,185**	**380,318**	**1,577,606**

At 31 December 2013

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Contigent liabilities	96,109	207,422	429,291	385,992	4,300	1,123,114
Commitments	-	25,358	112,362	-	-	137,720
	96,109	232,780	541,653	385,992	4,300	1,260,834

The table below shows the contractual expiry by maturity of the Bank's gross settled derivatives positions:

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	Total KD 000's
At 31 December 2014:				
Gross settled derivatives	**540**	**5,408**	**-**	**5,948**
At 31 December 2013:				
Gross settled derivatives	575	575	5,665	6,815

E. OPERATIONAL RISK

Operational risk arises from a failure to control properly all aspects of documentation, processing, settlement of, accounting for, transactions, and more widely, all the hazards to which a bank is exposed as a result of being in business and doing business. 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 managed through the Risk Management Department 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. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

F. EQUITY PRICE RISK

This is a risk that the value of a financial instrument 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.

Majority of the Bank's investments are held in well diversified portfolio of hedge 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 available for sale) at the year end due to an assumed 5% change in the market indices, with all other variable held constant, is as follows:

Market indices	% Change in equity price	**2014 Effect on equity KD 000's**	2013 Effect on equity KD 000's
Kuwait stock exchange	+5%	**969**	1,188
New York stock exchange	+5%	**358**	295

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 interests bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities excluding subordinated loans 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 amount 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:

2014	**Level 1** KD 000's	**Level 2** KD 000's	**Level 3** KD 000's	**Total** KD 000's
Financial assets available for sale :				
Equity securities	**28,034**	**7,046**	**-**	**35,080**
Debt securities	**25,439**	**-**	**-**	**25,439**
	53,473	**7,046**	**-**	**60,519**

2013	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets available for sale :				
Equity securities	30,362	21,834	-	52,196
Debt securities	30,774	-	-	30,774
	61,136	21,834	-	82,970

The fair value of the above investment securities classified under Level 1 and level 2 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.

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

The fair values of the financial assets and liabilities which are carried at amortised cost are estimated using the valuation models that incorporate a range of input assumptions. These assumptions may include estimates using credit spreads, forward looking discounted cash flow models using the assumptions which the management believes are consistent with those which would be used by market participants in valuing such financial assets and liabilities. The management has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact. The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

	2014 KD 000's	2013 KD 000's
Guarantees	**1,211,756**	959,961
Letters of credit	**199,445**	163,153
	1,411,201	1,123,114

As at the reporting date the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 166,405 thousand** (2013: KD 137,720 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

27. SEGMENTAL ANALYSIS

a. By Business Unit

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

	Commercial Banking		Treasury & Investments		Total	
	2014 KD 000's	2013 KD 000's	2014 KD 000's	2013 KD 000's	2014 KD 000's	2013 KD 000's
Operating income	**137,625**	138,029	**8,366**	4,574	**145,991**	142,603
Segment result	**75,760**	47,148	**3,780**	342	**79,540**	47,490
Unallocated income					**16,792**	24,355
Unallocated expense					**(60,872)**	(39,685)
Profit for the year					**35,460**	32,160
Segment assets	**3,782,216**	3,520,949	**1,416,491**	1,353,868	**5,198,707**	4,874,817
Unallocated assets					**132,171**	189,942
Total Assets					**5,330,878**	5,064,759
Segment liabilities	**2,999,050**	2,951,460	**1,675,105**	1,459,988	**4,674,155**	4,411,448
Unallocated liabilities and equity					**656,723**	653,311
Total Liabilities and Equity					**5,330,878**	5,064,759

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

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2014 or 2013.

28. DERIVATIVES

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

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

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

At 31 December 2014			**Notional amounts by term to maturity**			
Derivatives instruments held as:	**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**	**Over 1 year KD 000's**
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	**82**	**(56)**	**5,948**	**5,948**	**-**	**-**
Credit default swaps (Note 18)	**202**	**(346)**	**86,376**	**-**	**-**	**86,376**
	284	**(402)**	**92,324**	**5,948**	**-**	**86,376**

At 31 December 2013			Notional amounts by term to maturity			
Derivatives instruments held as:	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	Over 1 year KD 000's
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	30	(24)	6,815	1,150	5,665	-
Credit default swaps (Note 18)	20	(440)	116,487	-	33,282	83,205
	50	(464)	123,302	1,150	38,947	83,205

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. For credit default swaps, fee is earned based on the amount of credit risk swapped.

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 favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IAS 39 hedging requirements.

29. FAMILY SUPPORT FUND

During the previous year, CBK issued its Circular No. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. Ministry of Finance had established a fund to purchase outstanding balance of instalment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. Other assets include **KD 3,496 thousand** (31 December 2013: KD 71,000 thousand) related to eligible loans under the Fund.

As at 31 December 2014, the Bank has recorded loans amounting to **KD 62,000 thousand** (2013: KD Nil) in memorandum account as it continues to manage them on behalf of the Fund.

30. OTHER EXPENSES

Other expenses includes **KD 7,352 thousand** (2013: Nil) relating to reversal of a legal provision which is no longer required.

31. 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.

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

	2014 **KD 000's**
Risk weighted assets	**3,587,676**
Capital required	**430,521**
Capital available	
Tier 1 capital	511,361
Tier 2 capital	42,914
Total capital	**554,275**
Tier 1 capital adequacy ratio	**14.25%**
Total capital adequacy ratio	**15.45%**

For the year ended 31 December 2013,the Bank followed Basel II regulations and Bank's regulatory capital and capital adequacy ratios at 17.40% was calculated in accordance with CBK circular number 2/BS/184/2005 dated 21 December 2005.

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2014 is calculated in accordance with CBK

circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2014 KD 000's
Tier 1 capital	511,361
Total Exposure	6,197,293
Financial leverage ratio	8.25%

The Bank has disclosed the financial leverage ratio for the first time in financial information for the year ended 31 December 2014.

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 2014 and disclosures relating to capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/BS/184/2005 dated 21 December 2005 for the year ended 31 December 2013 are included under the 'Risk Management' section of the annual report.