

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

30 JUNE 2021



Building a better
working world

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

Introduction

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

Scope of Review

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

Conclusion

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

Report on other Legal and Regulatory Requirements

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

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

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

TALAL YOUSEF AL-MUZAINI
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DELOITTE & TOUCHE
AL-WAZZAN & CO.

28 July 2021
Kuwait

GULF BANK K.S.C.P.
Interim Condensed Statement of Income
(Unaudited)
PERIOD ENDED 30 JUNE 2021

		<i>3 months ended</i>	<i>3 months ended</i>	<i>6 months ended</i>	<i>6 months ended</i>
		<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
		<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
<i>Notes</i>		<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Interest income	13	45,973	55,245	91,229	113,269
Interest expense		13,283	22,836	25,931	51,967
Net interest income		32,690	32,409	65,298	61,302
Net fees and commissions		6,777	4,734	13,684	11,491
Net gains from dealing in foreign currencies and derivatives		2,083	1,524	3,965	3,593
Dividend income		65	-	65	352
Other income		113	231	235	475
Operating income		41,728	38,898	83,247	77,213
Staff expenses		11,023	8,882	23,255	20,389
Occupancy costs		657	678	1,331	1,411
Depreciation		1,756	1,932	3,446	3,870
Other expenses		6,247	3,236	12,107	7,804
Operating expenses		19,683	14,728	40,139	33,474
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES		22,045	24,170	43,108	43,739
Charge (release) of provisions:					
- specific		19,134	23,979	29,261	32,246
- general		794	(547)	875	2,752
Loan recoveries, net of write-off		(2,620)	(2,948)	(4,435)	(3,867)
Net provision on other financial assets		(42)	(5)	77	(84)
Impairment loss on other assets	12	-	372	-	372
OPERATING PROFIT		4,779	3,319	17,330	12,320
Directors' remuneration		15	-	30	-
Contribution to Kuwait Foundation for the Advancement of Sciences		48	32	174	123
National Labour Support Tax		118	84	429	307
Zakat		48	32	174	123
PROFIT FOR THE PERIOD		4,550	3,171	16,523	11,767
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	2	1	5	4

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

GULF BANK K.S.C.P.
Interim Condensed Statement of Comprehensive Income
(Unaudited)
PERIOD ENDED 30 JUNE 2021

	<i>3 months ended</i> 30 June <i>2021</i> KD 000's	<i>3 months ended</i> 30 June <i>2020</i> KD 000's	<i>6 months ended</i> 30 June <i>2021</i> KD 000's	<i>6 months ended</i> 30 June <i>2020</i> KD 000's
Profit for the period	4,550	3,171	16,523	11,767
Other comprehensive income				
<i>Items that will not be reclassified subsequently to interim condensed statement of income :</i>				
Net changes in fair value of investment securities-equity	1,440	(607)	981	(4,459)
<i>Items that are reclassified or may be reclassified subsequently to interim condensed statement of income:</i>				
Net changes in fair value of debt instruments at FVOCI	-	1	-	1
Other comprehensive income (loss) for the period	1,440	(606)	981	(4,458)
Total comprehensive income for the period	5,990	2,565	17,504	7,309

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

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

		<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
		30 June	31 December	30 June
		2021	2020	2020
	<i>Notes</i>	KD 000's	KD 000's	KD 000's
ASSETS				
Cash and cash equivalents		1,100,716	1,105,925	811,826
Kuwait Government treasury bonds		91,000	108,500	165,500
Central Bank of Kuwait bonds		280,680	280,724	279,634
Deposits with banks and other financial institutions		-	3,033	55,855
Loans and advances to banks	14	232,444	192,063	206,102
Loans and advances to customers	14	4,285,666	4,116,537	4,188,995
Investment securities		152,791	174,855	164,855
Other assets	12	114,688	97,018	117,315
Premises and equipment		33,308	34,053	35,195
TOTAL ASSETS		6,291,293	6,112,708	6,025,277
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		634,740	550,543	434,474
Deposits from financial institutions		603,614	705,337	873,851
Customer deposits		4,166,995	4,033,719	3,915,754
Other borrowed funds	15	150,000	100,000	100,000
Other liabilities		93,271	85,745	101,887
TOTAL LIABILITIES		5,648,620	5,475,344	5,425,966
EQUITY				
Share capital	4	304,813	304,813	304,813
Statutory reserve		42,135	42,135	39,106
Share premium		153,024	153,024	153,024
Property revaluation reserve		18,169	18,169	18,425
Treasury share reserve		-	-	22,926
Fair valuation reserve		4,625	3,686	2,714
Retained earnings		138,064	140,073	128,885
Treasury shares	5	(18,157)	(24,536)	(70,582)
TOTAL EQUITY		642,673	637,364	599,311
TOTAL LIABILITIES AND EQUITY		6,291,293	6,112,708	6,025,277



Jassim Mustafa Boodai
(Chairman)



Antoine Daher
(Chief Executive Officer)

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

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

	Notes	<i>6 months ended</i> 30 June <i>2021</i> KD 000's	<i>6 months ended</i> 30 June <i>2020</i> KD 000's
OPERATING ACTIVITIES			
Profit for the period		16,523	11,767
Adjustments:			
Effective interest rate adjustment		-	(16)
Dividend income		(65)	(352)
Depreciation		3,446	3,870
Loan loss provisions		30,136	34,998
Net provision on other financial assets		77	(84)
Impairment loss on other assets	12	-	372
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		50,117	50,555
<i>Decrease/(increase) in operating assets:</i>			
Kuwait Government treasury bonds		17,500	66,500
Central Bank of Kuwait bonds		44	(959)
Deposits with banks and other financial institutions		3,033	72,592
Loans and advances to banks		(40,248)	6,818
Loans and advances to customers		(197,287)	(40,051)
Other assets		(16,142)	(6,108)
<i>Increase/(decrease) in operating liabilities:</i>			
Due to banks		84,197	35,761
Deposits from financial institutions		(101,723)	(144,636)
Customer deposits		133,276	(34,147)
Other liabilities		5,415	(13,578)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(61,818)	(7,253)
INVESTING ACTIVITIES			
Purchase of investment securities		(19,698)	(5,452)
Proceeds from sale of investment securities		41,138	8,808
Purchase of premises and equipment		(2,701)	(2,401)
Dividend income received		65	352
NET CASH FLOWS FROM INVESTING ACTIVITIES		18,804	1,307
FINANCING ACTIVITIES			
Net proceeds from other borrowed funds	15	50,000	-
Dividend paid	6	(15,056)	(31,947)
Proceeds from sale of treasury shares		2,861	1,838
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		37,805	(30,109)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,209)	(36,055)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,105,925	847,881
CASH AND CASH EQUIVALENTS AT 30 JUNE		1,100,716	811,826
<i>Additional cash flows information</i>			
Interest received		92,905	108,006
Interest paid		28,422	54,404

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

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

PERIOD ENDED 30 JUNE 2021

	R E S E R V E S							Treasury shares KD 000's	Total KD 000's	
	Share capital KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury share reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's			Sub-total reserves KD 000's
At 1 January 2020	304,813	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
Profit for the period	-	-	-	-	-	-	11,767	11,767	-	11,767
Other comprehensive loss for the period	-	-	-	-	-	(4,458)	-	(4,458)	-	(4,458)
Total comprehensive (loss) income for the period	-	-	-	-	-	(4,458)	11,767	7,309	-	7,309
Dividend paid (Note 6)	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Modification loss on consumer lending (Note 13)	-	-	-	-	-	-	(42,212)	(42,212)	-	(42,212)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(350)	350	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	3,023	3,023
Loss on sale of treasury shares	-	-	-	-	(1,185)	-	-	(1,185)	-	(1,185)
At 30 June 2020	304,813	39,106	153,024	18,425	22,926	2,714	128,885	365,080	(70,582)	599,311
At 1 January 2021	304,813	42,135	153,024	18,169	-	3,686	140,073	357,087	(24,536)	637,364
Profit for the period	-	-	-	-	-	-	16,523	16,523	-	16,523
Other comprehensive income for the period	-	-	-	-	-	981	-	981	-	981
Total comprehensive income for the period	-	-	-	-	-	981	16,523	17,504	-	17,504
Dividend paid (Note 6)	-	-	-	-	-	-	(15,056)	(15,056)	-	(15,056)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(42)	42	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	6,379	6,379
Loss on sale of treasury shares	-	-	-	-	-	-	(3,518)	(3,518)	-	(3,518)
At 30 June 2021	304,813	42,135	153,024	18,169	-	4,625	138,064	356,017	(18,157)	642,673

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

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

1. INCORPORATION AND REGISTRATION

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

The interim condensed financial information of the Bank for the six months period ended 30 June 2021 was authorised by the Board of Directors for issue on 14 July 2021.

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

2. BASIS OF PRESENTATION

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

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

- Expected credit loss (“ECL”) on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and

- Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular No. 2/BS/IBS/461/2020. Modification losses referred to in the circular, should be recognized in retained earnings instead of income statement as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in income statement in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognized in the income statement. The application of the policy will result in application of different accounting presentation for modification loss in 2020 compared to 2021 (note 13).

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

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

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

The amendments include the following practical expedients:

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

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

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

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

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

3. BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>3 months ended 30 June 2021 KD 000's</i>	<i>3 months ended 30 June 2020 KD 000's</i>	<i>6 months ended 30 June 2021 KD 000's</i>	<i>6 months ended 30 June 2020 KD 000's</i>
Profit for the period	<u>4,550</u>	<u>3,171</u>	<u>16,523</u>	<u>11,767</u>
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	<u>3,011,127,898</u>	<u>2,904,294,491</u>	<u>3,005,847,909</u>	<u>2,902,723,099</u>
Basic and diluted earnings per share (Fils)	<u>2</u>	<u>1</u>	<u>5</u>	<u>4</u>

4. SHARE CAPITAL

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

5. TREASURY SHARES

	<i>(Unaudited) 30 June 2021</i>	<i>(Audited) 31 December 2020</i>	<i>(Unaudited) 30 June 2020</i>
Number of treasury shares	<u>37,000,000</u>	<u>50,000,000</u>	<u>143,833,407</u>
Percentage of treasury shares	<u>1.21%</u>	<u>1.64%</u>	<u>4.72%</u>
Cost of treasury shares (KD 000's)	<u>18,157</u>	<u>24,536</u>	<u>70,582</u>
Weighted average market value of treasury shares (KD 000's)	<u>8,251</u>	<u>11,450</u>	<u>34,664</u>

The balance in the treasury share reserve of **KD Nil** (31 December 2020: KD Nil and 30 June 2020: KD 22,926 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium and retained earnings through out the holding period of treasury shares.

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

6. DIVIDEND

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

7. SEGMENTAL ANALYSIS

By Business Unit

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

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

Segmental information for the six months period ended 30 June is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2021	2020	2021	2020	2021	2020
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Operating income (excluding unallocated income provided below)	69,221	66,183	6,393	(2,370)	75,614	63,813
Segment result	29,953	24,692	5,630	(2,966)	35,583	21,726
Unallocated income					7,633	13,400
Unallocated expense					(26,693)	(23,359)
Profit for the period					16,523	11,767
Segment assets	4,616,818	4,497,573	1,585,910	1,447,648	6,202,728	5,945,221
Unallocated assets					88,565	80,056
Total Assets					6,291,293	6,025,277
Segment liabilities	3,319,714	2,925,822	2,177,235	2,316,787	5,496,949	5,242,609
Unallocated liabilities and equity					794,344	782,668
Total Liabilities and Equity					6,291,293	6,025,277

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

30 June 2021

8. RELATED PARTY TRANSACTIONS

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

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

	<i>Number of Board Members or executive management (Audited)</i>		<i>Number of related parties (Audited)</i>		<i>KD 000's</i>		<i>KD 000's</i>	
	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2021</i>	<i>30 June 2020</i>
Board members:								
Balances								
Loans and advances	1	1	9	12	13	152,896	216,202	
Credit cards	2	2	4	4	3	19	12	
Deposits	8	7	74	72	68	30,774	67,182	
Commitments/derivatives								
Guarantees / letters of credit	-	-	10	9	7	7,454	5,149	
Transactions								
Interest income	1	2	13	22	19	5,783	3,143	
Interest expense	4	5	11	20	18	412	184	
Net fees and commissions	-	-	9	11	6	51	18	
Other expenses	-	-	13	12	12	1,654	933	
Purchase of equipment	-	-	3	3	2	231	10	
Executive management:								
Balances								
Loans and advances	4	3	-	-	-	83	39	
Credit cards	9	10	-	-	-	19	17	
Deposits	14	14	-	-	-	1,695	2,083	
Transactions								
Interest income	4	3	-	-	-	3	2	
Interest expense	15	16	-	-	-	21	13	

GULF BANK K.S.C.P.
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8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2% to 5.5%** (2020: 2% to 6%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 30 June 2021 was **KD 106,694 thousand** (31 December 2020: KD 106,708 thousand and 30 June 2020: KD 116,390 thousand).

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

	<i>6 months ended</i> <i>30 June 2021</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June 2020</i> <i>KD 000's</i>
Salaries and other benefits	2,024	1,406
End of service/termination benefits	78	396
	<u>2,102</u>	<u>1,802</u>

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited)</i> <i>30 June</i> <i>2021</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 June</i> <i>2020</i> <i>KD 000's</i>
Guarantees	1,157,832	1,135,900	1,217,348
Letters of credit and acceptances	242,346	243,879	187,131
Undrawn irrevocable commitments	39,052	23,947	50,225
Undrawn revocable commitments	1,036,055	958,082	925,225
	<u>2,475,285</u>	<u>2,361,808</u>	<u>2,379,929</u>

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

10. DERIVATIVES

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

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

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

At 30 June 2021:	<i>Notional amounts by</i> <i>term to maturity</i>				
	<i>Positive</i> <i>fair value</i> <i>KD 000's</i>	<i>Negative</i> <i>fair value</i> <i>KD 000's</i>	<i>Notional</i> <i>amount</i> <i>total</i> <i>KD 000's</i>	<i>Within</i> <i>3 months</i> <i>KD 000's</i>	<i>3-12</i> <i>months</i> <i>KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	12	(9)	5,751	1,827	3,924
	<u>12</u>	<u>(9)</u>	<u>5,751</u>	<u>1,827</u>	<u>3,924</u>

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10. DERIVATIVES (continued)

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

At 30 June 2020:	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount total KD 000's	Notional amounts by term to maturity	
				Within 3 months KD 000's	3-12 months KD 000's
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	287	(94)	55,201	52,089	3,112

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

At 30 June 2021:

	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
Financial assets at FVOCI:				
Equity securities	13,001	598	25,405	39,004
Debt securities	-	201	-	201
	13,001	799	25,405	39,205

The amortized cost and fair value of investment securities at amortised cost as at 30 June 2021 were **KD 113,586 thousand** (31 December 2020: KD 136,493 thousand; 30 June 2020: KD 136,415 thousand) and **KD 112,957 thousand** (Level 1) (31 December 2020: KD 118,551 thousand; 30 June 2020: KD 118,106 thousand) and **KD 3,000 thousand** (Level 2) (31 December 2020: KD 20,800 thousand; 30 June 2020: KD 20,800 thousand) respectively.

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2020:

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

At 30 June 2020:

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets at FVOCI:</i>				
Equity securities	10,303	793	17,142	28,238
Debt securities	-	202	-	202
	<u>10,303</u>	<u>995</u>	<u>17,142</u>	<u>28,440</u>

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

	At 1 January KD 000's	Change in fair value KD 000's	Additions KD 000's	Exchange rate movements KD 000's	At 30 June KD 000's
<i>Financial assets at FVOCI:</i>					
Equity securities					
2021	25,415	2	-	(12)	25,405
2020	17,128	-	-	14	17,142

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

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

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

12. OTHER ASSETS

	<i>(Unaudited)</i> 30 June 2021 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2020 <i>KD 000's</i>	<i>(Unaudited)</i> 30 June 2020 <i>KD 000's</i>
Accrued interest receivable	12,804	14,480	27,450
Sundry debtors and others (Note 13)	42,452	22,300	17,411
Repossessed collaterals (refer movement below)	59,432	60,238	72,454
	<u>114,688</u>	<u>97,018</u>	<u>117,315</u>

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12. OTHER ASSETS (continued)

Movement in repossessed collaterals:

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

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

13. COVID-19 IMPACT

COVID-19 Pandemic 2020

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

Business continuity

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

2021-Consumer and instalment loans deferral

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

The Bank implemented the 2021 scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows, provisionally estimated at **KD 26,113 thousand** in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant in accordance with the Law. The Bank has recorded the Government Grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the interim condensed statement of financial position.

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13. COVID-19 IMPACT (continued)

2020-Consumer and instalment loans deferral

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

2020-Other impacted non-retail customers

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

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

Support measures on COVID-19

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

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

Expected Credit Loss updates

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

Significant increase in credit risk

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

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

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

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13. COVID-19 IMPACT (continued)

Staging review

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

Macro-economic factors

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

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

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

14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent amounts paid to banks and customers.

	<i>(Unaudited)</i> 30 June 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 30 June 2020 KD 000's
Gross loans and advances to banks	233,468	193,220	207,240
Less: Provision for impairment	(1,024)	(1,157)	(1,138)
Loans and advances to banks	<u>232,444</u>	<u>192,063</u>	<u>206,102</u>
Gross loans and advances to customers	4,565,213	4,384,072	4,497,605
Less: Provision for impairment	(279,547)	(267,535)	(308,610)
Loans and advances to customers	<u>4,285,666</u>	<u>4,116,537</u>	<u>4,188,995</u>

Provision for non-cash facilities of **KD 17,517 thousand** (31 December 2020: KD 15,406 thousand and 30 June 2020: KD 15,318 thousand) is included under other liabilities.

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

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

	<i>(Unaudited)</i> 30 June 2021 KD 000's	<i>(Audited)</i> 31 December 2020 KD 000's	<i>(Unaudited)</i> 30 June 2020 KD 000's
Provision on cash facilities	280,571	268,692	309,748
Provision on non-cash facilities	17,517	15,406	15,318
Total provisions on credit facilities	298,088	284,098	325,066
IFRS 9 ECL on credit facilities	191,373	171,978	263,648
Excess of total provisions over IFRS 9 ECL on credit facilities	106,715	112,120	61,418
Excess provisions as a percentage of total provisions	36%	39%	19%

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

At 30 June 2021:

	<i>Stage 1</i> KD 000's	<i>Stage 2</i> KD 000's	<i>Stage 3</i> KD 000's	<i>Total</i> KD 000's
Loans and advances to banks and customers	4,460,169	268,498	70,014	4,798,681
Contingent liabilities and commitments (Note 9)	2,345,209	110,935	19,141	2,475,285
IFRS 9 ECL on credit facilities	41,781	73,733	75,859	191,373

At 31 December 2020:

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

At 30 June 2020:

	<i>Stage 1</i> KD 000's	<i>Stage 2</i> KD 000's	<i>Stage 3</i> KD 000's	<i>Total</i> KD 000's
Loans and advances to banks and customers	4,234,851	364,143	105,851	4,704,845
Contingent liabilities and commitments (Note 9)	2,230,825	132,461	16,643	2,379,929
IFRS 9 ECL on credit facilities	38,870	116,582	108,196	263,648

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15. OTHER BORROWED FUNDS

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

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