NEXT 60 YEARS TOGETHER

ANNUAL REPORT 2020

بنك الخليج
GULF BANK

HH Sheikh
Meshaal Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

HH Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

TABLE OF CONTENTS

STRATEGIC REVIEW

- About Gulf Bank 7
- 2020 Key Highlights 8
- Chairman's Statement 12
- Gulf Bank During Covid-19 Pandemic 18

BUSINESS OVERVIEW

- Operating Environment 24
- Business Overview 28
- CFO Review - Management Discussion and Analysis 32

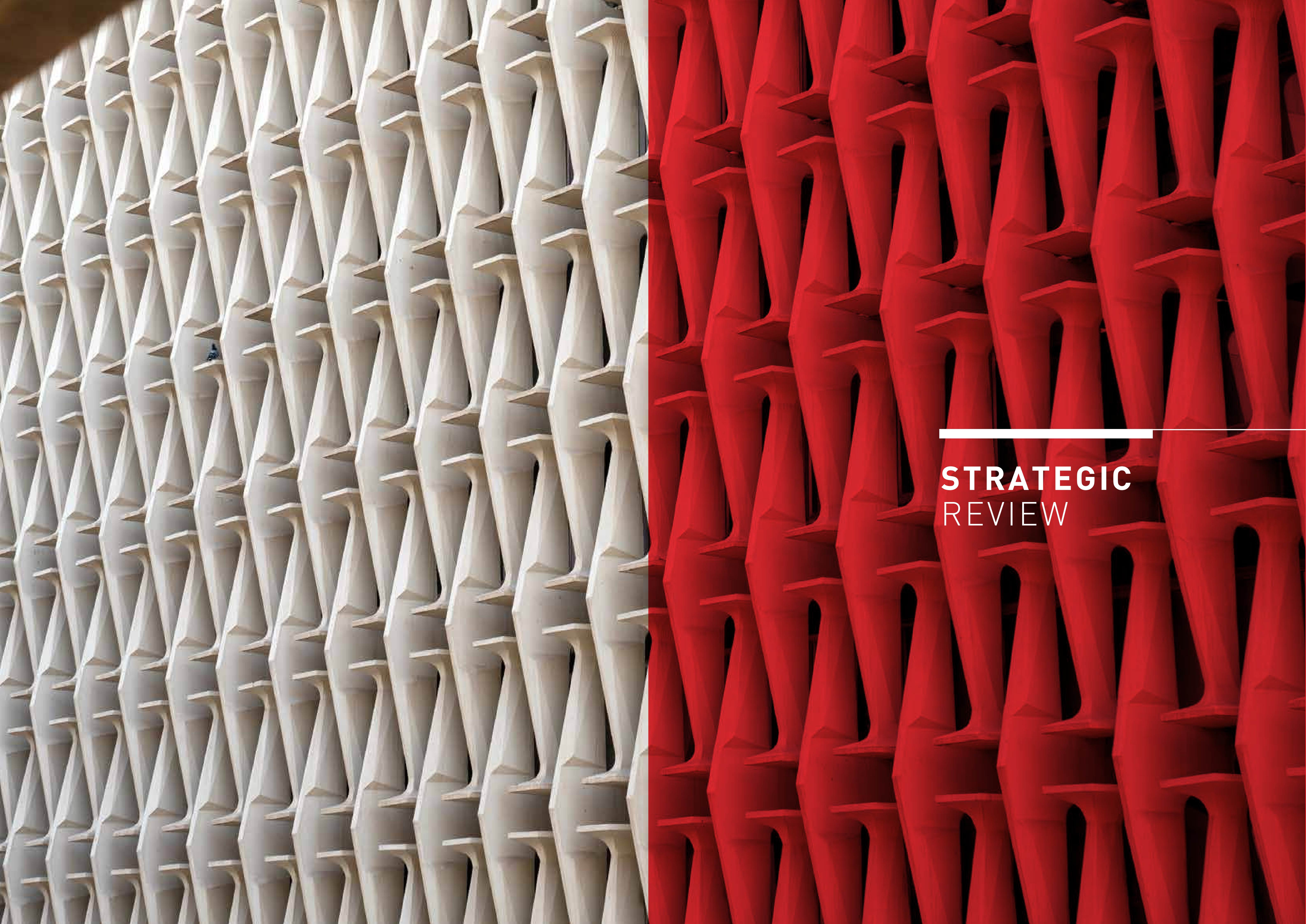
GOVERNANCE

- Board of Directors 38
- Executive Management 46
- Corporate Governance 52
- Internal Control Systems Report 66
- Capital Management and Allocation 68
- Risk Management 72

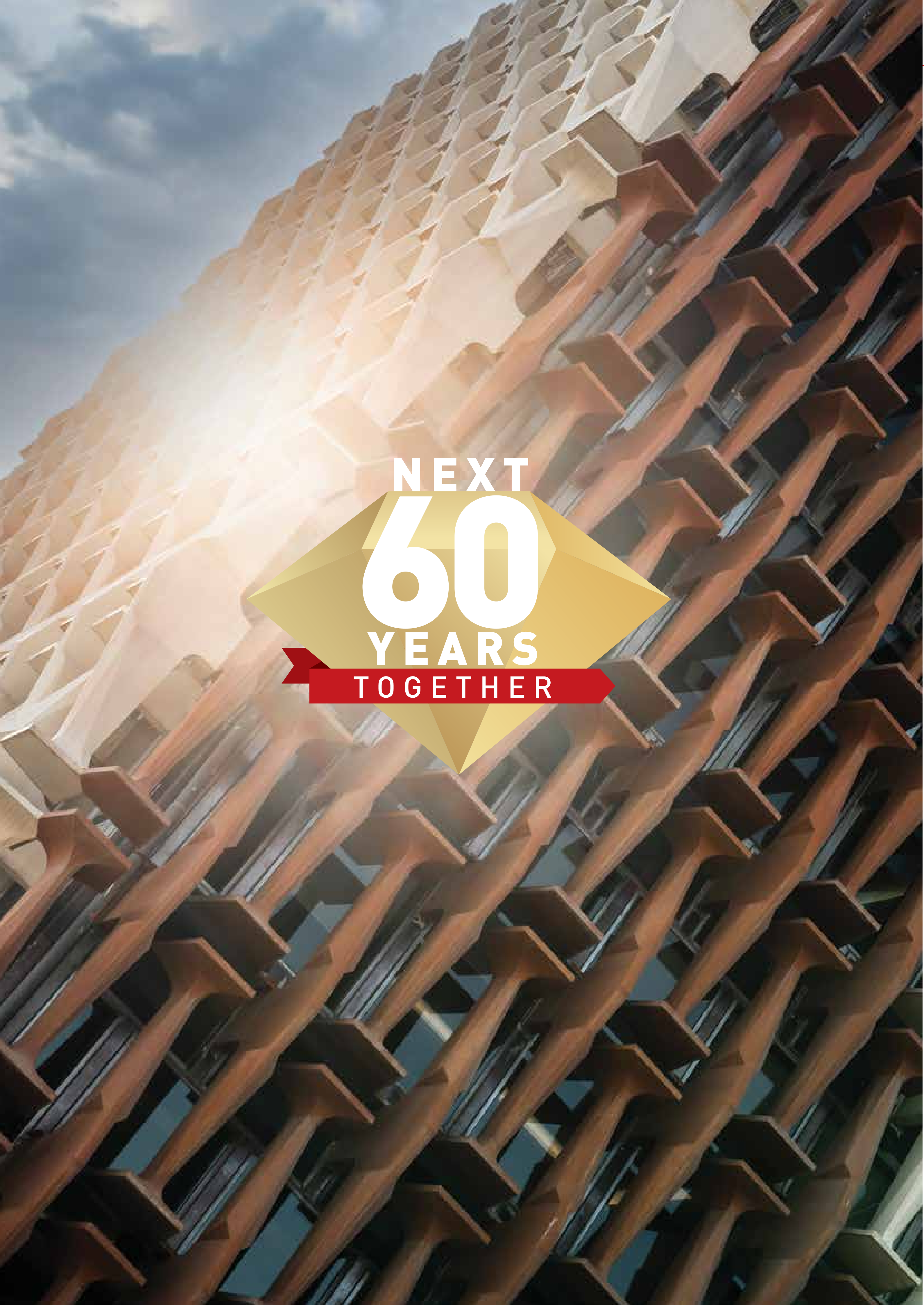
FINANCIAL STATEMENTS

- Financial Statement and Notes 92

BRANCH NETWORK 144



STRATEGIC REVIEW



About
GULF BANK

Gulf Bank was established on November 23, 1960, when The Amir of Kuwait Sheikh Abdullah Al-Salem Al-Sabah, signed Amiri Decree No. (44) recognizing Gulf Bank as a shareholding company. Founded by a group of twelve merchants, Gulf Bank has since grown to become one of the largest financial institutions in Kuwait today. After its founding, Gulf Bank commenced business operations in a rented flat on Fahad Al-Salem Street in the heart of Kuwait City with a total of 50 employees and a capital of 24 million rupees, equivalent to KD 1.8 million (USD 6 million). The Bank was subsequently listed in the Kuwait Stock Exchange in 1984.

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

At present, Gulf Bank remains one of the leading conventional banks in Kuwait and provides a wide range of services including consumer banking, wholesale banking, treasury, and financial services through its large network of over 50 branches and over 300 ATMs. The Bank is currently rated 'A' by four leading international credit rating agencies.

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

This year marks a special occasion as Gulf Bank proudly move forward with the nation, celebrating 60 years of innovation, discovery, advancements, leadership, and 60 years of its establishment. This coincides with the celebration of the nation's 60^{th} year of independence and 30^{th} year of liberation. Gulf Bank strive to continue building its legacy and celebrate the next 60 years.

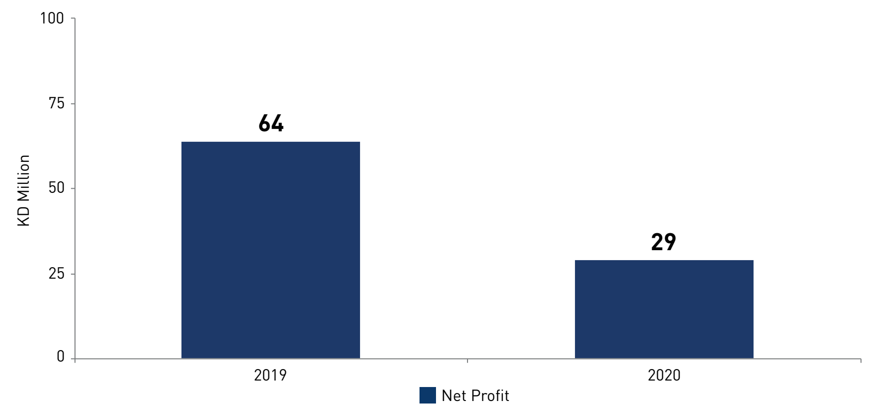
THE GULF BANK

بنك الخليج
THE GULF BANK

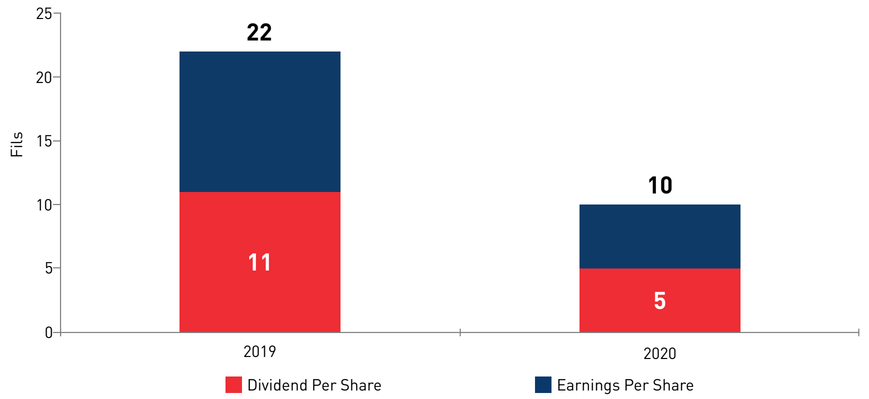
بنك الخليج
GULF BANK

KEY HIGHLIGHTS 2020

1. Gulf Bank remained profitable with a reported net profit of KD 29 million in 2020

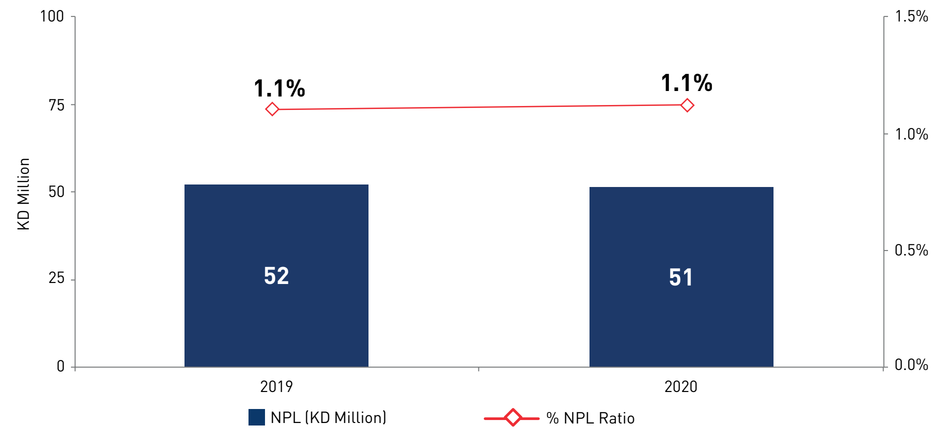


2. Earnings per share reached 10 fils. Recommending dividend of 5 fils per share, representing the fourth straight year of at least 50% payout ratio*

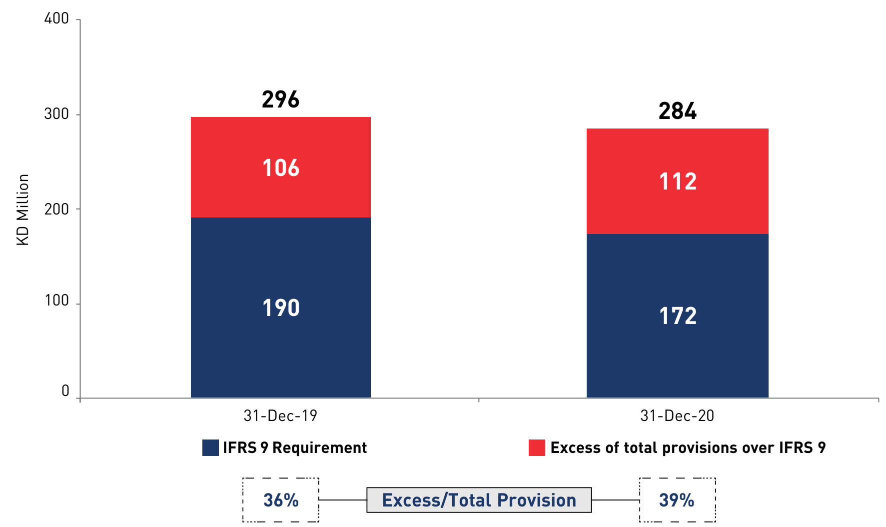


* 2020 DIVIDENDS SUBJECT TO ANNUAL GENERAL MEETING APPROVAL IN MARCH 2021.

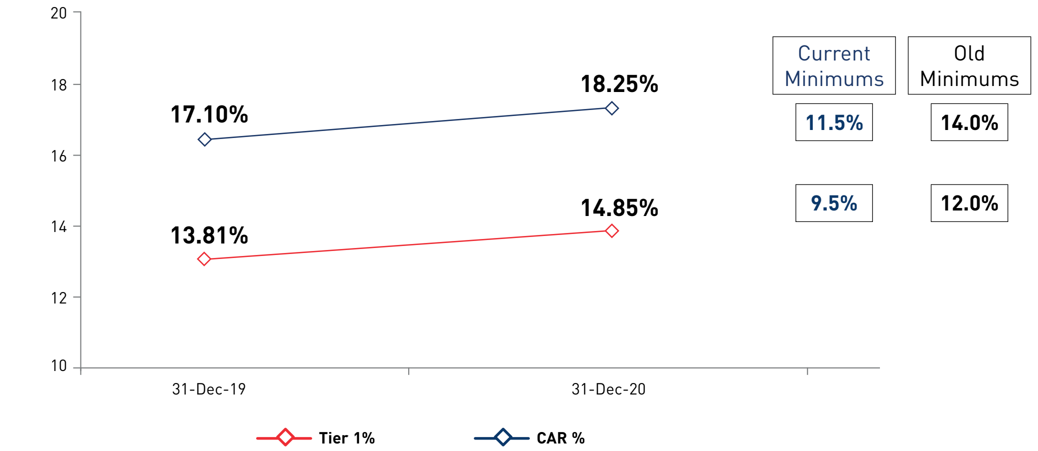
3. Portfolio quality remained strong, as non-performing loan ratio stood at 1.1% for year-end 2020



4. Total Credit Provisions exceed IFRS9 accounting requirements by KD 112 million



5. The Bank's regulatory capital ratios remained strong and well above the regulatory minimums



6. Maintaining 'A' ratings during 2020 from all four major credit rating agencies

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Jassim Mustafa Boodai

Chairman

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present Gulf Bank's 2020 Annual Report.

The year 2020 was truly an unprecedented year. Our everyday lives have been impacted by the global coronavirus (Covid-19) pandemic which is still having an impact on the economy and society. Kuwait, just like other countries, has been affected by the pandemic. In response to the consequences of this pandemic, the Central Bank of Kuwait swiftly took several actions including:

- Lowering the discount rates twice in 2020, to reach its historical low level of 1.5%. This has provided immediate cash flow relief to corporate borrowers in the form of lower interest payments and helped the banking sector to ease its cost of funding.
- Lowering the liquidity and capital minimum regulatory requirements, which indirectly promoted favorable liquidity conditions in the banking sector.
- And lastly, lowering of the Repo rate.

Gulf Bank financial performance during 2020 has shown its strong franchise and ability to navigate through the current environment. The Banks's solid capital, comfortable liquidity levels, and ample credit provisions, have served us well throughout these challenging times.

However, we remain focused on our customers, employees, and communities. Our strategy continues to be centered on three key pillars:

- Leveraging technology capabilities and digitalization in order to improve the customer experience and operating efficiencies.
- Driving selective organic growth without compromising our risk standards.
- Promoting a strong performance driven culture, reinforced with engagement.

With that, let me go through the key highlights of 2020.

Financial Performance ... robust and profitable

We reported a net profit of KD 29 million and earnings per share of 10 fils for the year ended 31 December 2020 compared to a net profit of KD 64 million and earnings per share of 22 fils for the year ended 31 December 2019. The Board of Directors is recommending a cash dividend of 5 fils per share for shareholders' approval at the Annual General Meeting to be held in March 2021.

This would be the sixth straight year in a row Gulf Bank has paid cash dividends to shareholders and the fourth year in a row that the Bank paid out at least 50% of its earnings to shareholders.

The decline in net profit compared with last year was driven by lower interest income (KD 47 million) from a sharply lower interest rate environment, lower fee income (KD 8 million) from a slack in economic activity, and non-recurring interest income in 2019 (KD 20 million) partially offset by lower interest expense (KD 27 million) and a reduction in operating expenses (KD 14 million). Nevertheless, the Bank remains well positioned as it enters 2021 with strong credit quality, high excess provisions, significant capital buffers, and 'A' ratings from the major credit rating agencies.

The Bank's non-performing loan ratio for the year-end 2020 stood at 1.1%, no change from year-end 2019.

At the end of 2020, total provisions on credit facilities were KD 284 million compared with KD 172 million of provisions required under the IFRS 9 accounting standard. Thus, the Bank held excess provisions of KD 112 million compared with KD 106 million a year ago. This was the third straight year since IFRS 9 was introduced where the Bank's excess credit provisions exceeded KD 100 million.

The Bank's regulatory capital ratios remained strong as the Tier 1 ratio of 14.85% was 5.4% above the regulatory minimum of 9.5% and the Capital Adequacy Ratio (CAR) of 18.25% was 6.8% above the regulatory minimum of 11.5%.

KD 29 million
Net profit

10 fils
Earnings Per Share

5 fils
Dividends Per Share

1.1%
Non-performing loan ratio

18.25%
Capital Adequacy Ratio

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

The Bank maintained its **'A' ratings during 2020 from the four major credit rating agencies:**

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

Business Overview

6% growth in
Consumer loans

The **Consumer banking** segment continues its upward trajectory, growing by 6% to reach KD 1.7 billion as of year-end 2020, comprising 38% of our gross loan book. In response to the consequences of this pandemic, the Bank has introduced a six-month moratorium for all retail consumer and SMEs obligations, which ended on 30th September 2020.

Although our physical branches were not 100% operational during most of the year due to the country lockdown, our digital banking channels have witnessed an increased engagement from customers. More features were added or enhanced to our mobile and online banking platforms including better biometric login, push notification and KYC updates.

KD 2.7 billion
Cooperate banking loan book

Our **Corporate banking** segment continues to be focused on strengthening client relationships through our full-fledged specialized platform to maximize client value and support their growth ambitions. This was even more evident during 2020, as the Corporate team quickly shifted their focus to support Corporate clients and Small and Medium-sized Enterprises (SMEs) to help them overcome the ramifications of the Covid-19 pandemic. The support covered debt moratorium for six months, closer engagement with our clients to assist them in managing their financial challenges while managing the Bank's potential credit costs. We have leveraged our digital banking product and service offerings to improve the overall customer experience, especially during lockdown periods.

Despite the challenging market conditions during 2020, the Corporate banking segment remained agile and selective in managing the loan book of KD 2.7 billion as of year-end 2020, which contributes to 62% of the total gross loan book.

The Bank ended 2020 with several digital achievements and information technology enhancements. Throughout the year, Gulf Bank achieved several digital milestones and implemented major updates that all customers — from individuals to larger businesses and SMEs — benefited from. The Bank introduced several initiatives and launched innovative technological systems that serviced both the Bank and its customers during the most challenging parts of the year.

Market Overview

Gulf Bank inclusion in
the MSCI Emerging Market Index

The economy is undergoing a partial recovery from the virus-linked lockdowns supported by consumer spending and improved sentiment from lower Covid-19 cases; however, the continued low oil prices are tempering with hopes of a stronger rebound.

During the year, Morgan Stanley Composite Index (MSCI), a leading provider of research-based indexes and analytics, completed a long-waited upgrade of Kuwait to MSCI Emerging Market status on 29th November 2020. A total of seven listed companies, including Gulf Bank, were included in the index upgrade. The inclusion brought in huge inflows to the market, with over KD 900 million of traded value.

Kuwait also witnessed two successful listings in the Boursa Kuwait Premier Market Index, the Boursa Kuwait Company and Shamal Az-Zour Al-Oula Power and Water Company. Both listings were oversubscribed and had rallied above their IPO price, thereby lifting the premier market index.

Sustainability and Corporate Social Responsibility

2020 marks a year of historic transformation, requiring communities everywhere to respond quickly to unprecedented challenges. From the start of the pandemic to date, Gulf Bank has been at the forefront of that response; mobilizing rapidly to improve conditions for our employees, the general public, and our beloved Kuwait.

Supported National efforts in combating the spread of the coronavirus

At the start of the pandemic, Gulf Bank contributed to the Central Bank of Kuwait's KD 10 million Fund designed to allow local banks to support national efforts in combating the spread of the novel coronavirus.

Launch nationwide mental and physical wellness campaign

Gulf Bank also launched a nationwide mental and physical wellness campaign to raise awareness about adjusting to the gradual and safe return to the workplace. We also offered psychological services and well-being webinars for our employees in recognition of the importance of mental and social health during the pandemic. As a champion of women's economic empowerment and the importance of a mother's role in the society, Gulf Bank provided its female employees an option of flexible working hours to support their families'.

Closing Remarks

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

We can't close 2020 without extending our deepest gratitude to all the unsung heroes, the healthcare professionals, along with all other front liners who had put their lives and wellbeing on the line to fight this pandemic.

I would also like to thank our shareholders, our customers and dedicated teams for their loyalty over the years. Special appreciation to our board of directors for their guidance and valuable contributions.

60th Anniversary
navigate through local and global crises

Gulf Bank celebration of its 60th Anniversary in 2020, proves its ability to navigate through local and global crises. We will continue to apply our experience to deliver the best-in-class services and offerings to be the bank of choice, while enhancing all the capabilities needed to serve our stakeholders exceptionally well, going forward.

Jassim Mustafa Boodai

Chairman

Kuwait City May 20, 2020 under full curfew

GULF BANK DURING COVID-19 PANDEMIC

04 MARCH CBK reduces the discount rate by 25 bps to 2.5%

08 MARCH Gulf Bank contributes to the KD 10 million relief fund to support Covid-19 prevention efforts

12 MARCH Gulf Bank continues providing customer service through 6 branches and 6 Interactive Teller Machines (ITM) as per CBK instructions

14 MARCH Airports close with heavy restrictions on global aviation

16 MARCH CBK reduces the discount rate by an additional 100 bps to 1.5%

17 MARCH Operational branches increase to 9, operating from 9am - 12pm

24 MARCH KBA announced the deferral of installments on all Consumer / SME loans from 01 Apr. to 30 Sep.

30 MARCH Gulf Bank announces penalty-free deferral of installments for retail customer loans, credit cards and SMEs for 6 months

31 MARCH Q1 2020 Financial Statements were not released, as per CBK instructions

31 MARCH Gulf Bank holds its 2019 AGM/ EGM under health restrictions and approves distribution of 11 fils per share

02 APRIL CBK relaxes liquidity and capital ratios:

- LCR and NSFR minimums reduced from 100% to 80%
- Reserve ratio reduced from 18% to 15%
- Maximum limit gaps raised by 10% on all maturity buckets less than 6 months
- Tier 1 and CAR minimum reduced by 250 bps

21 APRIL Operational Branches increased to 15, operating from 9am to 12pm

10 MAY Gulf Bank closes its branches under full curfew and continues 24/7 Online Banking and Call Center

31 MAY Commencing Phase 1, with partial curfew from 6pm to 6am

02 JUNE Gulf Bank reopens 15 Branches from 9am to 1pm

20 JUNE Operational branches increased to 23, operating from 8:30am to 1:00pm

30 JUNE Commencing Phase 2, with partial curfew from 8 pm to 5 am and resume work with up to 30% capacity

28 July Commencing Phase 3, with partial curfew from 9 pm to 3 am and resume work with up to 50% capacity

1 AUGUST Kuwait International Airport resumed commercial flights with 30% capacity

AUGUST Gulf Bank gradually opens all branches

18 AUGUST Commencing Phase 4, with partial curfew from 9pm to 3am and resume work with greater than 50% capacity

30 AUGUST Kuwait nationwide curfew is lifted

KUWAIT - MAJOR EVENTS DURING COVID-19

GULF BANK - MAJOR EVENTS DURING COVID-19

Kuwait City May 15, 2020 under full curfew

GULF BANK
DURING THE COVID-19 PANDEMIC

The Covid-19 Pandemic has created a pivot moment within Gulf Bank and the way it serves both its customers and employees. The Bank has taken prudent measures and actions to safeguard its employees and customers abiding by the Government's health protocols.

Health & Safety Protocols

With that in mind, the Bank resumed operations without hindering the health and wellbeing of the employees and customers. During the first stages of returning to work, Gulf Bank has been keen on applying all the necessary precautionary measures to ensure the regular sterilization of its locations. Smart heat detection cameras were installed in all locations and front and side shields on workstations and ATM's to create a proper protection barrier between staff and customers. Onsite nurses were available in all Gulf Bank branches to serve both customers and employees. Gulf Bank applied the best preventive health measure including measuring customers' temperature before entering the Bank premises, maintaining physical distance, and ensuring both customers and staff are wearing masks at all times.

For the customers comfort and safety, tents and portable air conditioners were installed in the waiting areas onsite. And to promote a safe working environment, the Bank installed air purifiers and filtrations to help curb the spread of the coronavirus as well as maintain a more hygienic atmosphere, and Sanitization occurs on daily basis on all floors and branches.

Supporting the Community

As national efforts to curb the spread of the pandemic launched into action, Gulf Bank was aware of its role and proud to take it on. At the start of the pandemic, Gulf contributed along with local banks a total of 10 million, an initiative by the Central Bank of Kuwait that allowed local banks to support national efforts in combating the spread of the coronavirus.

This initiative came as part of a wider set of initiatives by Gulf Bank, as the Bank launched several sustainability campaigns. These initiatives included a physical health and at-home exercise campaign, a home decor and lifestyle campaign, and a financial and economic awareness initiative.

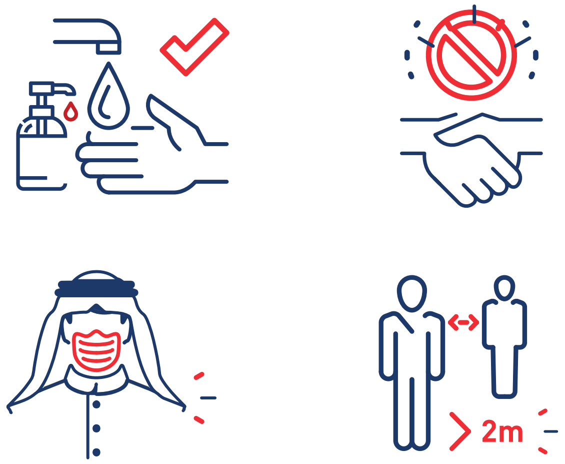
In appreciation and recognition of the Ministry of Health's continuous efforts throughout the year, Gulf Bank distributed hygiene kits to visitors at the Coronavirus Rapid Screening Center in Sabhan.

Employee Wellness Program

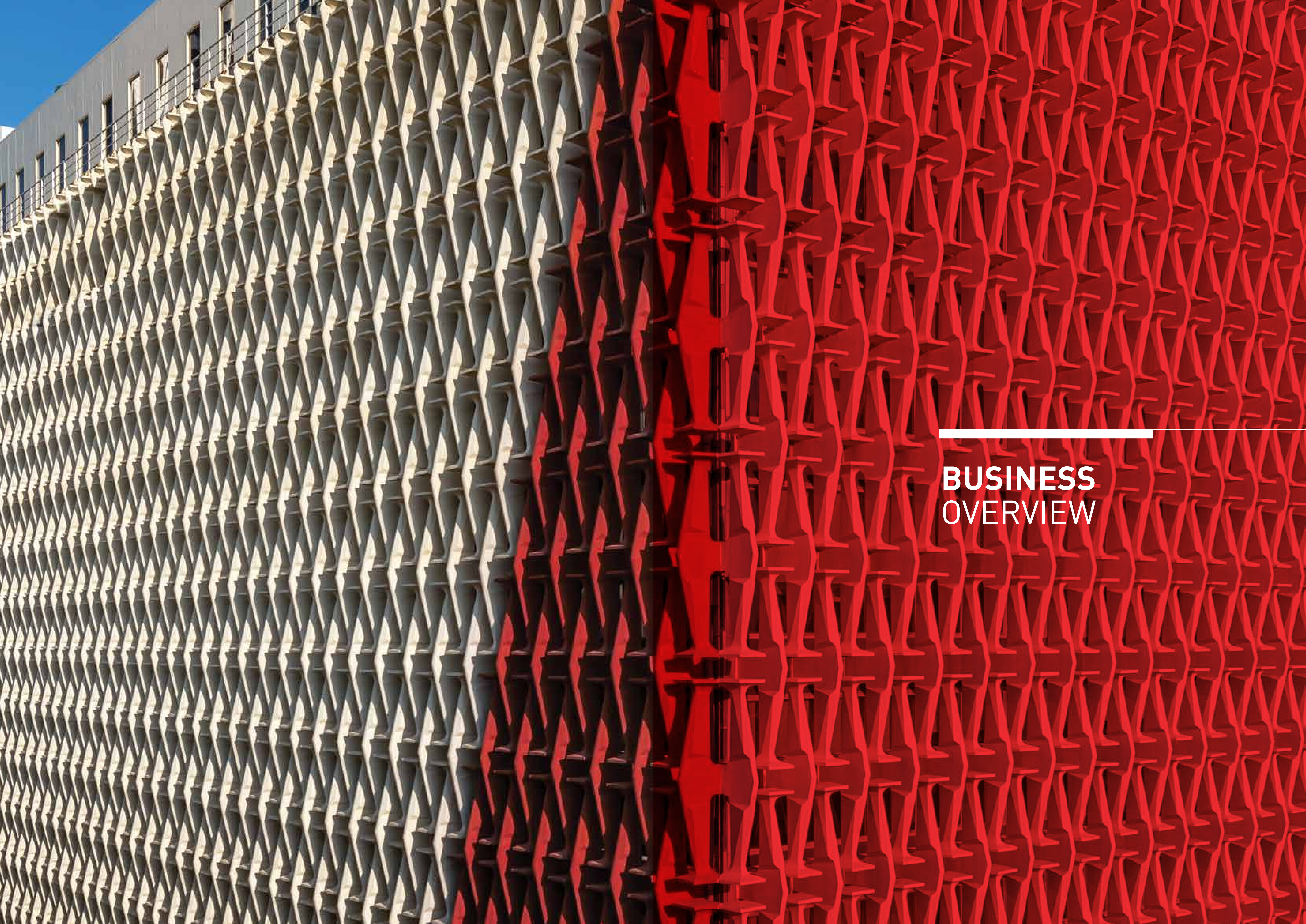
During the pandemic, Gulf Bank launched a nationwide mental and physical wellness campaign to raise awareness about adjusting to the gradual and safe return to the workplace. The Bank was the first in Kuwait to offer psychological services for its employees in recognition of the importance of mental and social health during the pandemic. Gulf Bank hosted two wellbeing webinars during the national lockdown. In addition, the Bank launched a remote mental and physical wellness training program for over 700 of its employees.

"Visit Gulf Bank" App

In 2020, Gulf Bank launched "Visit Gulf Bank," a mobile application allowing customers to book appointments to visit branches. The app aimed to reduce wait times and make the process of visiting a branch more convenient, especially in light of the restrictions imposed by the coronavirus pandemic. The app is currently available to download for all Gulf Bank clients on both iOS and Android devices. Gulf Bank customers can book their appointments through the app and specify their preferred date, time and branch, granting them a smoother and faster branch visit.



Measures implemented to minimise the spread of covid-19



BUSINESS OVERVIEW

OPERATING ENVIRONMENT

Range of policy measures such as fiscal stimulus, interest rate cuts, quantitative easing, targeted lending programs and loan moratorium, implemented to combat the Covid-19 impact on economies.

2020 – In the Shadow of COVID-19

Much of 2020 has been shaped by COVID-19 and attendant lockdowns. According to IMF, global GDP is expected to contract by 4.4% in 2020. However, the economic impact and pace of recovery varied across countries and business sectors based on the actual COVID-19 spread, stringency of lockdowns, fiscal and monetary policy responses.

Governments and central banks around the world implemented a range of policy measures such as fiscal stimulus, interest rate cuts, quantitative easing, targeted lending programs and loan moratorium to cushion the economic impact of COVID-19. Despite this, economic growth in Q2 2020 took a hit due to stringent lockdowns, with U.S. economy contracting by 32.8% y-o-y and U.K. economy contracting by 19.8% y-o-y.

While expectations on economic recovery continued to be gloomy, financial markets in some countries including U.S. have managed to overshoot their pre-COVID levels, raising concerns of decoupling of the economy and markets. This positive market performance is being mainly attributed to liquidity in the system thanks to various stimulus measures and hopes of quick return to normalcy with vaccination. By the end of 2020, U.K equity markets were still below their pre-COVID levels, with the negotiations on Brexit trade deal adding to the economic uncertainty. The transition period for U.K.'s exit from EU was to end on 31st December 2020. After long drawn negotiations, that had been underway since March 2020, both sides managed to strike a deal less than a week before the December 31st deadline. According to Bank of England, even with a trade deal, Britain's GDP is likely to suffer a 1% drop in Q1 2021 due to Brexit.

Amid the pandemic, U.S held its Presidential election in November 2020 with Democrat candidate Joe Biden emerging as the winner. A Biden Presidency is expected to see a reversal of Trump's policy on a range of issues such as world trade, nuclear agreement and climate change.

U.S.-China trade tensions, which had taken centre-stage in 2019, simmered down with signing of a Phase 1 trade deal in January 2020. However, trade tensions re-surfaced in the course of the year as U.S. proposed ban of Chinese apps and ban of trading in Chinese firms. China is the only economy expected to grow in 2020, according to IMF, on account of its effective handling of COVID-19. The signing of the Regional Comprehensive Economic Partnership between Asian countries is also expected to drive regional economic growth.

Lockdowns and travel restrictions to handle COVID-19 severely impacted demand for oil and in turn its prices.

Oil Markets

Lockdowns and travel restrictions to handle COVID-19 severely impacted demand for oil and in turn its prices, which plunged to USD 45.3 per barrel (March 6, 2020). Disagreement between Saudi Arabia and Russia on production cuts, earlier on in the COVID-19 crisis, pressured the markets further due to overwhelming supply and weak demand pushing them to multi-decade lows of USD 19.3 per barrel (April 21, 2020). The countries' subsequent reconciliation leading to implementation of OPEC+ production cuts and gradual easing of lockdowns have helped prices climb from their lows to USD 51.8 per barrel. However, with resurgence of COVID-19 in U.S and Euro region, international travel restrictions continue to prevail, keeping oil prices below their pre-COVID levels of USD 68.9 per barrel (highest price in January 2020, based on closing basis).

Impact of COVID-19 on Kuwait's Economy

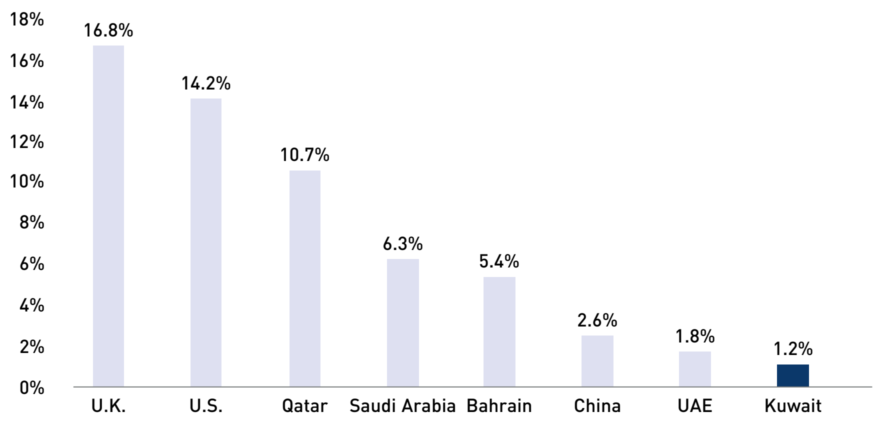
The fall in oil prices combined with additional spending warranted by COVID-19 has compounded the government's fiscal pressures. The government's budget deficit for FY 2020/21 is estimated to be KD 14 billion (USD 46 billion) amounting to about 42% of GDP. Due to impasse on the passage of public debt law, which expired in 2017, Kuwait has not been able to raise sovereign debt in international markets. This has led the government to relying primarily on General Reserve Fund (GRF) as drawing from Future Generation Fund (FGF) would require additional legislation. The government has resorted to other measures such as purchase of KD 2.2 billion (USD 7.2 billion) of the Treasury's assets by the FGF and halting of mandatory transfer to Future Generations Fund when the government runs a deficit to sustain government funding.

However, Kuwait's reliance on GRF and possibility of its depletion has been viewed as liquidity risk and in turn credit negative by the rating agencies. Moody's downgraded Kuwait's credit rating by two levels to A1. S&P, having downgraded Kuwait's rating to AA- with stable outlook in March citing low oil prices and slow pace of reforms, subsequently revised its outlook to negative. Similarly, Fitch ratings has revised Kuwait Sovereign outlook from stable to negative at the beginning of 2021.

Kuwait Government imposed lockdowns earlier in the crisis to reduce its spread and the re-opening was carried out gradually in five phases. The government allocated KD 500 million (USD 1.6 billion or 1.2% of GDP) additional funds to support efforts in fighting the spread of COVID-19. In comparison, U.S.' initial fiscal stimulus was at 11% of GDP and fiscal stimulus measures of Qatar and Saudi Arabia were at 10.7% and 6.3% respectively.

Kuwait has also formed a Higher Steering Committee for Economic Stimulus to implement stimulus measures to ease the negative impact of COVID-19 on economic activity. Other support measures such as postponement of security contributions, concessional long term loans to SMEs through joint financing from the SME Fund and banks were also implemented.

Fiscal Stimulus Packages (as % of GDP)



Source: United Nations ESCWA COVID-19 Stimulus Tracker

The government's budget deficit for FY 2020/21 is estimated to be KD 14 billion (USD 46 billion) amounting to about 42% of GDP.

Kuwait Government imposed lock downs earlier in the crisis to reduce its spread and the re-opening was carried out gradually in five phases.

OPERATING ENVIRONMENT

KD 866 million projects awarded in the first 9 months of 2020.

Central Bank of Kuwait had followed U.S. FED cut to the interest rates, by reducing discount rates by 125 bps to reach 1.5%, a historical low.

Central Bank of Kuwait had also reduced regulatory requirement on several key ratios, primarily on the capital and liquidity requirements.

Project Development

Kuwait has spent KD 360 million in FY 2020/21 towards development projects aligned with Vision 2035. Total projects awarded for first nine months of 2020 stood at KD 866 million, compared to KD 1.1 billion awarded for full year 2019. Project awards in 2020 was supported by the awards in Q1 2020, before the onset of the pandemic.

During the year, Kuwait suspended new project tenders for three months in April and cancelled some projects due to COVID-19 and its impact on oil markets such as USD 1.4 billion Al-Dabdaba solar plant and USD 400 million oil project awarded earlier in the year.

Kuwait is reported to be undertaking 38 large projects worth around KD 25.5 billion (USD 87 billion), including a new airport terminal at KD 1.4 billion. Al-Zour refinery project is 97% complete and is expected to be launched in 2021. A USD 10 billion petrochemical complex is also underway at Al-Zour and is expected to become operational in 2024.

Kuwait's Banking Sector

In March 2020, U.S. Fed cut interest rates down to a range of 0.0%-0.25%. Central Bank of Kuwait had followed, reducing interest rates to support the economy during COVID-19 crisis. It had lowered discount rate by 125 bps to 1.5% and repo rate used to price deposits was lowered by 100 bps to 1.75%. Repo rate was further decreased by 12.5 bps to 1.625% in October 2020, easing cost of funding for the banks.

Banking sector's performance in 2020 has also been negatively affected, given its exposure to sectors impacted by COVID-19 such as real estate and construction. Banks had also allowed businesses to delay loan repayments by six months. Aggregate net profit for listed banks in Kuwait during first nine months of 2020 declined by 51% on the back of lower interest income and higher provisioning.

The Central Bank had also reduced regulatory requirement on several key ratios. Capital adequacy ratio was reduced by 2.5% to 10.5%. Net Stable Funding Ratio and Liquidity Core Ratio were reduced to 80% from 100% and Liquidity Ratio was reduced to 15% from an earlier value of 18%. Kuwait passed bankruptcy law allowing businesses to arrive at a settlement with creditors or a restructuring plan in the event of bankruptcy. Central Bank of Kuwait also formed Higher Committee of Shari'ah Supervision underpinning the governance of Shari'ah supervision and compliance in Islamic financial and banking institutions.

Lockdown restrictions have brought about increased focus on digital channels in banking. The Central Bank had also implemented measures to increase digital adoption such as reduction in fees for digital transactions and increase in limit on contactless payments.

MSCI Inclusion of Kuwait Equity Index

MSCI completed inclusion of Kuwait into its Emerging Market indices in November, 2020 at an aggregate weight of 0.58%. The value traded on the day of inclusion was over KD 900 million (USD 3.1billion). While the equity markets had performed well in 2019 (Kuwait All Share Price Return Index gained 23.7%) aided by inclusion announcements that came in last year, COVID-19 and lower oil prices have dampened the usual pre-upgrade rally in 2020. As of 31st December 2020, Kuwait All Share Price Return Index was down by 11.7% from 2019 year-end levels.

Geopolitical Events

In early 2021, Qatar's GCC neighbours agreed to restore full ties with the country, ending the blockade that has been in effect since 2017. The GCC states have signed an agreement of solidarity and stability (Al Oula Accord) during the 41st GCC Summit. U.S. President elect Joe Biden has signalled willingness to return U.S to the nuclear accord with Iran and has also indicated that GCC would be included in the process. Recently, UAE and Bahrain signed the Abraham Accord with Israel. With the peace agreement, the countries have normalised relations with Israel, raising expectations that other GCC member states might follow. Favourable progress on these fronts could contribute to regional stability and in turn make the region attractive to foreign investors.

2021 - The Year Ahead

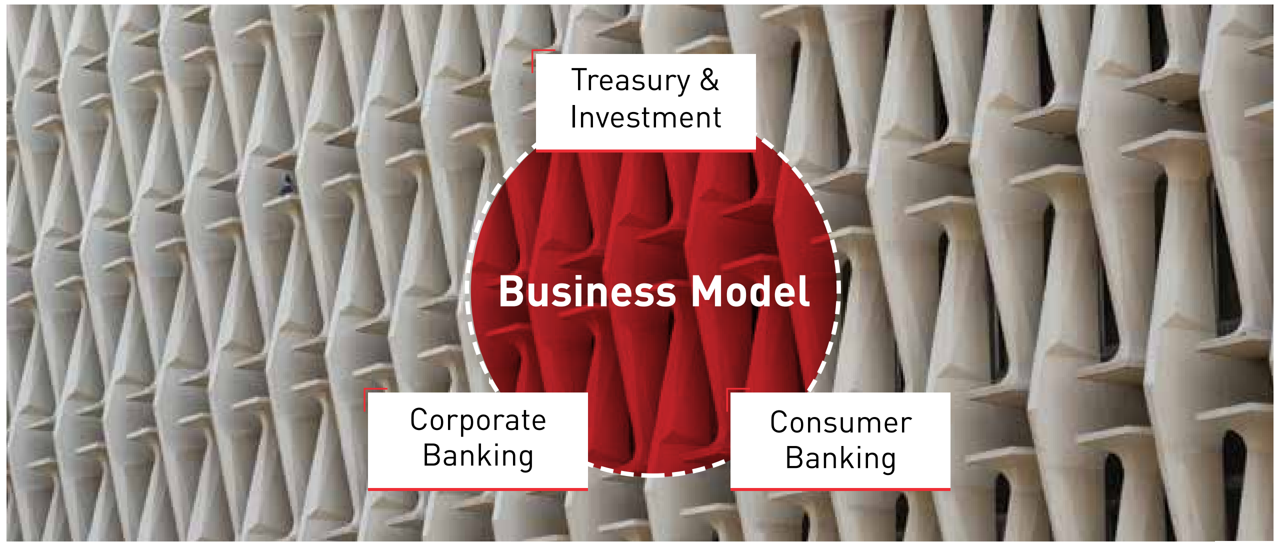
The trajectory of the virus, implementation of vaccine roll-outs and efficacy of vaccines would largely determine economic prospects in 2021. According to IMF, global economy is expected to fare better in 2021, with GDP growth expected to be at 5.4%. Oil prices in 2021 are expected to be stagnant in the range of USD 40-50 per barrel, pressured by oversupply and large inventories, particularly due to slow recovery in air traffic.

Kuwait's economy is expected to grow by 0.6% in 2021. Gradual easing of production cuts and demand recovery aided by vaccine rollout could support oil GDP growth while continued easing of lockdowns and travel restrictions and credit availability could support non-oil GDP growth.

Lower oil prices and fiscal pressures might impact infrastructure spending. Loan repayment holidays could contribute to delayed recognition of non-performing loans. Coupled with low interest rate environment, profitability could be pressured in the short term. Given Kuwait's approval of emergency use of Pfizer COVID-19 vaccine, successful deployment of vaccination, though might take time, would help returning to normal, benefitting the economy in general and banks in particular.

The trajectory of the virus, implementation of vaccine roll-outs and efficacy of vaccines would largely determine economic prospects in 2021.

BUSINESS OVERVIEW



The consequences of the Covid-19 pandemic during 2020 have impacted the global economy and the financial sectors worldwide. The Kuwaiti Banking sectors, just like other sectors, has been affected by the Pandemic as well, with revenue pressure, low profitability and weakening asset quality.

During these challenging times, Gulf Bank continued to offer uninterrupted services to its clients and remained focused on its core strategy of providing conventional banking services to its Corporate and Consumer clients in Kuwait. By the end of 2020, Gulf Bank gross loans reached KD 4.4 billion, albeit the strained operating environment.

KD 4.4 billion
Gross Loans

Corporate Banking, Digital Banking services and product offerings was upgraded to improve and enhance the overall customer experience... more than 90% of customers moved to Online Banking

Corporate Banking

During the first quarter of 2020, the wholesale banking sector witnessed some asset growth in continuation to its fiscal year end 2019 momentum. In the subsequent quarters, many industries and sectors were negatively impacted as a result of the global pandemic forcing high scale lockdowns in the country and halting economic activities. This had adversely impacted the wholesale banking in terms of asset growth and profitability.

As a result of Covid-19, the focus quickly shifted to supporting Small and Medium-sized Enterprises (SMEs) and affected Corporate clients to tide over the ramifications of the pandemic. Gulf Bank offered debt moratorium for six months for all SME customers obligations and optional principal deferrals for impacted corporate clients, which ended on 30th September 2020, in order to support those clients cash flow management during the challenging times in alignment with the Kuwait Banking Association directions. Furthermore, the Bank has increased its monitoring and engagement with customers to manage potential acceleration in credit costs.

The digital banking services and product offerings was upgraded to improve and enhance the overall customer experience, and will continue going forward. The Bank has provided an online portal to receive Covid-19 loan application requests. In addition, during lockdown periods, a limited number of Gulf Bank branches were operational, therefore, those branches were not able to serve all Corporate customers. This has resulted in converting more than 90% of the customers to utilize the Corporate online banking systems. Online services included salary transfers, telex services, issuance of Letter of Credits and Letter of Guarantees. Corporate Banking customers were able to experience those services efficiently.

During the Pandemic, the Bank streamlined its credit process during lockdown and staff were able to work remotely and respond to client's requests efficiently. New processes have been put in place to ensure smooth and uninterrupted operations.

At Gulf Bank, we believe that people are a key capital to the Bank, thus we invest in the executive education programs at top-tier business colleges worldwide. During the year, several young executives of the Corporate Banking team were promoted to leadership positions.

Consumer Banking

The year 2020 brought us even closer to our customers. The Consumer banking has supported three key pillars during the pandemic:

Serving Customers:

- We redeployed our resources to serve customers online. Our relationship officers, tellers, and supporting back offices invested every effort to ensure the continuity of our customer service,
- We unified our customer contact and WhatsApp number to facilitate the way our customers can get in touch with our teams,
- We reopened our branches with strict safety measures in June, when businesses were allowed to resume operations gradually,
- We launched the "Visit Gulf Bank" app for customers to make appointments at branches,
- We resumed our draws, campaigns and benefits by September as part of our commitment to customers.

Support to National Efforts:

- Gulf Bank postponed installments for personal loans and credit cards for six months up to September 30 for all retail customers,
- Gulf Bank also supported the national pandemic relief fund which aimed to support government efforts and provide to those affected. The Bank contributed by donating to the nationwide cause and encouraged customers to do so through a dedicated payment gateway on e-gulfbank.com,
- We amplified our digital outreach on social media throughout 2020. We focused our content on supporting nationwide efforts to educate, inform and elevate the community morale during these challenging times,

Support to Economy

- Gulf Bank launched auto financing solutions at all authorized dealerships in Kuwait, offering easy financing for everyone. Exclusive packages were also launched for frontline workers to thank them for all what they have done for our community.

During 2020, Consumer Banking focused of three pillars:
- Serving customers,
- Support to National Efforts,
- Support to Economy.

Consumer banking has strengthened its digital capabilities by embarking on a multi-year customer experience transformation journey with Avaya in an aim to embrace a multi-experience approach that strengthens its market differentiation through better customer and employee experiences. Customer are now able to complete their banking transactions through Gulf Bank's website and app. Customers can manage their accounts, make payments and transfers, manage their debit and credit cards, initiate electronic payments and financing, as well as communicate with the Bank though our digital platforms.

2020 was also the year we continued to focus on our youth segment, the largest segment of the population in Kuwait. Gulf Bank launched a series of new features and benefits for red customers, giving them access to exclusive discounts at stores and restaurants, a chance to win 12 times their student allowance, as well as cash back every month.

2020 was also the year we continued to focus on our youth segment, the largest segment of the population in Kuwait.

BUSINESS OVERVIEW

Gulf Bank is embarking on a major project to upgrade its new Treasury management front system, extending the Bank's capabilities and enabling it to expand its client solution offerings.

Treasury and Investments

Treasury

The Treasury team's main focus is to optimize the Bank's balance sheet by maintaining sufficient liquidity to support asset growth and sufficient buffers to meet regulatory requirements. The team also aims to diversify its funding sources to optimize funding costs' and reduce dependency on single depositor. On the Treasury Trading and Sales side, the Bank provides competitive pricing in the foreign exchange to support the needs of its customers.

During 2020, the team has successfully expanded the Bank customer deposit base both locally and internationally and reduced the concentration as well as the cost of funds.

Gulf Bank is embarking on a major project to upgrade its new Treasury management front system, extending the Bank's capabilities and enabling it to expand its client solution offerings.

Financial Institutions and Sovereign

The Financial Institution and Sovereign team provide services through its long-standing and well-established partnerships with global correspondent banks. The department's key relationships with leading international partners provides the Bank's Consumer and Corporate clients with efficient solutions, secured trade services and Straight Through Process (STP) global payments, while complying with local and global regulations.

Amid the events of 2020 and the unprecedented uncertainties of Covid-19, The unit had a stable year by means of closely managing and monitoring its funded asset book. During such times of uncertainty, the team was focused on the re-compositing of its portfolio in markets that are aligned with the Bank's risk appetite, at the best possible returns and under the most efficient capital consumption. This was achieved through close monitoring of the current exposures, a very selective origination and participations in syndications both in primary and secondary markets risk participations.

During the year, the team collaborated with Treasury's Asset and Liability Management team to diversity the Bank's funding sources and was able to successfully raise deposits at favorable rates.

Investment

The key focus of Gulf Bank's Proprietary Investment activities is to support the liquidity needs of the Bank, diversify income streams, and generate returns within the Bank's risk appetite. In 2020, the activity was mostly focused on managing the existing investment portfolio considering the new developments related to Covid-19 pandemic. In addition to that, the proprietary investment is also focused on the implementation of the new treasury and investment system.

Gulf Bank's Fiduciary activities include carrying out portfolio management services, custody services, investment controller and investment advisory.

The Bank also acts as a selling agent, licensed by the Kuwait Capital Markets Authority, to offer investment products to the Bank clients. The Bank's experienced Investment Services team has been servicing a diversified client base that includes individual and institutional clients offering them investment products and services that suit their needs, covering local, GCC and international markets.

In addition to acting as a selling agent for several leading local Investment houses, Gulf Bank has its own Flagship investment platform named "WISE". "WISE" offers clients a platform to invest in global markets through Exchange Traded Funds (ETFs).

MANAGEMENT DISCUSSION AND ANALYSIS

Kevin Smith
Chief Financial Officer

In 2020, Gulf Bank's reported a net profit of KD 29 million and earnings per share of 10 fils for the year ending 31 December 2020 compared to a net profit of KD 64 million and earnings per share of 22 fils for the year ending 31 December 2019. The Board of Directors is recommending a cash dividend of 5 fils per share for shareholders' approval at the Annual General meeting to be held in march 2021.

The decline in net profit compared with the prior year was driven by lower interest income (KD 47 million), lower fee and foreign exchange income (KD 8 million) and non-recurring interest income in 2019 (KD 20 million) offset partially by lower interest expense (KD 27 million) and a reduction in operating expenses (KD 14 million).

Gross Customer Loans declined by KD 122 million or 3%. The consumer segment continued to see strong growth, up nearly KD 100 million or 6%, but this was more than offset by a decline of KD 215 million or 7% in the corporate segment due to lower credit demand from our corporate customers. The Bank's non-performing loan ratio for the year-end 2020 stood at 1.1%, no change from year-end 2019.

The Bank's Tier 1 ratio ended 2020 at 14.85%, 5.4% above the regulatory minimum of 9.5%. The Bank's Capital Adequacy Ratio (CAR) was 18.25% at the end of 2020, 6.7% above our regulatory minimum of 11.5%.

At the end of 2020, total provisions on credit facilities were KD 284 million compared with KD 172 million of provisions required under IFRS 9 accounting. Thus, the Bank held excess provisions of KD 112 million compared with KD 106 million a year ago, representing nearly 40% of total provisions. This was the third straight year since IFRS 9 was introduced where the Bank's excess credit provisions exceeded KD 100 million.

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

KEY FINANCIAL METRICS	2020	2019	Better/(Worse) in 2020 vs. 2019
Income Statement			
Net interest income	**125**	164	(24%)
Non-interest income	**34**	43	(23%)
Operating income	**158**	208	(24%)
Operating expenses	**64**	78	18%
Operating profit	**94**	130	(27%)
Provisions / Impairment Losses	**64**	63	(2%)
Net profit	**29**	64	(55%)
Earnings per share (fils)	**10**	22	(55%)
Dividends per share (fils)*	**5**	11	(55%)
Balance Sheet			
Gross loans and advances to customers	**4,384**	4,506	(3%)
Total assets	**6,113**	6,245	(2%)
Deposits	**4,739**	4,968	(5%)
Total stockholders' equity	**637**	664	(4%)
Average daily share price (fils)	**229**	294	(22%)
Key Financial Ratios			
Return on average equity	**4.6%**	10.0%	(55%)
Return on average assets	**0.47%**	1.05%	(55%)
Net interest margin	**2.03%**	2.72%	(25%)
Non-Performing loan ratio	**1.1%**	1.1%	(2%)
Provisions & Impairments / Average Total Assets	**1.0%**	1.0%	0%
Tier 1 capital ratio	**14.85%**	13.81%	8%
Capital adequacy ratio	**18.25%**	17.10%	7%

* 2020 DIVIDENDS SUBJECT TO ANNUAL GENERAL MEETING APPROVAL IN MARCH 2021.

Shown below are the major variances in net profit from 2019 to 2020 (KD millions):

2020 Net profit	**29**
2019 Net profit	**64**
Decrease in net profit	**(35)**
Increase/ decrease in 2020 vs 2019	
Interest income	**(66)**
Interest expense	**27**
Net Interest Income	**(40)**
Net fees & foreign exchange	**(8)**
Other Income	**(2)**
Operating income	**(49)**
Operating expenses	**14**
Operating profit	**(35)**
Provisions / Impairment losses	**(1)**
Others	**2**
Decrease in net profit	**(35)**

IFRS9 IMPLEMENTATION

The **IFRS9 accounting** standard on credit facilities was implemented by the Central Bank of Kuwait at the end of 2018 and, as of year- end 2020, the Bank's total credit provisions of KD 284 million were greater than the IFRS9 requirements by KD 112 million.

COMPARISON BETWEEN TOTAL PROVISIONS AND IFRS 9 EXPECTED CREDIT LOSSES (ECL) ON CREDIT FACILITIES:	2020	2019
	KD Millions	KD Millions
Provision on cash facilities	**269**	282
Provision on non-cash facilities	**15**	14
Total provisions on credit facilities (A)	**284**	296
IFRS 9 ECL on credit facilities (B)	**172**	190
Excess of total provisions over IFRS 9 ECL on credit facilities (C=A-B)	**112**	106
Excess provisions as a percentage of total provisions (C/A)	**39%**	36%

MANAGEMENT DISCUSSION
AND ANALYSIS

ASSET QUALITY

Gross credit costs in 2020, defined as specific provisions plus write-offs, were KD 3 million lower (-4%) than 2019.

Total credit costs plus impairments were KD 60 million in 2020, KD 1 million lower than the amount of KD 61 million incurred in 2019.

Total provisions and impairment losses of KD 64 million were incurred in 2020, which represented 1% of average total assets, no change from the 2019 ratio of 1%.

PROVISIONS / IMPAIRMENT LOSSES (KD Millions)	2020	2019	Change
Specific provisions	**64**	70	(6)
Write-offs	**6**	3	3
Gross credit costs	**70**	73	(3)
Recoveries	**(11)**	(14)	2
Impairment losses	**1**	1	(0)
Total credit costs/ impairment losses	60	61	(1)
% of average assets	**0.97%**	1.00%	
General provisions	**4**	2	2
Total provisions/ impairment losses	**64**	63	1
Provisions/ impairment losses (as a % of average total assets)	**1.0%**	1.0%	
Credit costs	**59**	60	(1)
% of average gross loans	**1.31%**	1.38%	

GOVERNANCE

BOARD OF **DIRECTORS**

Jassim Mustafa Boodai

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

Date of Appointment:

Chairman; 4 March 2020 – Present
Board Member; 17 March 2012 - 3 March 2020

Experience:

- Vice Chairman and CEO of Integrated Holding Company K.S.C.P., Kuwait
- Formerly Board Member of Kuwait Insurance Company, Kuwait
- Formerly Vice Chairman of Kuwait China Investment Company, Kuwait
- Formerly Chief Operating Officer of Boodai Corporation, Kuwait
- Formerly Vice Chairman of Hilal Cement Company, Kuwait
- Formerly Chairman of Transport & Warehousing Group Company, Kuwait
- Formerly Vice Chairman Jazeera Airways

Ali Morad Behbehani

Deputy Chairman of Board of Directors
Member of Board Nomination and Remuneration Committee

Date of Appointment:

- Deputy Chairman: 15 March, 2013 - Present
- Board Member: 11 April, 2009 - 14 March, 2013

Academic Qualifications:

- BA, English Literature, Kuwait University

Experience:

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

Sayer Bader AlSayer

Board Member

Date of Appointment:

17 March, 2012

Academic Qualifications:

- Degree in Engineering, Scotland

Experience:

- Executive Deputy Vice Chairman of Al Sayer Group of Companies, Kuwait (1978 to date)
- Member of the Board of Kuwait Chamber of Commerce and Industry, Kuwait (2010 to date)
- Member of the Board of Miami International Holdings, Inc., Miami-USA (2012 to date)
- Formerly Member of the Board of Eurofins Management Sem Luxembourg (1988-1999)
- Formerly Member of the Board of FIM Bank, Malta (1994 – 2002)
- Formerly Member of the Board of Lebanon Invest, Lebanon (1994 – 2002)
- Formerly Member of the Board of Bank of Kuwait and Middle East, Kuwait (2002 – 2003)
- Formerly Advisor to the Board of Audi Bank, Lebanon (2003 – 2013)

BOARD OF DIRECTORS

Omar Hamad AlEssa

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

Date of Appointment:

11 April, 2009

Academic Qualifications:

- BA in law, Faculty of Law, Kuwait University, Kuwait

Experience:

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

Abdullateef Abdulaziz AlSharekh

Board Member
Member of Board Credit and Investment Committee

Date of Appointment:

31 October, 2020

Academic Qualifications:

- Bachelor's Degree, Science Management, Bentley University, USA
- Master of Business Administration, London Business School, London, England

Experience:

- Director, Corporate Development & Communications at Yusuf Ahmed Alghanim & Sons Co., Kuwait
- Board Member, First Investment Company, 2016 - Present

Fawaz Mohammad Alawadhi

Board Member
Deputy Chairman, Board Audit Committee

Date of Appointment:

7 August, 2019

Academic Qualifications:

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

Experience:

- Chief Legal Officer – Alghanim Industries (July 2020 – Present)
- Faculty member – Legal Department – College of Business Studies (June 2016 - Present)
- Deputy Chief Legal Officer, Head of Litigation – Alghanim Industries (June 2016 – July 2020)
- Legal Counsel – Alghanim Industries (December 2008 – August 2014)
- Manager in Board of Managers of Atara Investment Co. LLC – UAE (2020 – Present)
- Member of the Board of Kuwaiti Association for Protecting Public Funds, Kuwait (2018 – Present)
- Manager in the Board of Managers of Saudi Pipes Insulation Manufacturing Factory Co SPC LLC, Saudi Arabia (2019 – Present)
- Manager in the Board of Managers of Kutayba Yusuf Alghanim & Partner for Trading Co. SPC LLC, Saudi Arabia (2018 – Present)
- Manager in the Board of Managers of Saudi First Company for Manufacturing Insulation Materials & Steel Buildings LLC, Saudi Arabia (2018 – Present)
- Manager in the Board of Managers of Pasture Trading Co. LLC, United Arab Emirates (2018 – Present)
- Formerly, Chairman of the Board of Alamana Investment K.S.C Closed, Kuwait (2012)
- Formerly, Deputy Chairman of the Board of Kuwait Insulating Material Manufacturing Company (KIMMCO), Kuwait (2012 – 2014)
- Formerly, Member of the Board of Alamana Industries K.S.C Closed, Kuwait (2010 – 2014)
- Formerly, Member of the Board of Nile City Tourism Corporation, Egypt (2012 – 2014)
- Formerly, Managing Director of Shamsin International Trading & Contracting CO. W. L. L., Kuwait (2011 – 2014)
- Formerly, Member of Kuwaiti Bar Association, Kuwait (2007 – 2014)

BOARD OF DIRECTORS

Bader Nasser AlKharafi

Board Member
Deputy Chairman, Board Risk Committee

Date of Appointment:

17 March, 2012

Academic Qualifications:

- Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait
- Master of Business Administration, London Business School, London, England

Experience:

- Vice Chairman & Group CEO of Mobile Telecommunications Company K.S.C (Zain Group), Kuwait
- Member of the Board of Directors of Boursa Kuwait
- Member of the Board of Atheer Telecom Iraq Limited (Zain Iraq), Iraq
- Chairman of Sudanese Mobile Telephone Co (Zain Sudan), Sudan
- Director of Group Executive Committee of Mohammed Abdulmohsin AlKharafi & Sons W.L.L. , Kuwait
- Chairman of Gulf Cables and Electrical Industries Company, Kuwait
- Middle East Advisory Board Member of Coutts & Co.
- Member of the Board of Refreshment Trading Company (Coca-Cola), Kuwait
- Member of the Board of Foulath Holding B.S.C., Bahrain
- Member of the Board of Bahrain Steel B.S.C. (EC), Bahrain
- Member of the Board of United Stainless Steel Company (USCO), Bahrain
- Vice Chairman of Diamond International Motors Company (Mitsubishi cars), Egypt
- Chairman of EMAK-Paper Manufacturing, Egypt
- Chairman of Arab Aluminum Company SAE, Egypt
- Chairman of MAK Holding Industry, Egypt
- Chairman of National Paper Company, Egypt
- Member of the Board of Kuwait-British Friendship Society
- Member of Board of UNHCR – The United Nations High Commissioner for Refugees "Sustainability Board"
- Chairman of Injaz Kuwait, Kuwait
- Member of Industrial Advisory Board, Mechanical Engineering, Kuwait University, Kuwait
- Vice Chairman & CEO of BNK Holding KSCC
- Member of the Board of Family Business Council Gulf

Ali Ibrahim Abdullah

Board Member (Independent)
Chairman, Board Audit Committee
Member of Board Compliance and Governance Committee

Date of Appointment:

31 October, 2020

Academic Qualifications:

- Bachelor's Degree in science (Geology and Chemistry), Kuwait University, Kuwait
- Master's in Science in International Banking and Finance, Graduate School of Economics and Business Administration, Saint Mary's College of California, Moraga, California, USA
- Master's in Business Management, Graduate School of Economics and Business Administration, Saint Mary's College of California, Moraga, California, USA
- Citibank Diploma – Correspondent Banking School, Citibank – Athens, Greece

Experience:

- Board Member and CEO of Cham Bank-Syria
- Board Member of the Shared Electronic Banking Services Co. (KNET)
- General Manager of Credit Information Network Co. (CI-NET)
- Multiple positions held at Commercial Bank of Kuwait, managing New York Branch, Assistant General Manager & Head of Risk Management, Head of International Division (International Credit & Correspondent Banking) and Head of Corporate Banking

Ahmad Mohammad Al Bahar

Board Member (Independent)
Chairman, Board Risk Committee
Chairman, Board Nomination and Remuneration Committee

Date of Appointment:

31 October, 2020

Academic Qualifications:

- Bachelor's Degree of Science in Business Administration, from Southern Oregon State University, USA

Experience:

- Chief Executive Officer of Gulf Custody Company (Kuwait)
- Chairman of Gulf Custody Company (Bahrain & Oman)
- Formerly, Partner in Charge – Settlement Group of The International Investor
- Formerly, Senior Manager – Settlement Department of Kuwait Foreign Trading Con., & Investment Co. (KFTCIC)
- Formerly, Manager – Consumer Loans Department of Arab European Financial Management (AREF)
- Formerly, Chairman of Bahrain Real Estate Co.
- Formerly, Board Member of National Cleaning Co.

BOARD OF DIRECTORS

Dr. Adnan Ahmad Shihab-Eldin

Board Member
Deputy Chairman, Board Compliance and Governance Committee
Member of Board Audit Committee

Date of Appointment:

31 October, 2020

Academic Qualifications:

- Bachelor's Degree, Electrical Engineering, University of California, Berkeley, USA
- Master in Nuclear Engineering, University of California, Berkeley, USA
- PhD in Nuclear Engineering, University of California, Berkeley, USA

Experience:

- Director General and former Board Member at Kuwait Foundation for the Advancement of Science (KFAS)
- Former Acting Secretary General and Director of Research at OPEC
- Earlier, he held several senior positions at various International organizations, including, but not limited to, IAEA (Vienna), UNESCO, Cairo (Egypt)
- Former Director General of Kuwait Institute for Scientific Research (KISR) and former Vice Rector of Kuwait University
- Member of several Boards of Directors (BOD) and International Advisory Councils (IAC), including the IAC of King Abdullah Petroleum and Research Center, KSA, the IAC of American University of Beirut, the Joint Advisory Board (JAB) of George Town University – Qatar, the BOD of Kearney Energy Transition Institute, amongst others

Barrak Abdulomhsen Al-Asfour

Board Member
Member of Board Risk Committee

Date of Appointment:

31 October, 2020

Academic Qualifications:

- Bachelor's Degree, Business Administration (Major: Finance), Faculty of Commerce, Economics and Political Science. Kuwait University, Kuwait

Experience:

- Branch Manager then Manager at Credit Facilities Department at the Bank of Kuwait and the Middle East (BKME) (1985-1989)
- Moved to work in the private sector since 1989
- Managing Director of Bridgestone Tires Company W.L.L., from 1992 to present
- Board Member in 1993, then Deputy Chairman of Kuwait Gypsum Manufacturing & Trading Company from 2004 to present

EXECUTIVE MANAGEMENT

Antoine Daher

Chief Executive Officer

Date of Joining Gulf Bank:

7 July, 2013

Academic Qualifications:

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

Experience:

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

Raghunandan Menon

Acting Deputy Chief Executive Officer

Date of Joining Gulf Bank:

15 May, 2016

Academic Qualifications:

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

Experience:

- More than 30 years of experience in Banking and Financial Services
- Represents Gulf Bank in the Board of Directors of The Shared Electronic Banking Services Co. [KNET]
- Previously served in senior management positions at Standard Chartered Bank in London, New York, Singapore and Mumbai. Held directorships in the board of Standard Chartered Plc subsidiaries in Korea, Nigeria and Ireland

Kevin Smith

Chief Financial Officer

Date of Joining Gulf Bank:

12 August, 2015

Academic Qualifications:

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

Experience:

- More than 30 years of experience in Finance
- Previously worked in Country and Global CFO roles at General Electric, General Electric Capital, Novartis, Citibank, Tokyo Star Bank, and Standard Chartered Bank

Farhan Mahmood

Chief Risk Officer

Date of Joining Gulf Bank:

29 June, 2014

Academic Qualification:

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

Experience:

- More than 30 years of international experience in Banking in leadership positions covering Risk Management, Audit and Corporate Banking
- Worked in the UK, Asia, Africa and Middle East
- Worked previously for 20 years at Citigroup and Deutsch Bank A.G

EXECUTIVE MANAGEMENT

Hussam Mustafa

Chief Internal Auditor

Date of Joining Gulf Bank:

10 August, 2014

Academic Qualifications:

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

Experience:

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

Mohammad AlQattan

General Manager - Consumer Banking

Date of Joining Gulf Bank:

19 August, 2014

Academic Qualifications:

- Bachelor's Degree from Kuwait University in Statistics and Operations Research
- MBA in Strategic Management from Maastricht Business School

Experience:

- More than 20 years of experience in Banking and Financial Services
- Previously worked in leadership positions in the Commercial Facilities Company
- Board member in Public Institute for Social Security (PIFSS), and Head of Audit & Risk Committee
- Vice Chairman in Priority Automobile Company
- Board member in Credit Information Network Company (Ci-Net)
- Previously, Board member in Oula Wasata

Ahmed AlDuwaisan

General Manager - Corporate Banking

Date of Joining Gulf Bank:

1 September, 2001

Academic Qualifications:

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

Experience:

- More than 20 years of Corporate Banking experience
- Previously Deputy GM of remedial and structured workouts and Deputy GM of financial markets at Gulf Bank
- Previously a Board Member of Kuwait Finance and Investment Company (KFIC), Head of the Risk and Audit Committee

Sami Mahfouz

General Manager – Treasury

Date of Joining Gulf Bank:

6 March, 2018

Academic Qualifications:

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

Experience:

- More than 25 years of banking experience in the region at leading international banks
- Previously worked at Standard Chartered, DIFC heading the MENA Public Sector Coverage Group, and earlier undertook a variety of Financial Markets roles in UAE, Bahrain and Lebanon, latest being Head of Financial Markets, UAE and GCC. Started his career at HSBC Lebanon

EXECUTIVE MANAGEMENT

Mona Mansour

General Manager - Customer Service Delivery

Date of Joining Gulf Bank:

15 August, 2004

Academic Qualifications:

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

Experience:

- More than 30 years of Banking experience
- Previously worked at National Bank of Kuwait for 20 years with diversified experience in IT, cards, customer services & operations
- A Board member at The Shared Electronic Banking Services Co. [KNET]

Salma AlHajjaj

General Manager - Human Resources

Date of Joining Gulf Bank:

1 February, 2013

Academic Qualifications:

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

Experience:

- More than 30 years of Human Resources experience
- Previously worked at various key HR positions in the oil sector in both KPC and KPI as well as in Gulf Investment Corporation
- Member of the Arabian Society for Human Resources (ASHRM) board of trustees
- Member of the Advisory Board of college of Business and Administration of GUST
- Member of the Board of INJAZ a nonprofit organization for the development of the youth
- Established the "GB WOW Network" an initiative within Gulf Bank focusing on supporting and advancing women in the corporate world
- Won MENA region "HR Executive of the year" awarded at the Human Assets Expansion Summit held in Dubai 2014
- Featured in the 2018 publication of 'Those who Inspire' – Kuwait Edition
- Lifetime member of the International Society of Female Professionals
- A Senior Certified Professional Coach from both the International Coaching Federation and the Coach Transformation Academy

Dari Al Bader

General Manager – Corporate Affairs

Date of Joining Gulf Bank:

21 October, 2019

Academic Qualifications:

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

Experience:

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

Shahzad Anjum

Acting General Manager - Chief Information Officer

Date of Joining Gulf Bank:

1 August, 2019

Academic Qualifications:

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

Experience:

- More than 20 years of Information Technology experience
- Previously worked as Group CIO at Alghanim industries

CORPORATE GOVERNANCE

Gulf Bank has a strong and well-established corporate governance framework. We maintain a high-class corporate governance framework that protects our customers, shareholders and the reputation of the Bank. Strong and explicit corporate governance structure underpins our integrity and promotes economic growth by reinforcing the trust and confidence our shareholders and investors place in us.

The corporate governance framework in place is proactive and aligned with the Bank's strategic objectives. The framework is based on the prevailing laws and the rules and regulations emanating from the Central Bank of Kuwait (CBK) and other regulators. The framework is regularly reviewed and adjusted to reflect changes in the Bank's businesses, regulation and external environment.

The Bank's Corporate Governance structure stresses on the engagement of the Board of Directors in monitoring the performance of the Executive Management and the overall activity of the Bank. The Corporate Governance structure also emphasizes on the clear segregation between the Board's and Executive Management's prerogatives and establishes clear checks and balances in this respect.

The corporate governance structure is further driven by proactive risk management policies, appropriate delegation of power mechanisms and clear accountability yardsticks.

The Bank believes that organizations that attach equal importance to performance and culture achieve exceptional results over time. To enhance a governance culture across the different business units, the Bank organizes continuous training and awareness campaigns to update management and staff about corporate governance in line with global best practices and local regulatory requirements.

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

Corporate Governance Compliance with CBK Instructions

In September 2019, CBK issued amended regulations relating to Corporate Governance focusing on (a) Independent Board members, (b) Information Security systems and Cyber Security Risks, (c) Risk governance framework built on the premise of 3 lines of defense, and (d) Compliance Governance. The CBK Corporate Governance regulations set out nine pillars for a sound Corporate Governance:

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

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

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

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

Stakeholder Definition

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

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

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

Corporate Governance - Policies and Procedures

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

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

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

Gulf Bank Corporate Governance Manual – Roles and Responsibilities

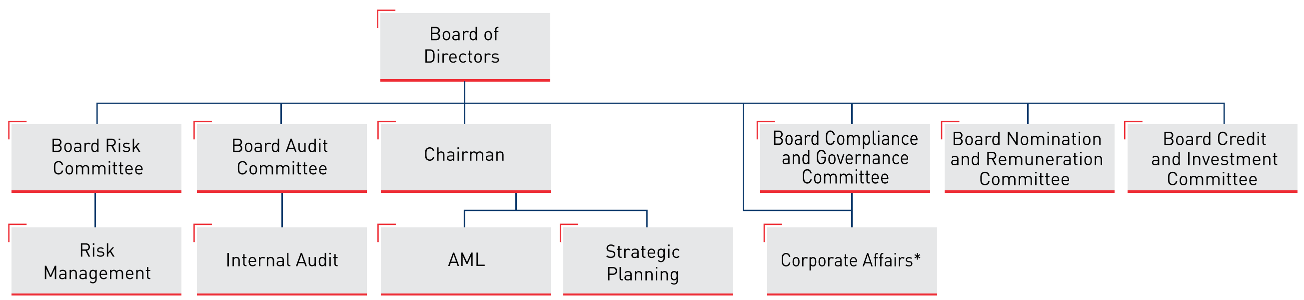
The Corporate Governance Manual defines the Board and Executive Management's respective roles. The overlap between the two roles is precluded. The Manual clearly defines the role of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Manager, Corporate Affairs, Chief Internal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

Governance Structure

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

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

The Board - Governance Organization



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

Gulf Bank's Board of Directors meets at least six times a year. In compliance with the newly amended CBK Corporate Governance regulations, The Board currently consists of eleven rather than nine members. Among these, two members are independent. There are five Board Committees.

The Board members have diverse academic and professional backgrounds. The role of the Board is to monitor constructively the performance of management and help develop proposals on strategy.

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

The Board members are properly and continuously trained to tackle the challenges that faces the Bank. Directors also

CORPORATE GOVERNANCE

receive comprehensive guidance from the Board Secretary on the Bank's governance framework and associated policies. During the year, the Board completed an in-house induction program and the members participated in several conferences and seminars about banking and financial activity.

Performance Evaluation

The Board undergoes a comprehensive performance evaluation annually. The evaluation is conducted with professional standards. This evaluation covers wide range of topics and include an assessment of individual Board Member's performance, skills and expertise at Board level, succession planning, development of the Bank's strategy, and the form and content of management information provided to the Board. The evaluation also addresses training requirements. In 2020, the Board received professional development in several areas, including Information & Cyber Security, IFRS9, Corporate Governance and Risk Management.

Board Overall Responsibilities

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

The Board's core responsibilities include the following:

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

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

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

- Ensure that Board decisions are made on a sound and well-informed basis;
- Oversee the implementation of the Whistle Blowing Policy and Program for the Bank;
- Build a constructive relationship between the Board and Executive Management;
- Ensure a high level of corporate governance in the Bank and
- Create a culture during Board meetings promoting constructive critique in case of divergent views and encourage discussion and voting in such cases.

Organization of the Board's Business

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

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

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

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

Board Meetings and Attendance

During 2020, There were changes in the Board composition. In March 2020, Mr. Jassim Mustafa Boodai was appointed as Chairman of the Board of Directors, three Board Members resigned, and the Extraordinary General Assembly approved the increase of the Board composition to be eleven members instead of nine. On 31st October 2020, the Ordinary General Assembly elected three complementary members and two independent members for the current tenor (2018 – 2020). the Board of Directors met regularly, and Directors received information between meetings about the Bank's activities and the activity of the Management Committees. In 2020, 8 Board meetings and 26 Board Committees meetings were held as detailed below:

	Board Meeting	Audit Committee	Risk Committee	Board Compliance and Governance Committee	Nomination and Remuneration Committee	Credit and Investment Committee
Number of meetings in 2020	**8**	**5**	**4**	**2**	**2**	**13**
Jassim Mustafa Boodai	8	*	*	2	*	12
Ali Morad Behbehani	8	*	3	*	2	*
Bader Nasser AlKharafi	7	*	3	1	*	*
Sayer Bader Al Sayer	8	4	*	1	*	*
Omar Hamad Al Essa	8	*	*	*	2	12
Fawaz Mohammad AlAwadhi	8	5	*	*	*	*
Adnan Ahmad Shihab-Eldin	2**	1**	*	1**	*	*
Barrak Abdulmohsen AlAsfour	2**	*	1**	*	*	*
Abdullateef Abdulaziz AlSharekh	2**	*	*	*	*	5**
Ahmad Mohammad Al Bahar	2**	*	1**	*	1**	*
Ali Ibrahim Abdullah	2**	1**	*	1**	*	*
Omar Kutayba Alghanim	1***	*	*	--***	*	1***
Bader Abdulmohsen El-Jeaan	--***	*	*	*	--***	1***
Khalid Faisel Al Mutawa	2***	1***	1***	*	*	*

* Not a member of the committee.

** Joined the Board in November 2020

*** Resigned from the Board in March 2020

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

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

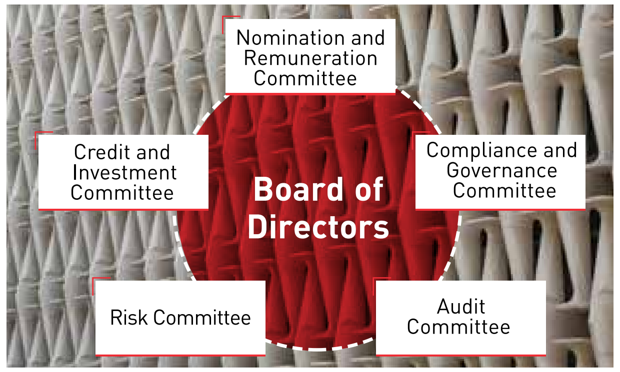
Board Remuneration

The Board Nomination and Remuneration Committee recommended to the Board of Directors, subject to the approval of the shareholders at the Annual General Assembly Meeting, that the total remuneration of the Board of Directors for 2020 be equal to KD 113.542 thousand (2019: KD 135 thousand).

CORPORATE GOVERNANCE

Board Committees' Structure

In line with the Governance regulations issued by the CBK, the Bank has in place five committees that assemble regularly to govern the Bank's activities. The committees are as following:



Board Committees

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

I. Board Compliance and Governance Committee

a. Committee's Scope of Activity

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

b. Composition of the Committee

- Mr. Jassim Mustafa Boodai, Committee Chairman
- Dr. Adnan Shihab-Eldin, Committee Deputy Chairman
- Mr. Ali Abdullah, Committee Member
- Mr. Sadeq Al Saraf, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2020

- Supervised the progress of Corporate Governance implementation at Bank-wide upon the amendments to the governance instructions.
- Reviewed the disclosures related to Corporate Governance which presented in the Annual Report.
- Reviewed the new governance instructions issued by CBK, and the procedures taken to comply with these instructions.
- Reviewed the related parties' transactions and the conflict of interest reports.
- Reviewed Compliance and Disclosure Unit's activity for 2020 and approved their action plan for 2021.
- Reviewed the process of monitoring and reporting under the Whistleblowing policy.

e. Changes during the year

Subsequent to the change in the position of Mr. Jassim Mustafa Boodai from a Board Member to Chairman of the Board of Directors, he was appointed as a Committee Chairman replacing Mr. Omar Alghanim who resigned in March 2020. During November 2020, the BCGC composition was revised by appointing Dr. Adnan Shihab-Eldin, as the BCGC Deputy Chairman and Mr. Ali Abdullah (independent member) as a new BCGC member.

II. Board Audit Committee

a. Committee's Scope of Activity

The Board Audit Committee (BAC) carries out its duties within the framework of governance principles and practices established by the Board of Directors. The Board Audit Committee promotes accountability of the key players and ensures that they perform in the best interest of the Bank and its shareholders to enhance shareholder value, considering the interests of other stakeholders. The Audit Committee's role is to assist the Board of Directors in fulfilling its oversight responsibilities. To this effect, the Board Audit Committee has been authorized to provide oversight and reasonable assurance on the financial reporting process and highlight the accounting issues of material impact on the financial statements, the integrity and adequacy of the Bank internal control and risk management system, Internal and external audit processes, effectiveness and assessment of performance, the Bank process for monitoring compliance with laws, regulations and code of conduct and, the Internal Audit function. The Board Audit Committee appraises the performance of the General manager/Chief Internal Auditor and recommends to the Board of Directors the nomination, termination, appointment and remuneration of the external auditors. Since its effectiveness is directly linked to that of the Board of Directors, the Board Audit Committee works closely with Executive Management to obtain any information required to enhance the performance of the Board.

Based on CBK revised Corporate Governance guidelines issued in September, 2019 related to appointments of Independent Board of Directors members, The Bank, after the resignation of some of the Board of Directors members during Year 2020, appointed replacement members, two were selected by the Board of Directors to join the BAC, being Independent member as the Chairman of the BAC and another member. This process was completed after obtaining the necessary approvals from CBK.

b. Composition of the Committee

- Mr. Ali Ibrahim Abdullah, Committee Chairman
- Mr. Fawaz AlAwadhi, Committee Deputy Chairman
- Dr. Adnan Shihab-Eldin, Committee Member
- Mr. Sadeq Al Saraf, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2020

- Monitored the activities of the Internal Audit Division, including review of its plans, strategies, procedures, follow-up activities, organizational structure and operation and staffing budgets.
- Approved the Internal Audit 3-Years strategic plan with related Key Performance Indicators (KPIs).
- Approved the Internal Audit updated three-year risk-based plan (2021 – 2023) and reviewed the issues, action plans and recommendations set forth in the Internal Audit reports.
- Held private meetings with GM-Internal Audit, External Auditors and Bank Compliance and Disclosure Officer without the presence of Executive Management as per the regulatory requirements.
- Reviewed the scope and approach of External Auditor's audit plans for the year ending 31st December 2020.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed issues, action plan and recommendations set forth in the CBK mandated Internal Control Report.
- Reviewed and endorsed to the Board of Directors the revised Board Audit Committee Bylaw.
- Reviewed and approved the Internal Audit Division revised organization structure for the Board of Directors final approval.
- Approved the updated Internal Audit Manual.

e. Changes during the year

Subsequent to the resignation of Mr. Khalid Faisal Al Mutawa on March 2020, Mr. Sayer Al Sayer, the BAC Deputy Chairman assumed the role of the BAC Chairman. During November 2020, the BAC composition was revised by appointing Mr. Ali Ibrahim Abdullah, independent member, as the BAC Chairman, Mr. Fawaz AlAwadhi became the BAC Deputy Chairman and Dr. Adnan Shihab El-Din as new BAC member.

III. Board Risk Committee

a. Committee's Scope of Activity

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

CORPORATE GOVERNANCE

b. Composition of the Committee

- Mr. Ahmad Al Bahar, Committee Chairman
- Mr. Bader AlKharafi, Committee Deputy Chairman
- Mr. Barrak AlAsfour, Committee Member
- Mr. Sadeq AlSaraf, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2020

- Reviewed the periodic risk management reports and risk dashboards.
- Reviewed and recommended the risk management, information and cyber security policies and risk committee bylaws for approval and ratification by the Board.
- Reviewed and recommended amendments to the Risk Appetite of the Bank for approval and ratification by the Board.
- Periodically reviewed the status update of the Information and Security Transformation proposal had approved in previous year.
- Discussed and reviewed the financial and non-financial risks, business continuity planning, stress testing and impacts on the Bank related to the COVID-19 pandemic.
- Reviewed summary of all credit approvals given by Credit Committees.
- Reviewed discussed key findings and resolution timeline from the bank wide fraud risk assessment.
- Held meetings with the Chief Risk Officer without the presence of the Banks Executive Management.
- Reviewed and approved amendments to ICAAP assumptions and methodology.
- Periodically reviewed the status and provided guidance on significant projects including the ones related to enhancement of Cyber security of the Bank.
- Discussed and reviewed People Risks and recommended testing-based alignments in training and compensation plans for certain front-line staff.

e. Changes during the year

During November 2020, and subsequent to the resignation of Mr. Khalid Al Mutawa (Committee Member) in March 2020, the BRC composition was revised by appointing Mr. Ahmad Al Bahar (Independent Member) as the BRC Chairman, Mr. Bader AlKharafi was appointed as the BRC Deputy Chairman and Mr. Barrak AlAsfour was appointed as new BRC member.

IV. Board Nomination and Remuneration Committee

a. Committee's Scope of Activity

The Board Nomination and Remuneration Committee (BNRC) ensures that all components of granting financial remuneration are compliant with the framework of enhancing the effectiveness and management of the Bank's risk management. The Board Nomination and Remuneration Committee also submits recommendations to the Board of Directors (BoD) on the nomination of Board members. The Committee reviews the nominated members' skills, capabilities and qualifications in accordance with the Bank's approved policies and standards, while adhering to the Central Bank of Kuwait's (CBK) instructions. The Committee conducts an annual review of the Board of Directors structure and draws 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 consistently informed on the latest banking updates and vet the soundness of the principles and practices upon which remuneration is granted.

The BNRC, The Committee, with the Board Risk Committee, reviews the compensation and benefits of members of the Executive Management (as specified by CBK), including the principles and criteria used to assess their annual performance. This also includes an evaluation of the authority of the board members and their leadership characteristics. In conducting its role, the Board Nomination and Remuneration Committee annually prepares and reviews a Remuneration Grading Policy to the Board of Directors.

b. Composition of the Committee

- Mr. Ahmad Al Bahar, Committee Chairman
- Mr. Omar Al Essa, Committee Deputy Chairman
- Mr. Ali Behbehani, Committee Member
- Mr. Sadeq AlSaraf, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2020

- Monitored and promoted the Kuwaitization plan for the Bank.
- Reviewed leadership succession plans closely in line with CBK recommendations and submitted to the Board for a resolution.
- Led the bank restructuring for optimization review.
- Recommended and approved executive compensation payouts and submitted recommendations to the Board for a resolution.
- Assessed Market Trends Study Reports and Compensation Results.
- Submitted recommendations to the Board in relation to salary increments and bonus payout for resolutions.
- Assessed the adequacy and effectiveness of Remuneration Policy.
- Completed third party audit of executive compensation.
- Approved and executed the plan for Board Effectiveness Assessment.

e. Changes during the year

Subsequent to the position change of Mr. Jassim Mustafa Boodai from a Board Member to Chairman of the Board of Directors and the resignation of Mr. Bader Al Jeaan. During November 2020, the BNRC composition was revised by appointing Mr. Ahmad Al Bahar (Independent Member) as the BNRC Chairman, Mr. Omar Al Essa was appointed as the BNRC Deputy Chairman and Mr. Ali Behbehani was appointed as BNRC member.

V. Board Credit and Investment Committee

a. Committee's Scope of Activity

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

b. Composition of the Committee

- Mr. Jassim Mustafa Boodai, Committee Chairman
- Mr. Omar Al Essa, Committee Deputy Chairman
- Mr. Abdullateef AlSharekh, Committee Member
- Mr. Sadeq Al Saraf, Committee Secretary

c. Committee Meetings

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

d. Key Achievements in 2020

- The approval of credit and investment proposals at the Board level has strengthened the Corporate Governance in line with the instructions and directives of the Central Bank of Kuwait and enhanced the efficiency and transparency of credit approval process.
- Approved large credit proposals that constitute the major portion of Bank's credit portfolio, including Bank limits and country limits.
- Approved COVID-19 loan program and process flow in line with Central Bank of Kuwait guidelines.
- Approved Treasury limits in line with the Risk Appetite approved by the Board of Directors of the Bank and amendments in liquidity ratios based on Central Bank of Kuwait instructions.
- Reviewed Investment Portfolio of the Bank as per Central Bank guidelines and Gulf Bank Investment Policy.
- Approved ECC Bylaw amendments consequent to change in authority delegation.

e. Changes during the year

Subsequent to the resignation of Mr. Omar Alghanim (Chairman of the Board & Committee Chairman) and the resignation of Mr. Bader Al Jeaan (Board Member & Committee Deputy Chairman) in March 2020. Mr. Jassim Mustafa Boodai was appointed as Committee Chairman and Mr. Omar Al Essa was appointed as Committee Deputy Chairman. During November 2020. Mr. Abdullateef AlSharekh was also appointed as Committee Member.

CORPORATE GOVERNANCE

Executive Management Governance Structure

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

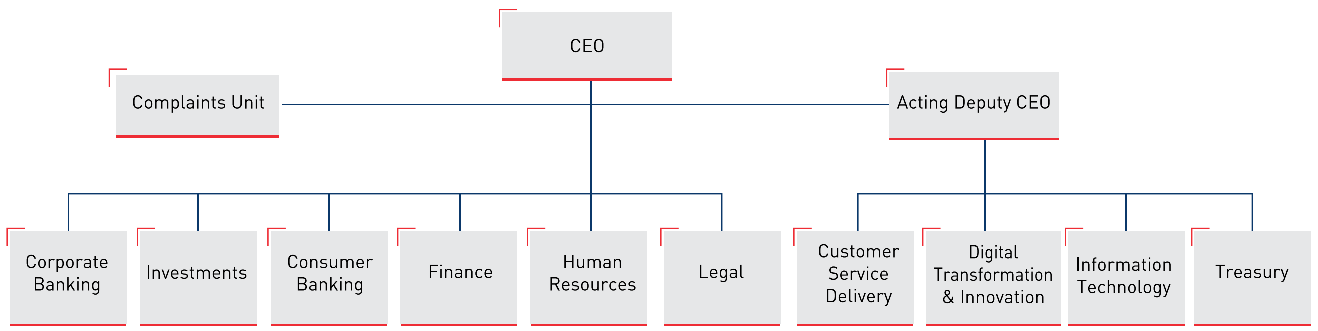
Credit Committees

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

Management Committees

- Executive Risk Committee
- Asset & Liability Committee
- Fraudulent Cases Review Committee
- Internal Controls Governance Committee
- IT Steering Committee
- Policy and Procedure Committee
- Wealth Management Governance Committee
- Executive Product Committee
- Tender Committee
- Project Governance Committee
- Suspicious Transaction Reports Review Committee
- Technology Risk & Information Security Management Committee

Executive Management Organization



Succession Planning

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

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

Remuneration Policy

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

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

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

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

Salary Structure

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

Annual Merit Increment

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

Korn Ferry - Hay Group Job Evaluation

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

Promotion Increment

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

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

Employee Benefits

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

CORPORATE GOVERNANCE

Total Remuneration paid to senior management, material risk takers, risk management and nancial & control functions: (2020/2019)

Total value of remuneration awards for the current fiscal year	2020 *(Remuneration Amount KD Thousand)*		2019 *(Remuneration Amount KD Thousand)*	
	Unrestricted	**Deferred**	Unrestricted	Deferred
Fixed remuneration				
Cash - based	**3,373**	**-**	3,116	-
Shares and share-linked instruments	**-**	**-**	-	-
Other	**-**	**-**	-	-
Variable remuneration				
Cash - based	**-**	**-**	1,474	-
Shares and share-linked instruments	**-**	**137**	-	554
Other	**703**	**-**	508	-

Employee Categories	2020 *(Remuneration Amount KD Thousand)*		2019 *(Remuneration Amount KD Thousand)*	
	Number of employees in the category	**Total remuneration paid****	Number of employees in the category	Total remuneration paid**
*Senior Management	**16**	**3,344**	14	4,461
Material risk takers	**5**	**271**	6	894
Financial & Control functions	**9**	**658**	6	812

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

** Includes actual cash paid plus estimated variable compensation.

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

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

The total remuneration paid to five senior executives was **KD1,485 thousand** (2019: KD2,513 thousand). The total remuneration paid to the Chief Executive Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor was **KD1,135 thousand** (2019: KD2,134 thousand).

Compliance and Disclosure Unit

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

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

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

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

Insider Information

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

Code of Ethics

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

Conflict of Interest

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

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

Confidentiality

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

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

Whistle Blowing Policy

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

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

CORPORATE GOVERNANCE

Board Affairs Unit

The Board Affairs Unit oversees and manages all matters related to the Board of Directors and its committees. The Unit is in charge of preparing the agenda, scheduling and compiling the minutes of meetings of the Board of Directors and its committees and the Annual General Assembly of Shareholders. It also handles all matters related to Corporate Governance regulations issued by the Central Bank of Kuwait.

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

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

The Board Affairs Unit reports to Corporate Affairs Department.

Investor Relations Unit

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

Customer Complaints Unit

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

Related Party Transactions

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

The Bank has robust processes in place to identify, assess, monitor and report the Bank's exposures to related parties.

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

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

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

Major Shareholders

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

Adequacy of Internal Control Systems

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

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

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

- Existence of appropriate Board approved policies and Executive Management approved procedures, which are subject to regular reviews and updates, to validate applicability and sufficiency.
- Existence of several Board level and Management Level which monitor all significant areas and activity.
- Existence of specialized control functions such as Compliance, Risk Management and Internal Audit. Processes consistent with the "Three lines of Defense" principle are in place to ensure weaknesses are identified and reported to Executive Management and the Board.
- Existence of an independent review process by Internal Audit Group, which assesses the Bank's as per its mandate including independent assurance and evaluation of the appropriateness of design & operating effectiveness of governance, systems controls, risk management and internal controls to monitor, manage and mitigate the Bank's key risks and its related processes, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risks, verifies and assesses the adequacy and effectiveness of the internal control system and reports significant issues and control gaps with the Management agreed actions, to the Board Audit Committee and the Board of Directors.
- Existence of independent control reviews on financial accounting records and statements by External Auditors as per the requirement of local laws and regulations and submit such audit reports in the form of Management letters to Board of Directors and CBK.
- Existence of a comprehensive independent Internal Control Review process, performed annually through an international audit firm (other than the external auditors), as per the requirement of CBK, which identifies and reports any internal control deficiencies along with a Management action plan, to address such issues. The latest report was issued in September 2020 and included no significant findings (Annexure-A). A summary of ICR report for the year ended 31st December, 2019 was presented to the Board Audit Committee and Board of Directors during 2020 and was reviewed and approved by the latter. The external audit firm has conducted a follow-up review as at 31/12/2020 to ascertain corrective actions to its findings as per CBK requirements.
- The Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports, Central Bank audit reports, Management Letters, Internal Control Review reports and monitors periodically the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.

INTERNAL CONTROL SYSTEMS
REPORT

Board of Directors,

Gulf Bank K.S.C.P,

P.O Box: 3200, Safat 13032,

Kuwait

20 September, 2020

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 10 February 2020, we have examined the accounting and other records and internal control systems of Gulf Bank K.S.C.P, for the year ended 31 December 2019.

We covered the following processes of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 14 January 2020 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

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

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

With the exception of the matters set out in the report submitted to the Board of Directors of the Bank, and having regard to the nature and volumes of the Group's operations, during the year ended 31 December 2019, and the materiality and risk rating of our findings, we report that:

a) the accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 14 January 2020,

b) the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2019, and

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

Yours faithfully,

Faisal Saqer Al Saqer

License No. 172 (A)

Protiviti Member Firm Kuwait WLL

CAPITAL MANAGEMENT AND ALLOCATION

Capital Structure

In accordance with the Central Bank of Kuwait (CBK) guidelines (CBK circular No.2/RB,RBA/336/2014), the Kuwaiti banks must maintain a minimum capital adequacy ratio of 13% and minimum Tier 1 ratio of 11% . Tier 1 capital comprises of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital.

Gulf Bank K.S.C.P. (the "Bank") CET1 comprises of paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares. The Bank's Tier 2 comprises of allowed portion of general provisions (1.25% of the credit risk weighted assets) and subordinated Tier 2 bonds. The Bank has been identified as a Domestic Systemically Important bank (D-SIB) and is required to hold additional Common Equity Tier 1 capital (CET1) of 1% (2019: 1%). Further to support COVID -19 measures, the Bank is required to maintain a minimum capital adequacy ratio of 11.5% (2019: 14%) and a minimum Tier 1 ratio of 9.5% (2019: 12%).

Support measures on Covid-19

On April 2, 2020, the CBK issued the Circular No. 2/BS/IBS/454/2020 (the Circular) to provide support measures on Covid-19. 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.

Capital Conservation Buffer

As per the Circular, the Capital Conservation Buffer requirement of 2.5% in the form of CET1 has been released. Accordingly the minimum capital requirement has been reduced from 14% to 11.5% (including 1% D-SIB); minimum Tier1 capital requirements from 12% to 9.5% (including 1% D-SIB) and minimum CET1 requirements from 11.5% to 9% (including 1% D-SIB). These amendments are valid until 31 December 2020 and subsequently will be reassessed by the CBK.

SME definition and risk weights

As per the Circular, the definition of SMEs has been standardized in accordance with the definition contained under Law No. (98) of 2013 on the Establishment of the National Fund for Small and Medium Enterprises Development, amended under Law No. (14) of 2018, its executive bylaw and amendments. Risk weight applied on exposure to SME portfolio has been reduced from 75% to 25%.These amendments are valid until 31 December 2020 and subsequently will be reassessed by the CBK.

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. The modification loss is charged to retained earnings instead of income statement as required by IFRS 9 Financial Instruments in accordance with the CBK Circular No. 2/BS/IBS/461/2020.

As per the Circular, for the purpose of Capital Base, the Bank has excluded the modification day 1 loss of **KD 42,212 thousand** arising from loan deferral scheme from retained earnings. This loss will be included in retained earnings over the period of four years starting from the year 2021 until 2024.

The table below details the regulatory capital for the Bank as at 31 December 2020 and 31 December 2019:

(KD Million)

Composition of Capital	31-Dec-20	31-Dec-19	Variance
Common Equity Tier 1 Capital : instruments and reserves			
Directly issued qualifying common share capital plus stock surplus	**457.8**	457.8	0.0
Retained earnings	**182.3**	190.9	(8.6)
Accumulated other comprehensive income (and other reserves)	**64.0**	89.2	(25.2)
Common Equity Tier 1 capital before regulatory adjustments	**704.1**	737.9	(33.8)
Common Equity Tier 1 Capital : regulatory adjustments	**-**	-	-
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(24.5)**	(73.6)	49.1
Total regulatory adjustments to Common equity Tier 1	**(24.5)**	(73.6)	49.1
Common Equity Tier 1 capital (CET1)	**679.6**	664.3	15.3
Additional Tier 1 capital : instruments	**-**	-	-
Additional Tier 1 capital : regulatory adjustments	**-**	-	-
Additional Tier 1 capital (AT1)	**-**	-	-
Tier 1 capital (T1=CET1+AT1)	**679.6**	664.3	15.3
Tier 2 capital : instruments and provisions			
Directly issued qualifying Tier 2instruments plus related stock surplus	**100.0**	100.0	-
General provisions included in Tier 2 capital	**55.5**	58.2	(2.7)
Tier 2 capital before regulatory adjustments	**155.5**	158.2	(2.7)
Tier 2 capital : regulatory adjustments	**-**	-	-
Tier 2 capital	**155.5**	158.2	(2.7)
Total capital (TC= T1+T2)	**835.1**	822.5	12.6
Total risk weighted assets	**4,576.1**	4,809.3	(233.2)

CAPITAL MANAGEMENT AND ALLOCATION

The table below details the regulatory capital for the Bank as at 31 December 2020 and 31 December 2019 continued:

(KD Million)

Composition of Capital	31-Dec-20	31-Dec-19	Variance
Capital ratios and buffers			
(Common Equity Tier 1 (as a percentage of risk weighted assets	**14.9%**	13.8%	1.1%
(Tier 1 (as a percentage of risk weighted assets	**14.9%**	13.8%	1.1%
(Total capital (as a percentage of risk weighted assets	**18.3%**	17.1%	1.2%
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	**0.0%**	2.5%	-2.5%
of which : bank specific countercyclical buffer requirement	**-**	-	-
of which : D-SIB buffer requirement	**1.0%**	1.0%	0.0%
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**7.9%**	6.8%	1.1%
National minima	**-**	-	-
National Common Equity Tier 1 minimum ratio	**8.0%**	10.5%	-2.5%
National Tier 1 minimum ratio	**9.5%**	12.0%	-2.5%
National total capital minimum ratio excluding CCY and DSIB buffers	**10.5%**	13.0%	-2.5%
(Amounts below the thresholds for deduction (before risk weighting	**-**	-	-
Non-significant investments in the capital of other financials	**-**	-	-
Significant investments in the common stock of financials	**-**	-	-
(Mortgage servicing rights(net of related tax liability	**-**	-	-
(Deferred tax assets arising from temporary differences(net of related tax liability	**-**	-	-
Applicable caps on the inclusion of provisions in Tier 2	**-**	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	**259.0**	254.8	4.2
Cap on inclusion of provisions in Tier 2 under standardized approach	**55.5**	58.2	(2.7)
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**-**	-	-
Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	**-**	-	-

Capital Management

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

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

The following table below details the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank as at 31 December 2020 and 31 December 2019:

(KD Million)

Credit Risk Exposures	31-Dec-20	31-Dec-19	Variance
Credit risk weighted assets	**4,442.9**	4,653.1	(210.2)
Less: Excess general provision	**(203.4)**	(196.6)	(6.8)
Net credit risk weighted exposures	**4,239.5**	4,456.5	(217.0)
Market risk weighted assets	**2.1**	2.0	0.1
Operational risk weighted exposures	**334.5**	350.8	(16.3)
Total Risk Weighted exposures	**4,576.1**	4,809.3	(233.2)

Regulatory Capital requirement at 10.50% (2019 : 13%)

(KD Million)

Credit Risk	31-Dec-20	31-Dec-19	Variance
Cash items	**-**	-	-
Claims on sovereigns	**3.6**	5.2	(1.6)
Claims on public sector entities (PSEs)	**5.5**	6.9	(1.4)
Claims on Multi Development Banks (MDBs)	**0.6**	0.7	(0.1)
Claims on banks	**34.6**	47.6	(13.0)
Claims on corporates	**230.5**	311.7	(81.2)
Regulatory retail exposures	**152.0**	183.8	(31.8)
Past due exposures	**4.3**	5.2	(0.9)
Other exposures	**35.4**	43.8	(8.4)
Capital requirement for credit risk	**466.5**	604.9	(138.4)
Less : Excess general provision	**(21.4)**	(25.6)	4.2
Capital requirement for net Credit Risk	**445.1**	579.3	(134.2)

(KD Million)

Market Risk	31-Dec-20	31-Dec-19	Variance
Interest rate position risk	**-**	-	-
Foreign exchange risk	**0.2**	0.3	(0.1)
Capital requirement for market risk	**0.2**	0.3	(0.1)
Capital requirement for operational risk	**35.1**	45.6	(10.5)
Additional capital requirement (DSIB @ 1%)	**45.8**	48.1	(2.3)
TOTAL CAPITAL REQUIREMENT	**526.2**	673.3	(147.1)

Capital adequacy ratios (per cent)	31-Dec-20	31-Dec-19	Variance
Tier 1 ratio	**14.9%**	13.8%	1.1%
Total capital adequacy ratio	**18.3%**	17.1%	1.2%

The total risk-weighted exposure as at 31 December 2020 is **KD 4,576.1 million** (2019: KD 4,809.3 million), requiring a total capital at **11.5%** (2019: 14%) including 1% DSIB, of **KD 526.2 million** (2019: KD 673.3 million).

The Bank's regulatory capital as at 31 December 2020 is **KD 835.1 million** (2019: KD 822.5 million), translating to a capital adequacy ratio of **18.3%** (2019: 17.1%).

RISK MANAGEMENT

Organization of Governance and Risk Management

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

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensures the autonomy and independence of the Risk function of the Bank. The BRC reviews and recommends all risk management policies and risk appetite for the Board of Directors (BOD) approval. BRC reviews all high risk, large and any exposures which do not meet normal lending criteria. The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee. The Bank has also constituted an Executive Risk Committee (ERC), co-chaired by the Chief Executive Officer (CEO) and the CRO, which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

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

Corporate Governance

Gulf Bank under the leadership of its Chairman and Board of Directors has implemented the new rules on Corporate Governance 2012 and its subsequent amendments in September 2019 as announced by the CBK. The Bank also endeavors to adopt global best practices which are vital to its financial and communal well-being. The Bank has constituted four major committees - Board Risk Committee, Board Audit Committee, Board Corporate Governance Committee and Board Nomination & Remuneration Committee for implementation of Corporate Governance of the Bank.

Risk Appetite and Portfolio Strategy

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

Risk Appetite and Portfolio Strategy (continued)

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

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

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

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

The Internal Capital Adequacy Assessment Process ('ICAAP')

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

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

The Capital Adequacy Ratio under Pillar 1 (Basel III) as on 31 December 2020 is **18.25%** (2019: 17.10%) and the corresponding Capital Adequacy Ratio under ICAAP is 16.64% (2019: 15.66%).

Credit Risk

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

Market Risk

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

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

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

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

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

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

Currency Risk

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

Interest Rate Risk (Banking Book)

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

RISK MANAGEMENT

Equity Risk (Banking Book)

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

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

Liquidity Risk

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

Operational Risk

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

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

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

Credit Risk Exposure

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

Gross Credit Risk Exposure

The summary of the Bank's gross credit risk exposure (before credit risk mitigation) as of 31 December 2020 and 31 December 2019 are shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

(KD Million)

Gross Credit Risk Exposure	31-Dec-20	31-Dec-19	Variance
Funded Gross Credit Exposure	**6,367.4**	6,496.5	(129.1)
Unfunded Gross Credit Exposure	**1,393.5**	1,492.1	(98.6)
Total Gross Credit Risk Exposure	**7,760.9**	7,988.6	(227.7)

Funded gross credit risk exposure as of 31 December 2020 is **82%** (2019: 81.3%) of the total gross credit risk exposure.

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

Average Credit Risk Exposure

Average credit risk exposure as at 31st December 2020 and 31st December 2019 are detailed below:

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

	2020			2019		
	Funded	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**52,614**	**-**	**52,614**	59,914	-	59,914
Claims on sovereigns	**925,976**	**991**	**926,967**	986,735	3,274	990,009
Claims on PSEs	**276,712**	**12,672**	**289,384**	243,920	2,031	245,951
Claims on MDBs	**11,523**	**-**	**11,523**	4,911	-	4,911
Claims on banks	**806,807**	**287,530**	**1,094,337**	773,819	348,392	1,122,211
Claims on corporates	**2,323,256**	**1,101,851**	**3,425,107**	2,257,371	1,066,595	3,323,966
Retail exposures	**1,560,193**	**13,281**	**1,573,474**	1,485,823	39,681	1,525,504
Past due exposures	**53,336**	**4,060**	**57,396**	59,175	368	59,543
Other exposures	**350,941**	**328**	**351,269**	345,688	369	346,057
Total	**6,361,358**	**1,420,713**	**7,782,071**	6,217,356	1,460,710	7,678,066

Average funded gross credit risk exposure for 2020 is **81.74%** (2019: 80.98%) 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 2019 to 31 December 2020 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 2020 and 31 December 2019 are shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2020 - Region wise (KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**51,355**	**-**	**-**	**-**	**-**	**-**	**51,355**
Claims on sovereigns	**842,768**	**112,989**	**-**	**-**	**-**	**-**	**955,757**
Claims on PSEs	**202,191**	**98,646**	**-**	**-**	**-**	**-**	**300,837**
Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**11,422**	**11,422**
Claims on banks	**58,545**	**458,557**	**394,242**	**41,401**	**170,953**	**8,689**	**1,132,387**
Claims on corporates	**2,977,689**	**179,176**	**82,728**	**9,743**	**55,734**	**7,142**	**3,312,212**
Retail exposures	**1,606,278**	**667**	**298**	**80**	**321**	**417**	**1,608,061**
Past due exposures	**50,627**	**-**	**-**	**-**	**-**	**-**	**50,627**
Other exposures	**333,544**	**4,280**	**294**	**-**	**-**	**130**	**338,248**
Total	**6,122,997**	**854,315**	**477,562**	**51,224**	**227,008**	**27,800**	**7,760,906**
Percentage of gross credit risk exposure by geographical region	**78.8%**	**11.0%**	**6.2%**	**0.7%**	**2.9%**	**0.4%**	**100.0%**

RISK MANAGEMENT

Total gross credit risk exposures as at 31st December 2019 - Region wise (KD Thousands)

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

The majority of the Bank's credit exposure is in Kuwait which comprises **KD 6.12 billion** (79% of total gross credit exposure) at 31 December 2020, compared with KD 6.30 billion (79% of total gross credit exposure) at 31 December 2019.

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2020 and 2019, broken down by geographical region and standard credit risk portfolio are shown below:

Total gross credit risk exposures as at 31 December 2020 (Average) - Region wise (KD Thousands)

	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**52,614**	**-**	**-**	**-**	**-**	**-**	**52,614**
Claims on sovereigns	**815,175**	**111,792**	**-**	**-**	**-**	**-**	**926,967**
Claims on public sector entities (PSEs)	**182,995**	**106,389**	**-**	**-**	**-**	**-**	**289,384**
Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**11,523**	**11,523**
Claims on banks	**63,321**	**514,263**	**268,563**	**44,268**	**189,916**	**14,006**	**1,094,337**
Claims on corporates	**3,067,691**	**263,574**	**46,952**	**9,839**	**29,360**	**7,691**	**3,425,107**
Regulatory retail exposures	**1,571,532**	**746**	**374**	**88**	**363**	**371**	**1,573,474**
Past due exposures	**57,396**	**-**	**-**	**-**	**-**	**-**	**57,396**
Other exposures	**348,599**	**2,359**	**301**	**-**	**-**	**10**	**351,269**
Total	**6,159,323**	**999,123**	**316,190**	**54,195**	**219,639**	**33,601**	**7,782,071**
Percentage of gross credit risk exposure by geographical region	**79.1%**	**12.8%**	**4.1%**	**0.7%**	**2.8%**	**0.4%**	**100%**

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

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

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 2020 and 31 December 2019 are shown below:

Total gross credit risk exposures as at 31 December 2020- Industry wise (KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Construc-tion	Manufac-turing	Real Estate	Other Services	Total
Cash items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51,355**	**51,355**
Claims on sovereigns	**-**	**217,108**	**-**	**-**	**-**	**-**	**-**	**738,649**	**955,757**
Claims on PSEs	**-**	**22,917**	**-**	**191,410**	**-**	**-**	**-**	**86,510**	**300,837**
Claims on MDBs	**-**	**11,422**	**-**	**-**	**-**	**-**	**-**		**11,422**
Claims on banks	**-**	**1,132,387**	**-**	**-**	**-**	**-**	**-**	**-**	**1,132,387**
Claims on corporate	**223,822**	**201,151**	**688,890**	**169,845**	**661,400**	**314,972**	**575,001**	**477,131**	**3,312,212**
Regulatory retail exposures	**1,606,811**	**210**	**654**	**-**	**225**	**6**	**-**	**155**	**1,608,061**
Past due exposures	**773**	**28**	**5,519**	**49**	**25,486**	**-**	**18,149**	**623**	**50,627**
Other exposures	**30,117**	**-**	**-**	**-**	**-**	**-**	**146,257**	**161,874**	**338,248**
Total	**1,861,523**	**1,585,223**	**695,063**	**361,304**	**687,111**	**314,978**	**739,407**	**1,516,297**	**7,760,906**
Percentage of gross credit risk exposure by industry segment	**24.0%**	**20.4%**	**9.0%**	**4.7%**	**8.9%**	**4.1%**	**9.5%**	**19.5%**	**100%**

RISK MANAGEMENT

Total gross credit risk exposures as at 31st December 2019- Industry wise (KD Thousands)

	Personal	Financial	Trade and commerce	Crude oil and gas	Construc-tion	Manufac-turing	Real Estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	69,556	69,556
Claims on sovereigns	-	187,751	-	-	-	-	-	742,076	929,827
Claims on PSEs	-	20,913	-	158,957	-	-	-	94,833	274,703
Claims on MDBs	-	11,415	-	-	-	-	-	-	11,415
Claims on banks	-	1,237,240	-	-	-	-	-	-	1,237,240
Claims on corporate	193,927	250,256	712,820	127,246	797,622	339,214	571,620	481,600	3,474,305
Regulatory retail exposures	1,536,125	16,150	17,502	310	7,344	5,231	956	7,795	1,591,413
Past due exposures	12,361	8,305	1,531	49	5,122	-	18,756	3	46,127
Other exposures	30,409	203	-	-	-	-	140,939	182,533	354,084
Total	1,772,822	1,732,233	731,853	286,562	810,088	344,445	732,271	1,578,396	7,988,670
Percentage of gross credit risk exposure by industry segment	22.1%	21.7%	9.2%	3.6%	10.1%	4.3%	9.2%	19.8%	100.0%

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 2020 and 31st December 2019 are shown below:

Total gross credit risk exposures as at 31st December 2020 (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	**51,355**	**-**	**-**	**-**	**-**	**-**	**51,355**
Claims on sovereigns	**506,277**	**126,533**	**127,689**	**23,029**	**109,023**	**63,206**	**955,757**
Claims on PSEs	**11,159**	**13,771**	**8,396**	**3**	**52,156**	**215,352**	**300,837**
Claims on MDBs	**-**	**-**	**-**	**11,422**	**-**	**-**	**11,422**
Claims on banks	**656,881**	**44,033**	**42,851**	**77,311**	**228,526**	**82,785**	**1,132,387**
Claims on corporate	**269,091**	**796,937**	**361,466**	**442,700**	**736,576**	**705,442**	**3,312,212**
Regulatory retail exposures	**76,622**	**16,109**	**11,175**	**19,513**	**106,864**	**1,377,778**	**1,608,061**
Past due exposures	**33,668**	**4,942**	**66**	**220**	**11,524**	**207**	**50,627**
Other exposures	**137,198**	**87,859**	**7,624**	**68,419**	**8,028**	**29,120**	**338,248**
Total	**1,742,251**	**1,090,184**	**559,267**	**642,617**	**1,252,697**	**2,473,890**	**7,760,906**
Percentage of gross credit risk exposureby residual maturity	**22.4%**	**14.0%**	**7.2%**	**8.3%**	**16.1%**	**31.9%**	**100.0%**

Total gross credit risk exposures as at 31st December 2019 (KD Thousands)

	Upto 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 years	Over 3 years	Total
Cash items	69,556	-	-	-	-	-	69,556
Claims on sovereigns	343,984	114,209	191,275	95,034	149,913	35,412	929,827
Claims on PSEs	6,518	14,395	-	-	24,920	228,870	274,703
Claims on MDBs	-	-	-	-	11,415	-	11,415
Claims on banks	558,727	131,243	65,969	119,011	280,060	82,230	1,237,240
Claims on corporates	351,597	647,516	520,253	415,988	758,891	780,060	3,474,305
Regulatory retail exposures	78,976	14,251	14,716	18,475	111,682	1,353,313	1,591,413
Past due exposures	31,838	906	294	171	2,558	10,360	46,127
Other exposures	153,731	73,922	18,232	65,674	10,092	32,433	354,084
Total	1,594,927	996,442	810,739	714,353	1,349,531	2,522,678	7,988,670
Percentage of gross credit risk exposure by residual maturity	20.0%	12.5%	10.1%	8.9%	16.9%	31.6%	100.0%

RISK MANAGEMENT

Impaired Loans and Provisions

Impaired Loans and Provisions by Industry Segments

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

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31st December 2020 and 31st December 2019 are shown below:

Impaired loans and provisions (by industry segment) as at 31 December 2020 (KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	**772**	**1,427**	**654**	**45.8%**
Financial	**-**	**-**	**97**	**0.0%**
Trade and commerce	**5,502**	**7,101**	**2,368**	**33.3%**
Crude oil and gas	**49**	**49**	**-**	**0.0%**
Construction	**18,225**	**23,517**	**14,571**	**62.0%**
Manufacturing	**-**	**-**	**-**	**0.0%**
Real estate	**18,149**	**18,749**	**600**	**3.2%**
Others	**624**	**636**	**56**	**8.8%**
Total	**43,321**	**51,479**	**18,346**	**35.6%**

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

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Personal	12,333	19,028	6,696	35.2%
Financial	7,868	7,868	587	7.5%
Trade and commerce	1,195	1,563	821	52.5%
Crude oil and gas	49	49	-	0.0%
Construction	4,626	4,807	7,164	149.0%
Manufacturing	-	-	-	0.0%
Real estate	18,749	18,749	-	0.0%
Others	-	-	47	0.0%
Total	44,820	52,064	15,315	29.4%

Non-performing loans have decreased by KD 6 million in 2020 (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 2020 (by Industry Segments) (KD Thousands)

	Charge/(Release) for impairment provision		
	Specific Charge	General Charge	Total Charge
Personal	**22,380**	**1,046**	**23,426**
Financial	**34,867**	**(20,913)**	**13,954**
Trade and commerce	**11,116**	**(852)**	**10,264**
Crude oil and gas	**0**	**463**	**463**
Construction	**14,674**	**(1,030)**	**13,644**
Manufacturing	**0**	**1,274**	**1,274**
Real estate	**600**	**155**	**755**
Others	**158**	**4,756**	**4,914**
Total	**83,795**	**(15,101)**	**68,694**

Provision Charges and Write - offs during 2019 (by Industry Segments) (KD Thousands)

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

Specific charge mentioned above excludes **KD 80.8 million** (2019: KD 88.3 million) amounts written off during the year.

RISK MANAGEMENT

Impaired Loans and Provisions by Geographical Segments

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31st December 2020 and 31 December 2019 are shown below:

Impaired loans and provisions (by Geographical Region) as at 31st December 2020 (KD Thousands)

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Kuwait	43,321	51,479	18,346	35.6%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	**43,321**	**51,479**	**18,346**	**35.6%**

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

	Impaired Loans (NPLs)		Specific Provision Cash and Non cash	Specific Provision Cover
	Past due portion	Balance outstanding		
Kuwait	44,820	52,064	15,315	29.4%
Other Middle East	-	-	-	0.0%
Western Europe	-	-	-	0.0%
USA & Canada	-	-	-	0.0%
Asia Pacific	-	-	-	0.0%
Rest of World	-	-	-	0.0%
Total	44,820	52,064	15,315	29.4%

The total credit exposure after applying the relevant Basel III standardised approach credit conversion factor ('CCF') but before CRM as at 31 December 2020 and 31 December 2019, broken down by standard credit risk portfolio, are shown below:

Gross credit risk exposure before CRM as at 31 December 2020 (KD Thousands)

	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded Credit Exposure	Unfunded Credit After CCF	FX Contracts After CCF	Total Before CRM
Cash items	51,355	-	51,355	51,355	-	-	51,355
Claims on sovereigns	955,752	5	955,757	955,752	3	29	955,784
Claims on PSEs	283,098	17,739	300,837	283,098	8,554	-	291,652
Claims on MDBs	11,422	-	11,422	11,422	-	-	11,422
Claims on banks	864,321	268,066	1,132,387	864,321	130,232	149	994,702
Claims on corporates	2,212,604	1,099,608	3,312,212	2,212,604	489,418	236	2,702,258
Retail exposures	1,607,573	488	1,608,061	1,607,573	244	-	1,607,817
Past due exposures	43,321	7,306	50,627	43,321	3,653	-	46,974
Other exposures	337,973	275	338,248	337,973	138	-	338,111
Total	**6,367,419**	**1,393,487**	**7,760,906**	**6,367,419**	**632,242**	**414**	**7,000,075**

Gross credit risk exposure before CRM as at 31 December 2019 (KD Thousands)

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

RISK MANAGEMENT

Credit Risk Mitigation and Credit Risk-Weighted Assets

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

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

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer (majority of about 75% a Government Ministry or Public Sector) 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 or standing orders, is taken on some occasions when consumer loans are granted without an assignment of salary.

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

The exposure after CRM, as at 31 December 2020 and 31 December 2019 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures as given below:

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2020 (KD Thousands)

	Credit exposure before CRM	CRM		Credit exposure after CRM	Risk - Weighted Assets		
		Eligible Financial Collateral	Eligible Guarantees		Rated	Unrated	Total
Cash items	51,355	-	-	51,355	-	-	-
Claims on sovereigns	955,784	102	-	955,682	34,420	-	34,420
Claims on PSEs	291,652	33,467	-	258,185	52,156	-	52,156
Claims on MDBs	11,422	-	-	11,422	5,711	-	5,711
Claims on banks	994,702	576	-	994,126	329,134	1	329,135
Claims on corporates	2,702,258	505,483	-	2,196,775	1,894	2,192,987	2,194,881
Retail exposures	1,607,817	158,964	-	1,448,853	-	1,448,289	1,448,289
Past due exposures	46,974	4,940	-	42,034	-	41,131	41,131
Other exposures	338,111	59,363	-	278,748	-	337,219	337,219
Total	**7,000,075**	**762,895**	**-**	**6,237,180**	**423,315**	**4,019,627**	**4,442,942**

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2019 (KD Thousands)

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

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

RISK MANAGEMENT

Trading Portfolio

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

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

The details of the market risk capital charge for the Bank as at 31 December 2020 and 31 December 2019 are shown in the following table: (KD thousands)

Market Risk	31-Dec-20	31-Dec-19	Variance
Interest rate position risk	-	-	-
Foreign exchange risk	**167**	159	8
Total market risk capital charge	**167**	159	8
Market risk - weighted assets	**2,088**	1,988	100
Total market risk capital requirement at 10.50% (2019 13%)	**219**	**258**	**(39)**

On 31 December 2020, total market risk weighted assets were **KD 2 million** (2019: KD 2 million) and total capital requirement was **KD 219 thousand** (2019: KD 258 thousand).

Operational Risk

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

The details of the operational risk capital charge for the Bank as at 31 December 2020 and 31 December 2019 are shown in the following table:

Operational Risk as at 31 December 2020 (KD Thousands)

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	**34,309**	**18%**	**6,176**
Commercial banking	**76,161**	**15%**	**11,424**
Retail banking	**76,318**	**12%**	**9,158**
Total	**186,788**		**26,758**
Total operational risk weighted exposure			**334,475**
Total operational risk capital requirement (at 10.50%)			**35,120**

Operational Risk as at 31 December 2019 (KD Thousand

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

As per Basel III, the total operational risk capital charge is calculated by multiplying the three year average gross income of the business lines by a pre-defined beta factor. The total operational risk weighted exposure is determined by multiplying the operational risk capital charge by 12.5. Gross income includes net interest income and net non-interest income. At 31 December 2020 operational risk-weighted exposure was **KD 334.5 million** (2019: KD 350.8 million) and total operational risk capital requirement at 10.50% was **KD 35 million** (2019 at 13%: KD 46 million).

Equity Risk in the Banking Book

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

The fair value of the investment securities-equity held at 31 December 2020 and 31 December 2019 are shown below, along with the cumulative unrealised gains in the fair valuation reserve in equity and the regulatory capital implications.

Information related to the licensed Bank's equity position in the banking book as at 31 December 2020 (KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	**12,104**	**26,057**	**38,161**
Unrealised gains in equity securities (part of CET1)	**1,431**	**2,254**	**3,685**
Regulatory capital details			
Regulatory capital requirement	**1,695**	**3,648**	**5,343**
Disposal details			
Realised gain on equity securities at FVOCI			**350**

RISK MANAGEMENT

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2019 (KD Thousands)

	Publicly traded	Privately traded	Total investment securities
Total fair value of equity securities	15,868	17,898	33,766
Unrealised gains in equity securities (part of CET1)	4,445	3,076	7,521
Regulatory capital details			
Regulatory capital requirement	2,222	2,506	4,728
Disposal details			
Realised loss on equity securities at FVOCI			350

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

Interest Rate Risk in the Banking Book

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

Counter Party Credit Risk

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

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

Remuneration Policy

Refer to "Corporate Governance" section.

Leverage ratio common disclosure template

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

(KD thousands)

	31-Dec-20	31-Dec-19	Variance
On-balance sheet exposures			
1. On-balance sheet items (excluding derivatives and SFTs, but including collaterals)	**6,112,708**	6,245,417	(132,709)
2. (Asset amounts deducted in determining Basel III Tier 1 capital)	**-**	-	-
3. Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**6,112,708**	6,245,417	(132,709)
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)	**2,359,585**	2,389,252	(29,667)
18. (Adjustments for conversion to credit equivalent amounts)	**(1,623,519)**	(1,524,511)	(99,008)
19. Off-balance sheet items (sum of lines 17 and 18)	**736,066**	864,741	(128,675)
Capital and total exposures			
20. Tier 1 capital	**679,576**	664,323	15,253
21. Total exposures (sum of lines 3, 11, 16 and 19)	**6,848,774**	7,110,158	(261,384)
Leverage ratio			
22. Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))	**9.92%**	9.34%	0.58%

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.

RISK MANAGEMENT

SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE (KD thousands)

		31-Dec-20	31-Dec-19	Variance
1.	Total consolidated assets as per published financial statements	**6,112,708**	6,245,417	(132,709)
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	**736,066**	864,741	(128,675)
7.	Other adjustments	**-**	-	-
8.	**Leverage ratio exposure**	**6,848,774**	7,110,158	(261,384)

FINANCIAL STATEMENTS

Independent Auditors' Report to the Shareholders	94
Income Statement	98
Statement of Comprehensive Income	99
Statement of Financial Position	100
Statement of Cash Flows	101
Statement of Changes in Equity	102
Notes to the Financial Statements	103

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

EY
Building a better working world

Ernst and Young
Al Aiban, Al Osaimi and Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 and 9
P.O. Box 20174 Safat 13062 Kuwait
Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances

The recognition of credit losses on loans and advances ("credit facilities") to customers and banks is the higher of Expected Credit Loss ("ECL") determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2 and Note 12 to the financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Furthermore, as disclosed in Note 24, the COVID-19 pandemic significantly impacted management's determination of the ECL and required the application of heightened judgment. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate in future periods.

Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, as well as the high degree of estimation uncertainty due to the economic impacts of COVID-19, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Bank in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the economic disruption caused by COVID-19, including a focus on rescheduled credit facilities.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and assessed the Bank's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they were in accordance with the requirements of IFRS 9 and CBK guidelines. For a sample of credit facilities, we have assessed the Bank's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Bank and the overlays considered by the management in view of the ongoing COVID-19 pandemic, in order to determine ECL taking into consideration CBK guidelines. We have also assessed the consistency of various inputs and assumptions used by the Bank's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Bank's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and reperformed the resultant provision calculations.

Other information included in the Bank's 2020 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Bank's 2020 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other

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

information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2020 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 during the year ended 31 December 2020 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM AL SAMDAN

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

TALAL YOUSEF AL-MUZAINI

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

10 February 2021
Kuwait

INCOME STATEMENT

Year Ended 31 December 2020

	NOTES	2020 KD000's	2019 KD000's
Interest income	4	**209,348**	275,644
Interest expense	5	**(84,581)**	(111,240)
Net interest income		**124,767**	164,404
Net fees and commissions	6	**24,136**	29,544
Net gains from dealing in foreign currencies		**7,443**	9,967
Dividend income		**572**	1,131
Other income		**1,350**	2,601
Operating income		**158,268**	207,647
Staff expenses		**36,873**	47,413
Occupancy costs		**2,765**	2,839
Depreciation		**7,618**	7,069
Other expenses		**16,670**	20,676
Operating expenses		**63,926**	77,997
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**94,342**	129,650
Charge of provisions:			
- specific	7	**64,476**	70,472
- general	12,18	**4,218**	2,070
Loan recoveries, net of write-off	12	**(5,512)**	(10,915)
Net provision on other financial assets		**(122)**	(2)
Impairment loss on other assets	14	**992**	1,259
		64,052	62,884
OPERATING PROFIT		**30,290**	66,766
Directors' remuneration	22	**135**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**302**	668
National Labour Support Tax		**752**	1,652
Zakat		**302**	668
PROFIT FOR THE YEAR		**28,799**	63,643
EARNINGS PER SHARE Basic and diluted per share (Fils)	8	**10**	22

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

STATEMENT OF COMPREHENSIVE INCOME

	2020 KD000's	2019 KD000's
Profit for the year	**28,799**	63,643
Other comprehensive income		
Items that will not to be reclassified subsequently to the income statement:		
Net changes in fair value of investment securities-equity	**(3,486)**	549
Revaluation of premises and equipment	**(256)**	442
Items that are reclassified or may be reclassified subsequently to the income statement:		
Net changes in fair value of debt instruments at FVOCI	**-**	(23)
Other comprehensive income for the year	**(3,742)**	968
Total comprehensive income for the year	**25,057**	64,611

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

STATEMENT OF FINANCIAL POSITION

As at 31st December 2020

	NOTE	2020 KD000's	2019 KD000's
ASSETS			
Cash and cash equivalents	9	**1,105,925**	847,881
Kuwait Government treasury bonds	10	**108,500**	232,000
Central Bank of Kuwait bonds	11	**280,724**	278,675
Deposits with banks and other financial institutions	9	**3,033**	128,368
Loans and advances to banks	12	**192,063**	212,978
Loans and advances to customers	12	**4,116,537**	4,224,608
Investment securities	13	**174,855**	170,694
Other assets	14	**97,018**	113,549
Premises and equipment		**34,053**	36,664
TOTAL ASSETS		**6,112,708**	6,245,417
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**550,543**	398,713
Deposits from financial institutions	15	**705,337**	1,018,487
Customer deposits	16	**4,033,719**	3,949,901
Subordinated Tier 2 bonds	17	**100,000**	100,000
Other liabilities	18	**85,745**	113,993
TOTAL LIABILITIES		**5,475,344**	5,581,094
EQUITY			
Share capital	19	**304,813**	304,813
Statutory reserve	20	**42,135**	39,106
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**18,169**	18,425
Treasury shares reserve	21	**-**	24,111
Fair valuation reserve		**3,686**	7,522
Retained earnings		**140,073**	190,927
		661,900	737,928
Treasury shares	21	**(24,536)**	(73,605)
TOTAL EQUITY		**637,364**	664,323
TOTAL LIABILITIES AND EQUITY		**6,112,708**	6,245,417

Jassim Mustafa Boodai
(Chairman)

Antoine Daher
(Chief Executive Officer)

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

STATEMENT OF CASH FLOWS

Year Ended 31st December 2020

ASSETS	NOTE	2020 KD000's	2019 KD000's
OPERATING ACTIVITIES			
Profit for the year		**28,799**	63,643
Adjustments:			
Effective interest rate adjustment		**(34)**	(195)
Dividend income		**(572)**	(1,131)
Depreciation		**7,618**	7,069
Loan loss provisions	7,12,18	**68,694**	72,542
Net provision on other financial assets		**(122)**	(2)
Impairment loss on other assets		**992**	1,259
CASH FLOWS FROM OPERATING ACTIVITES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**105,375**	143,185
Decrease/(increase) in operating assets:			
Kuwait Government treasury bonds		**123,500**	163,736
Central Bank of Kuwait bonds		**(2,049)**	43,278
Deposits with banks and other financial institutions		**125,417**	28,203
Loans and advances to banks		**20,838**	(69,251)
Loans and advances to customers		**(1,164)**	(349,361)
Other assets		**13,495**	(7,833)
Increase/(decrease) in operating liabilities:			
Due to banks		**151,830**	(15,769)
Deposits from financial institutions		**(313,150)**	12,593
Customer deposits		**83,818**	215,146
Other liabilities		**(29,808)**	(21,223)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**278,102**	142,704
INVESTING ACTIVITIES			
Purchase of investment securities		**(14,371)**	(31,956)
Proceeds from sale of investment securities		**8,808**	29,332
Purchase of premises and equipment		**(5,263)**	(6,458)
Dividend income received		**572**	1,131
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(10,254)**	(7,951)
FINANCING ACTIVITIES			
Dividend paid	22	**(31,947)**	(28,981)
Proceeds from sale of treasury shares		**22,143**	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(9,804)**	(28,981)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**258,044**	105,772
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**847,881**	742,109
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**1,105,925**	847,881
Additional cash flows information			
Interest received		**217,055**	274,998
Interest paid		**101,520**	109,794

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

STATEMENT OF CHANGES IN EQUITY

Year Ended 31st December 2020

	Share capital KD 000's	RESERVES Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury shares reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Subtotal reserves KD 000's	Treasury shares KD 000's	Total KD 000's
At 1st January 2019	304,813	32,429	153,024	17,983	24,111	7,382	162,556	397,485	(73,605)	628,693
Profit for the year	-	-	-	-	-	-	63,643	63,643	-	63,643
Other comprehensive income for the year	-	-	-	442	-	526	-	968	-	968
Total comprehensive income for the year	-	-	-	442	-	526	63,643	64,611	-	64,611
Dividend paid (Note 22)	-	-	-	-	-	-	(28,981)	(28,981)	-	(28,981)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(386)	386	-	-	-
Transfer to reserve	-	6,677	-	-	-	-	(6,677)	-	-	-
At 31st December 2019	304,813	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
At 1st 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 year	-	-	-	-	-	-	28,799	28,799	-	28,799
Other comprehensive loss for the year	-	-	-	(256)	-	(3,486)	-	(3,742)	-	(3,742)
Total comprehensive (loss) income for the year	-	-	-	(256)	-	(3,486)	28,799	25,057	-	25,057
Dividend paid (Note 22)	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Modification loss on consumer lending (Note3)	-	-	-	-	-	-	(42,212)	(42,212)	-	(42,212)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(350)	350	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	49,069	49,069
Loss on sale of treasury shares	-	-	-	-	(24,111)	-	(2,815)	(26,926)	-	(26,926)
Transfer to reserve	-	3,029	-	-	-	-	(3,029)	-	-	-
At 31 December 2020	**304,813**	**42,135**	**153,024**	**18,169**	**-**	**3,686**	**140,073**	**357,087**	**(24,536)**	**637,364**

NOTES TO THE FINANCIAL STATEMENTS

31st December 2020

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 2020 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 24 January 2021. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost basis, except for investment securities at fair value through other comprehensive income, derivative financial instruments, freehold land and buildings that have been measured at fair value.

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

Statement of compliance

The financial statements 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, including the recently issued CBK circulars on regulatory measures in response to Covid-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards 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
- Modification losses on financial assets (consumer and installment loans and credit cards receivables) arising from payment holidays to customers in response to Covid-19 to be recognized in retained earnings, instead of income statement as required by IFRS 9 (note 3).

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

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement is presented in note 24(D).

2.2 Changes in accounting policies and disclosures

The accounting policies applied are consistent with those used in previous year except as noted below. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IBOR Transition (Interest Rate Benchmark Reforms Phase 1)

Effective from 1 January 2020, the Bank has adopted amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase 1 of IBOR transition project) address the hedge accounting require ments arising before IBOR and proposed a hedging relief for such hedges. The Bank does not currently have any hedging instruments. Hence,the IBOR reform Phase 1 do not have any significant impact on Bank's financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Bank has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework.

The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

NOTES TO THE FINANCIAL STATEMENTS

Amendments to IAS 1 and IAS 8 Definition of material

The Bank has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2020 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, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively), and fair value through profit or loss ("FVTPL"). The Bank determines the classification of financial assets based on the business model in which assets are managed and their contractual cash flow characteristics.

Business model assessment

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

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

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

SPPI Test

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

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

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

Recognition/de-recognition

A financial asset or a financial liability is recognised at fair value when the Bank becomes a party to the contractual provisions of the instrument. Transaction costs are added to, or subtracted from, only for those financial instruments that are not measured at fair value through income statement.

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

A financial asset (in whole or in part) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired, or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Measurement of financial instruments

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

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

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

Financial assets carried at amortised cost

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

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

Cash and cash equivalents, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances to banks, loans and advances to customers, certain investment debt securities and certain other assets are classified as financial assets carried at amortised cost using the Effective Interest rate (EIR) method and are presented net of expected credit losses. Interest income from these financial assets is included in 'Interest income' using the EIR method.

Debt instruments at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in income statement. When the debt instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to income statement and recognised in 'Realised gains from disposal of investment securities'. Interest income from these financial assets is included in 'Interest income' using the EIR method.

All other financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on debt instruments that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in income statement and presented in the income statement within 'Net trading income' in the period in which it arises.

Equity instruments at FVOCI

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures all equity instruments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to income statement, including on disposal. Such classification is determined on an instrument by instrument basis. Equity instruments at FVOCI are not subject to impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair valuation reserve to retained earnings in the statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in income statement as 'Dividend income' when the Bank's right to receive payments is established.

Financial asset at FVTPL

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

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

Impairment on financial assets

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

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

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

Impairment on credit facilities

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

Impairment on other financial assets (other than credit facilities)

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

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

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

2. ACCOUNTING POLICIES (continued)
2.3 Summary of significant accounting policies (continued)
a. Financial instruments (continued)

Expected Credit Losses

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

Determining the significant increase in credit risk

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

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

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

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

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

Measurement of ECLs

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Write off

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

Commitments

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

Guarantee contracts and letters of credit

The Bank's liability under each guarantee or letter of credit is measured at the higher of the amount initially recognised less cumulative amortization recognised in the income statement, higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a PD-weighting of the three scenarios.

Modification of loans and advances to customers

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

Provisions for credit losses in accordance with CBK instructions

The Bank is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due but not impaired and Impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	Criteria	Specific provisions %
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91 to 180 days	20%
Doubtful	Irregular for a period of 181 to 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Bank may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances. In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities, net of certain categories of collateral, to which the Instructions are applicable and not subject to specific provision.

Fair values measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Fair values of quoted instruments are based on quoted closing bid prices. The fair value of investments in managed funds are based on latest published net asset values.

Fair values of unquoted instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price/net asset values.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future cash flows at the current rates for similar financial instruments.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Day 1 profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Repurchase and resale agreements

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

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

Offsetting

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

b. Derivative financial 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.

Derivatives embedded in financial liability or a non-financial host are separated from the host and accounted for as separate derivatives if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate. Any changes in the fair value of derivatives that are held for trading are taken directly to the income statement and are disclosed under operating income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the

NOTES TO THE FINANCIAL STATEMENTS

exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

Hedge effectiveness requirements

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

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

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

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

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

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

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

c. Repossessed collaterals

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

The Bank reviews its repossessed collaterals classified as 'other assets' at each reporting date and ensures that those are valued as per accounting policy applicable to the same class of investments.

d. Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated. The expense relating to any provision is presented in the income statement net of any reimbursement.

e. End of service indemnity

The Bank is liable under the Kuwait Labor Law and specific employee contracts, if any, to make payment under end of service benefits to employees at cessation of employment. The entitlement to these benefits is usually based upon employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The defined benefit plan is unfunded. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

f. Treasury shares

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

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

h. Impairment of non-financial assets

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

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

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

i. Revenue recognition

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

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

j. Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest rate method. The EIR 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

NOTES TO THE FINANCIAL STATEMENTS

premiums or discounts are considered, but not future credit losses. Once a financial asset categorised as loans and advances is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

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

Right-of-use assets

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

Lease Liabilities

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

m. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Bank and accordingly are not included in the statement of financial position. Income from fiduciary activities is included in 'Net fees and commissions'.

n. Foreign currencies

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

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the income statement in 'net fees and commission' on a straight-line basis over the life of the guarantee. Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

r. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed and is included in the same line item in the income statement. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

2.4 Significant accounting judgements, estimates and assumptions

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Classification of financial instruments

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

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

Impairment losses on financial instruments

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

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

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

Valuation of unquoted financial instruments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2.5 Standards issued but not effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2021 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective.

IBOR Transition (Interest Rate Benchmark Reforms Phase 2)

On 27 August 2020 the IASB published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free interest rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

The impact of the replacement of interbank offered rates ('IBORs') with alternative risk-free rates on the Bank's products and services remains a key area of focus. The Bank has exposure to contracts referencing IBORs, such as Libor, extending past FY2021, when it is likely that these IBORs will cease being published. The Bank is currently assessing the impact of the it's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

3. IMPACT OF COVID-19

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.

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. The modification loss is charged to retained earnings in accordance with the Bank's accounting policy as stated in Note 2.1.

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.

Government grant

To mitigate the impact of the Covid 19 pandemic, the Government of Kuwait has introduced measures to aid private entities in response to the pandemic. These measures include government assistance made in respect of eligible staff expenses in the private sector.

During the year, the Bank received Covid-19 financial support from the Public Authority for Manpower of the Government of Kuwait and recognized in the income statement as a deduction to 'staff expenses' on a systematic basis over the periods in which the Bank recognizes expenses for the related staff expenses.

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 2020:

- 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
- Increase the loan-to-value limits for loans granted to individuals for the purpose of purchasing and/or developing properties

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.

Refer to Note 24 to financial statement for credit risk and liquidity risk updates due to Covid-19.

NOTES TO THE FINANCIAL STATEMENTS

4. INTEREST INCOME

	2020 KD 000's	2019 KD 000's
Kuwait Government treasury bonds and CBK Bonds	**9,425**	17,498
Debt investment securities	**4,692**	4,990
Placements with banks	**5,902**	14,852
Loans and advances to banks and customers*	**189,329**	238,304
	209,348	275,644

*Prior year includes KD 19,714 thousand from an impaired credit facility, based on a judgement rendered by the Court of Appeals

5.INTEREST EXPENSE

	2020 KD 000's	2019 KD 000's
Sight and savings accounts	**3,483**	3,251
Time deposits	**65,293**	88,594
Bank borrowings	**9,208**	12,330
Subordinated Tier 2 bonds	**6,597**	7,065
	84,581	111,240

6. NET FEES AND COMMISSIONS

	2020 KD 000's	2019 KD 000's
Total fees and commission income	**31,715**	38,884
Total fees and commission expense	**(7,579)**	(9,340)
	24,136	29,544

Total fees and commission income includes **KD 366 thousand** (2019: KD 338 thousand) from fiduciary activities.

7. SPECIFIC PROVISIONS

	2020 KD 000's	2019 KD 000's
Loans and advances to customers		
- Cash (Note 12)	**62,360**	73,137
- Non-cash (Note 18)	**2,116**	(2,665)
	64,476	70,472

8. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. The Bank does not have outstanding dilutive potential shares as at 31 December 2020.

	2020 KD 000's	2019 KD 000's
Profit for the year	**28,799**	63,643
Weighted average number of shares outstanding during the year, net of treasury shares	**Shares 2,927,815,660**	Shares 2,898,133,288
	Fils	Fils
Basic and diluted earnings per share	**10**	22

9. CASH AND CASH EQUIVALENTS

	2020 KD 000's	2019 KD 000's
Balances with the Central Bank of Kuwait	**303,156**	186,022
Cash in hand and in current accounts with other banks and other financial institutions	**220,517**	156,392
Deposits with banks and other financial institutions maturing with in 30 days	**582,301**	505,520
	1,105,974	847,934
Less: Provision for ECL	**(49)**	(53)
	1,105,925	847,881

At 31st December 2020, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 3,033 thousand** (2019: KD 128,450 thousand) adjusted by ECL provision amount of **KD Nil** (2019: KD 82 thousand).

At 31 December 2020 and 2019, cash and equivalents and deposits with banks and other financial institutions are classified as Stage 1. During the year, there were no movement between stages.

10. KUWAIT GOVERNMENT TREASURY BONDS

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

	2020 KD 000's	2019 KD 000's
Maturing within one year	**34,500**	123,500
Maturing after one year	**74,000**	108,500
	108,500	232,000

At 31 December 2020 and 2019, Kuwait Government treasury bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

NOTES TO THE FINANCIAL STATEMENTS

11. CENTRAL BANK OF KUWAIT BONDS

These financial instruments are issued by the Central Bank of Kuwait. They mature within a period not exceeding one year from the date of issuance.

	2020 KD 000's	2019 KD 000's
Central Bank of Kuwait Bonds	**280,724**	278,675

At 31 December 2020 and 2019, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

At 31 December 2020:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	**1,855,043**	**-**	**-**	**-**	**7,143**	**1,862,186**
Financial	**112,607**	**27,949**	**-**	**-**	**-**	**140,556**
Trade and commerce	**399,810**	**3,033**	**17,231**	**-**	**-**	**420,074**
Crude oil and gas	**259,739**	**22,744**	**-**	**-**	**-**	**282,483**
Construction	**225,636**	**10,561**	**-**	**-**	**-**	**236,197**
Manufacturing	**270,195**	**1,213**	**-**	**-**	**-**	**271,408**
Real estate	**694,954**	**15,981**	**-**	**-**	**-**	**710,935**
Others	**212,949**	**247,284**	**-**	**-**	**-**	**460,233**
Gross loans and advances to customer	**4,030,933**	**328,765**	**17,231**	**-**	**7,143**	**4,384,072**
Less: Provision for impairment						**(267,535)**
Loans and advances to customers						**4,116,537**

B. Loans and advances to banks

Gross loans and advances to banks	**30,729**	**141,971**	**-**	**-**	**20,520**	**193,220**
Less: Provision for impairment						**(1,157)**
Loans and advances to banks						**192,063**

At 31 December 2019:

A. Loans and advances to customers

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

B. Loans and advances to banks

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

Movement in provision for impairment

	2020 KD 000's			2019 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**33,292**	**249,030**	**282,322**	48,418	247,225	295,643
Amounts written-off	**(80,764)**	**-**	**(80,764)**	(88,263)	-	(88,263)
Charge to income statement	**62,360**	**4,774**	**67,134**	73,137	1,805	74,942
At 31 December	**14,888**	**253,804**	**268,692**	33,292	249,030	282,322

The specific and general provisions are based on the requirements of the CBK instructions and IFRS 9 according to CBK guidelines. Refer Note 2.3.a impairment of financial instruments for more information.

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 5,846 thousand** (2019: KD 2,762 thousand) and recoveries of **KD 11,358 thousand** (2019: KD 13,677 thousand).

NOTES TO THE FINANCIAL STATEMENTS

Movement in provisions for impairment of loans and advances by class is as follows:	2020 KD 000's			2019 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**259,905**	**22,417**	**282,322**	270,827	24,816	295,643
Amounts written-off	**(57,483)**	**(23,281)**	**(80,764)**	(70,801)	(17,462)	(88,263)
Charge to income statement	**48,596**	**18,538**	**67,134**	59,879	15,063	74,942
At 31 December	**251,018**	**17,674**	**268,692**	259,905	22,417	282,322

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

Provision for non-cash facilities of **KD 15,406 thousand** (2019: KD 13,846 thousand) is included under other liabilities (Note 18).

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

	2020 KD 000's	2019 KD 000's
Provision on cash facilities	**268,692**	282,322
Provision on non-cash facilities	**15,406**	13,846
Total provisions on credit facilities	**284,098**	296,168
IFRS 9 ECL on credit facilities	**171,978**	189,942
Excess of total provisions over IFRS 9 ECL on credit facilities	**112,120**	106,226
Excess provisions as a percentage of total provisions	**39%**	36%

13. INVESTMENT SECURITIES

	2020			2019		
	Amortised cost KD 000's	**FVOCI KD 000's**	**Total KD 000's**	Amortised cost KD 000's	FVOCI KD 000's	Total KD 000's
Quoted investments						
Sovereign bonds/sukuk	**81,620**	**-**	**81,620**	83,539	-	83,539
Other bonds	**34,147**	**-**	**34,147**	32,496	-	32,496
Equity securities	**-**	**12,104**	**12,104**	-	15,868	15,868
	115,767	**12,104**	**127,871**	116,035	15,868	131,903
Unquoted investments						
Other bonds	**20,807**	**201**	**21,008**	20,809	201	21,010
Equity securities/managed funds	**-**	**26,057**	**26,057**	-	17,898	17,898
	20,807	**26,258**	**47,065**	20,809	18,099	38,908
Less: Provision for ECL	**(81)**	**-**	**(81)**	(117)	-	(117)
At 31 December	**136,493**	**38,362**	**174,855**	136,727	33,967	170,694

At 31 December 2020 and 2019, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

14. OTHER ASSETS

	2020 KD 000's	2019 KD 000's
Accrued interest receivable	**14,480**	22,187
Sundry debtors and others	**22,920**	18,536
Less: impairment loss on other receivables	**(620)**	-
Repossessed collaterals (refer movement below)	**60,238**	72,826
	97,018	113,549

Movement in repossessed collaterals:

	2020 KD 000's	2019 KD 000's
At 1 January	**72,826**	71,031
Additions		
- Listed equity securities	**-**	8,432
Disposals	**(12,216)**	(5,378)
Impairment loss	**(372)**	(1,259)
At 31 December	**60,238**	72,826

Investment securities amounting to **KD 806 thousand** (2019: KD 2,894 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.

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on real estate properties amounting to **KD 59,432 thousand** (2019: KD Nil).

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2020 KD 000's	2019 KD 000's
Due to banks		
Current accounts and demand deposits	**39,207**	22,912
Time deposits	**511,336**	375,801
	550,543	398,713
Deposits from financial institutions		
Current accounts and demand deposits	**80,909**	69,953
Time deposits	**624,428**	948,534
	705,337	1,018,487

16. CUSTOMER DEPOSITS

	2020 KD 000's	2019 KD 000's
Current accounts	**1,301,226**	1,206,523
Savings accounts	**390,823**	336,314
Time deposits	**2,341,670**	2,407,064
	4,033,719	3,949,901

Customer deposits include **KD 12,787 thousand** (2019: KD 13,617 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

NOTES TO THE FINANCIAL STATEMENTS

17. SUBORDINATED TIER 2 BONDS

During the year 2016, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 100,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 6.50% per annum, payable quarterly in arrears, for the first five years and will be reset for the subsequent period at the rate of 4.25% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 4.00% per annum over the Central Bank of Kuwait discount rate, reset quarterly, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable quarterly in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions being satisfied and prior written approval of the CBK.

18. OTHER LIABILITIES

	2020 KD 000's	2019 KD 000's
Accrued interest payable	**13,957**	30,896
Deferred income	**4,118**	4,980
Provisions for non-cash facilities (refer movement below)	**15,406**	13,846
Staff related provisions	**22,969**	25,960
Lease liabilities	**4,170**	4,025
Others	**25,125**	34,286
	85,745	113,993

Movement in provisions for non-cash facilities:

	2020 KD 000's	2019 KD 000's
At 1 January	**13,846**	16,246
Release (charge) to the income statement	**1,560**	(2,400)
At 31 December	**15,406**	13,846

19. SHARE CAPITAL

	2020 KD 000's	2019 KD 000's
Authorised, issued and fully paid shares	**304,813**	304,813

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2020 is **3,048,127,898** (2019: 3,048,127,898).

20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2020	2019
Number of treasury shares	**50,000,000**	149,994,610
Percentage of treasury shares	**1.64%**	4.92%
Cost of treasury shares (KD 000's)	**24,536**	73,605
Weighted average market value of treasury shares as at 31 December (KD 000's)	**11,450**	44,098

Movement in treasury shares was as follows:

	No. of shares	
	2020	2019
Balance as at I January	**149,994,610**	149,994,610
Sales	**(99,994,610)**	-
Balance as at 31 December	**50,000,000**	149,994,610

The balance in the treasury share reserve of **KD Nil** (2019: KD 24,111 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings through out the holding period of treasury shares.

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **5 fils** per share (2019: 11 fils) on the outstanding issued share capital as at 31 December 2020. The Cash dividend is subject to the approval of the shareholders at the Annual General Meeting.

During the year, the shareholders at the Annual General Meeting held on 31 March 2020 approved a cash dividend of 11 fils per share for the year ended 31 December 2019 (10 fils per share for the year ended 31 December 2018). The cash dividend was recorded on 31 March 2020 and paid subsequently.

Directors' remuneration of **KD 135 thousand** (2019: KD 135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS

23. RELATED PARTY TRANSACTIONS

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

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

	Number of Board Members or Executive Management		Number of related parties			
	2020	2019	**2020**	2019	**2020 KD 000's**	2019 KD 000's
Board members:						
Balances						
Loans and advances	**1**	1	**12**	14	**152,896**	176,918
Credit cards	**2**	6	**4**	7	**19**	86
Deposits	**7**	8	**72**	60	**30,774**	25,560
Commitments/derivatives						
Guarantees /letters of credit	**-**	1	**9**	5	**7,454**	5,388
Transactions						
Interest income	**2**	1	**22**	19	**5,783**	7,025
Interest expense	**5**	5	**20**	21	**412**	9,512
Net fees and commissions	**-**	-	**11**	12	**51**	120
Other expenses	**-**	-	**12**	12	**1,654**	2,655
Purchase of equipment	**-**	-	**3**	2	**231**	173
Executive management:						
Balances						
Loans and advances	**3**	2	**-**	-	**83**	47
Credit cards	**10**	11	**-**	-	**19**	28
Deposits	**14**	12	**-**	-	**1,695**	1,491
Transactions						
Interest income	**3**	2	**-**	-	**3**	3
Interest expense	**16**	13	**-**	-	**21**	28

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2% to 6%** (2019: 3.5% to 6%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 31 December 2020 was **KD 106,708 thousand** (2019: KD 116,820 thousand).

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

	2020 KD 000's	2019 KD 000's
Salaries and other benefits	**2,708**	4,065
End of service/termination benefits	**636**	396
	3,344	4,461

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

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

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

Risk management

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

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

The Bank has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Bank and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Bank's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Bank. The BRC reviews and recommends all risk management policies and risk appetite for Board of Directors (BOD) approval. BRC reviews all high risk, large and any exposure which do not meet the normal lending criteria. The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee. The Bank has also constituted an Executive Risk Committee (ERC), co-chaired by the Chief Executive Officer (CEO) and the Chief Risk Officer (CRO), which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Bank provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Bank.

The following sections describe the different risks inherent in the banking process, their nature and how they are managed.

A. CREDIT RISK

Credit risk is the potential for financial loss due to failure of debtors or counterparties to meet obligations to pay the Bank in accordance with agreed terms. It arises principally from lending, trade finance and treasury activities.

Concentrations of credit risk arise when there is a potential for aggravation of losses owing to correlated exposures, for example, when a number of counterparties have common ownership, or are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry, geographic location or ownership.

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimized by setting limits for transactions with individual counterparties and counterparties under common ownership, monitoring credit exposures against these limits and continually assessing collateral coverage/quality and the creditworthiness of counterparties.

Individual customer and customer groups, industry segment and country limits are used to diversify lending and avoid undue concentrations. Credit exposure relating to trading activities is controlled by the use of strict counterparty limits, master netting agreements and collateral arrangements (where appropriate), and by limiting the duration of exposures.

Independent Credit Departments covering wholesale and consumer risk , reporting to CRO, is responsible for providing centralised management of credit risk. The responsibilities of the teams include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to rank order risk and categorize exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

NOTES TO THE FINANCIAL STATEMENTS

The Bank also has detailed credit approval criteria for each of its retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment, minimum salary, etc. Applicants must also provide a reference from their employer, specifying salary and length of service, and in most cases, a commitment from the employer to pay their salary directly to their current account with the Bank. In accordance with CBK regulations, the applicant's total monthly debt repayment to income ratio must not exceed the limits stipulated.

Other than BRC, the Bank has – six credit committees: Board Credit and Investment Committee (BCIC), Executive Credit Committee ('ECC'), Management Credit Committee ('MCC'), Consumer Credit Committee ('CCC'), Remedial Credit Committee ('RCC') and Classification and Provisions Committee ('CPC').

The Board of Directors has delegated all authority (except credit facilities to Board members and related names) for credit decisions to the BCIC within the CBK guidelines. The responsibilities of the BCIC are to review and approve, reject, modify or conditionally approve credit proposals up to the legal lending limit of the Bank in compliance with the credit policies of the Bank. BCIC is also vested the authority to grant credit delegation to ECC as stipulated by the Board of Directors.

The ECC has the authority to approve, sanction and amend credit facilities within the approved delegated authority. ECC can also approve credit criteria, credit programs and treasury limits within the approved risk appetite of the Bank. ECC has the authority to form new or amend existing Credit Committees within the limits of ECC's overall delegated authority. A summary of all credit approvals are reported to the BRC.

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC and BCIC based on respective delegation. All MCC decisions are periodically reviewed by the CRO.

The CCC meets as required and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically.

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

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

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

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

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

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

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

ECL methodology

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

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

ECL is arrived at on the basis of Probability of Default (PD) for the corresponding rating grade of the facility, Loss Given Default (LGD) and Exposure at Default (EAD). Further details are provided in the ensuing paragraphs of the Section on ECL Methodology. The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro-economic scenarios etc. The ECL methodology is summarised below:

- Stage 1: The 12 months ECL is calculated as the loss that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL provision based on the expectation of a default occurring in the 12 months following the reporting date.

- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination due to quantitative and qualitative factors, the Bank records an allowance for the LT ECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For Credit Facility considered credit-impaired i.e, having objective evidence of default, the Bank calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

The Significant increase in credit risk

The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally accepted definition of 'investment grade'. Credit facilities (other than consumer/ installment facilities) are classified under Stage 2 when there has been a downgrade in the obligor risk rating by 2 grades for the credit facilities with investment grade and by 1 grade for those with non-investment grade.

The Bank applies consistent quantitative criteria for internally rated portfolio to assess significant increase in credit risk. In the absence of ratings at inception, the Bank considers current rating at reporting date, the account conduct and past dues, to determine the stage in which the facilities to be classified. In addition, the Bank considers all restructured credit facilities which are not credit impaired as stage 2.

Covid-19 updates: 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 year ended 31 December 2020 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.

The Bank considers expected maturity period of 7 years for credit facilities to corporate customers classified in stage 2 unless these facilities have non-extendable contractual maturity date and periodic schedule of repayments with final repayment amount not exceeding 50% of the original credit facilities. The expected maturity period of minimum of 5 years is considered for consumer financing and credit cards and 15 years for housing loans and financing.

The Bank considers all facilities which are in default and rated 8 to 10 as Stage 3 accounts.

NOTES TO THE FINANCIAL STATEMENTS

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 performed 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.

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

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

Probability of default

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

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

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

For Consumer banking, the payment behaviour of the borrower is monitored on a periodic basis. Consumer loans are generally not secured, but the credit risk is minimized by the 'assignment of salary' condition that requires the customer's employer to pay their salary directly to their Gulf Bank's salary account. If salaries are not credited and there are no funds available in accounts, the related exposures get delinquent. The days past due is used to determine the credit risk of the retail customers. Loan applications are subject to an evaluation process involving 'Score Card' based decisioning which is revalidated periodically. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant. PD used for retail credit facilities has been segmented into pools that share similar risk characteristics.

For financial instruments in Treasury, Investment securities, money market instruments and other assets portfolios, external rating agency credit grades are used. These published grades are continuously monitored and updated.

The Bank applies minimum thresholds for 12 months PD at 1% for non-investment grade credit facilities and 0.75% for investment grade credit facilities. However, these minimum thresholds are not applicable for consumer and housing loans and financing and also to credit facilities to governments and banks with external credit rating of investment grade.

Loss given default

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. For secured facilities, the Bank applies a minimum haircut to its collateral values as prescribed by CBK guidelines. For all unsecured credit facilities, the Bank considers a minimum of 50% LGD for senior debt and 75% LGD for subordinated debt as prescribed by CBK guidelines.

Covid-19 updates: 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 year ended 31 December 2020.

Exposure at default

EAD represents the amount which the obligor will owe to the Bank at the time of default. The Bank considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values in accordance with credit conversion factor prescribed by CBK guidelines.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, consumer price index and government expenditure, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Covid-19 updates: 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 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.

Collateral and other credit enhancements

The Bank employs a range of tools to reduce credit risk. The Bank seeks collateral coverage, assignment of contract proceeds and other forms of protection to secure lending and minimize credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are secured by collateral, wherever required, consisting primarily of: equities listed on the Kuwait Stock Exchange; unquoted equities, real estate (land and buildings); fixed term deposits and cash balances with the Bank that are blocked and legally pledged in its favor; and direct, explicit, irrevocable and unconditional bank guarantees.

As of 31 December 2020, **26%** (2019: 24%) 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.

NOTES TO THE FINANCIAL STATEMENTS

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 2020 KD 000's**	Maximum exposure 2019 KD 000's
Cash and cash equivalents (excluding cash in hand)	**1,054,570**	778,325
Kuwait Government treasury bonds	**108,500**	232,000
Central Bank of Kuwait bonds	**280,724**	278,675
Deposits with banks and other financial institutions	**3,033**	128,368
Loans and advances to banks	**192,063**	212,978
Loans and advances to customers:		
- Corporate lending	**2,449,947**	2,656,614
- Consumer lending	**1,666,590**	1,567,994
Debt investment securities (Note 13)	**136,694**	136,928
Other assets	**36,780**	40,723
Total	**5,928,901**	6,032,605
Contingent liabilities and commitments	**1,680,429**	1,753,185
Foreign exchange contracts (including spot contracts)	**8,017**	100,425
Total	**1,688,446**	1,853,610
Total credit risk exposure	**7,617,347**	7,886,215

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 2020 is **13.3%** (2019: 13.3%).

	2020		2019	
	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)	**4,692,855**	**1,282,774**	4,770,090	1,350,038
Other Middle East	**785,261**	**73,385**	903,520	178,860
Europe	**378,116**	**99,087**	238,878	96,963
USA and Canada	**26,723**	**24,501**	28,542	19,048
Asia Pacific	**18,309**	**208,699**	57,028	208,701
Rest of world	**27,637**	**-**	34,547	-
	5,928,901	**1,688,446**	6,032,605	1,853,610

	2020		2019	
	Assets KD 000's	**Off balance sheet items KD 000's**	Assets KD 000's	Off balance sheet items KD 000's
Industry sector:				
Personal	**1,843,041**	**1,486**	1,755,379	30,837
Financial	**1,140,810**	**434,922**	1,217,984	555,152
Trade and Commerce	**414,557**	**392,928**	451,493	378,575
Crude Oil and Gas	**103,365**	**71,181**	74,766	36,578
Construction	**228,849**	**495,627**	287,428	558,112
Government	**1,030,747**	**13,339**	1,080,490	7
Manufacturing	**265,089**	**75,794**	299,292	64,014
Real Estate	**703,384**	**40,422**	690,398	48,080
Others	**199,059**	**162,747**	175,375	182,255
	5,928,901	**1,688,446**	6,032,605	1,853,610

Internal credit quality rating

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

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

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

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

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

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

Facility Risk Rating

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

NOTES TO THE FINANCIAL STATEMENTS

North American Industry Classification System (NAICS) Code:

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

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

Portfolio Risk Rating

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

RAROC Model

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

Credit Infrastructure:

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

2020	Neither past due nor impaired			Past due but not impaired	
	High KD 000's	Standard KD 000's	Acceptable KD 000's	KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	**1,009,132**	**45,487**	**-**	**-**	**1,054,619**
Kuwait Government treasury bonds	**108,500**	**-**	**-**	**-**	**108,500**
Central Bank of Kuwait bonds	**280,724**	**-**	**-**	**-**	**280,724**
Deposits with banks and other financial institutions	**3,033**	**-**	**-**	**-**	**3,033**
Loans and advances to banks	**170,262**	**22,958**	**-**	**-**	**193,220**
Loans and advances to customers:					
- Corporate lending	**2,005,890**	**591,203**	**30,341**	**22,664**	**2,650,098**
- Consumer lending	**1,555,180**	**42,686**	**-**	**84,629**	**1,682,495**
Debt investment securities (Note 13)	**136,775**	**-**	**-**	**-**	**136,775**
Other assets	**36,780**	**-**	**-**	**-**	**36,780**
	5,306,276	**702,334**	**30,341**	**107,293**	**6,146,244**

2019	Neither past due nor impaired			Past due but not impaired	
	High KD 000's	Standard KD 000's	Acceptable KD 000's	KD 000's	Total KD 000's
Cash and cash equivalents (excluding cash in hand)	778,378	-	-	-	778,378
Kuwait Government treasury bonds	232,000	-	-	-	232,000
Central Bank of Kuwait bonds	278,675	-	-	-	278,675
Deposits with banks and other financial institutions	128,450	-	-	-	128,450
Loans and advances to banks	214,058	-	-	-	214,058
Loans and advances to customers:					
- Corporate lending	2,039,320	739,308	94,624	9,546	2,882,798
- Consumer lending	1,480,326	16,654	-	74,008	1,570,988
Debt investment securities (Note 13)	137,045	-	-	-	137,045
Other assets	40,723	-	-	-	40,723
	5,328,975	755,962	94,624	83,554	6,263,115

70% (2019: 93%) of the past due but not impaired category is below 60 days and **30%** (2019: 7%) is between 60-90 days.

Financial assets by class individually impaired

2020	Gross exposure KD 000's	Impairment provision KD 000's	Fair value of collateral KD 000's
Loans and advances to customers:			
- Corporate lending	**49,710**	**7,163**	**24,226**
- Consumer lending	**1,769**	**995**	**260**
	51,479	**8,158**	**24,486**

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

NOTES TO THE FINANCIAL STATEMENTS

Contingent liabilities and commitments are financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. These instruments are disclosed in Note 26.

Derivative financial instruments with contractual or notional amounts that are subject to credit risk

These derivative financial instruments comprise of foreign exchange contracts. Foreign exchange contracts allow the Bank and its customers to transfer, modify or reduce their foreign exchange risk. Foreign exchange contracts are subject to credit risk and are limited to the current replacement value of instruments that are favorable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding.

These instruments are disclosed in Note 28. This credit risk exposure was managed as part of the overall borrowing limits granted to customers.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. Normally, the banking business is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk.

The interest rate sensitivity of the income statement measures the effect of assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and liabilities held at year end. The interest rate sensitivity on equity (comprehensive income) is the impact of changes in interest rates on the fair value of FVOCI fixed/ floating rate bonds held at year end.

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

Currency	2020			2019		
	Change in interest rate in basis points	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehen-sive income KD 000's
KWD	(+) 25	**2,180**	**-**	(+) 25	2,117	-
USD	(+) 25	**699**	**-**	(+) 25	605	-

C. CURRENCY RISK

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

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

Currency	2020			2019		
	Change in currency rate %	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in currency rate %	Impact on income statement KD 000's	Impact on statement of comprehen-sive income KD 000's
USD	**+ 5**	**(178)**	**107**	+ 5	(80)	115

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

D. LIQUIDITY RISK

Liquidity risk is the risk arising from the inability of the Bank to meet its financial obligations on time without incurring significant costs. Liquidity risk is a sequential risk that may be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of the Bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manages the liquidity and funding of the Bank to ensure that sufficient funds are available to meet the Bank's known cash funding requirements and any unanticipated needs that may arise. At all times, the Bank holds what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The Bank measures and monitors Basel III short term and long term liquidity ratios of LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The objective of LCR is to improve the short-term liquidity profile of the Bank by ensuring that the Bank has sufficient stock of High Quality Liquid Assets to cover a 30 day period of stressed cash outflows. Similarly, NSFR aims to improve the long-term liquidity profile by ensuring that the Bank has stable funding sources to cover funding requirements over the short and long term period.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position, liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further minimized by adherence to the strict CBK liquidity requirements. In response to the Covid-19, CBK had provided temporary relaxation to the regulatory liquidity ratios until 31 December 2020, namely: minimum LCR of 80% (2019: 100%); minimum NSFR of 80% (2019: 100%); maturity ladder mismatch limits for specific time periods: -20% for 7 days or less (2019: -10%); -30% for 1 month or less (2019: -20%); -40% for 3 months or less (2019: -30%); -50% for 6 months or less (2019: -40%); the requirement to hold 15% (2019: 18%) of KD customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 100% (2019: 90%).

In response to the Covid-19 outbreak, the Bank evaluated its liquidity and funding positions by closely monitoring its cash flows and forecasts and strengthening the cash and short-term funds. The Bank also adopted the selective loan disbursals and focused to strengthen the customer deposit base. The Bank continues to monitor its liquidity position and funding risks arising due to the Covid-19 crisis.

NOTES TO THE FINANCIAL STATEMENTS

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

At 31 December 2020:

Assets:	**Upto 1month KD 000's**	**1 to 3 months KD 000's**	**3 to 6 months KD 000's**	**6 to 12 months KD 000's**	**1 to 3 years KD 000's**	**Over 3 years KD 000's**	**Total KD 000's**
Cash and cash equivalents	1,105,925	-	-	-	-	-	1,105,925
Kuwait Government treasury bonds	-	-	17,500	17,000	57,500	16,500	108,500
Central Bank of Kuwait bonds	62,973	123,220	94,531	-	-	-	280,724
Deposits with banks and other financial institutions	-	3,033	-	-	-	-	3,033
Loans and advances to banks	633	442	26	41,171	149,791	-	192,063
Loans and advances to customers	182,428	679,930	239,945	473,023	577,383	1,963,828	4,116,537
Investment securities	8,190	-	15,144	9,001	74,175	68,345	174,855
Other assets	27,464	1,165	5,723	2,511	59,772	383	97,018
Premises and equipment	-	-	-	-	-	34,053	34,053
Total assets	1,387,613	807,790	372,869	542,706	918,621	2,083,109	6,112,708
Liabilities:							
Due to banks	136,934	72,744	218,826	122,039	-	-	550,543
Deposits from financial institutions	260,266	220,557	126,045	98,469	-	-	705,337
Customer deposits	2,197,683	929,904	431,114	463,464	11,554	-	4,033,719
Subordinated Tier 2 bonds	-	-	-	-	100,000	-	100,000
Other liabilities	23,365	23,466	8,355	8,478	22,081	-	85,745
Total liabilities	2,618,248	1,246,671	784,340	692,450	133,635	-	5,475,344

At 31 December 2019:

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

The tables below summarize the maturity profile of the Bank's financial liabilities and contingent liabilities, commitments and non-derivative financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

At 31 December 2020:

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	66,773	5,003	432,713	51,571	-	556,060
Deposits from financial institutions	85,458	202,602	354,670	67,439	-	710,169
Customer deposits	1,742,541	251,169	1,824,113	235,288	-	4,053,111
Subordinated Tier 2 bonds	-	1,479	4,521	102,482	-	108,482
Other liabilities	23,365	23,466	16,833	22,081	-	85,745
Total undiscounted liabilities	1,918,137	483,719	2,632,850	478,861	-	5,513,567

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019:

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

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

At 31 December 2020:

	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**
Contingent liabilities	**23,323**	**13,948**	**212,903**	**528,585**	**601,020**	**1,379,779**
Commitments	**6,238**	**4,131**	**20,739**	**59,471**	**210,071**	**300,650**
	29,561	**18,079**	**233,642**	**588,056**	**811,091**	**1,680,429**

At 31 December 2019:

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

The table below shows the contractual expiry by maturity of the Bank's forward foreign exchange contracts positions:

Derivatives	**Less than 1 month KD 000's**	**1to3 months KD 000's**	**3 to 12 months KD 000's**	**Total KD 000's**
At 31 December 2020:				
Forward foreign exchange	**383**	**2,874**	**1,978**	**5,235**
At 31 December 2019:				
Forward foreign exchange	70,848	174	3,108	74,130

E. OPERATIONAL RISK

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

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

F. EQUITY PRICE RISK

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

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

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

Market indices	% Change in equity price	**2020 Impact of statement of comprehensive income KD 000's**	2019 Impact of statement of comprehensive income KD 000's
Kuwait Stock Exchange	+5%	**605**	793

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interest bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

NOTES TO THE FINANCIAL STATEMENTS

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

At 31 December 2020:	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets at FVOCI:				
Equity securities	**12,104**	**642**	**25,415**	**38,161**
Debt securities	**-**	**201**	**-**	**201**
	12,104	**843**	**25,415**	**38,362**

At 31 December 2019:	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets at FVOCI:				
Equity securities	15,868	770	17,128	33,766
Debt securities	-	201	-	201
	15,868	971	17,128	33,967

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

Financial assets at FVOCI: Equity securities	At 1 January KD 000's	Change in fair value KD 000's	Additions KD 000's	Exchange rate movements KD 000's	At 31 December KD 000's
2020	**17,128**	**(648)**	**8,919**	**16**	**25,415**
2019	18,114	(994)	-	8	17,128

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

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

The amortized cost and fair value of investment securities at amortised cost as at 31 December 2020 were **KD 136,493 thousand** (2019: KD 136,727 thousand) and **KD 118,551 thousand** (Level 1) (2019: KD 118,235 thousand) and **KD 20,800 thousand** (Level 2) (2019: KD 20,800 thousand) respectively.

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

The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. 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:

	2020 KD 000's	2019 KD 000's
Guarantees	**1,135,900**	1,213,861
Letters of credit and acceptances	**243,879**	247,720
	1,379,779	1,461,581

As at the reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD 300,650 thousand** (2019: KD 291,604 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

27. SEGMENTAL ANALYSIS

a. By Business Unit

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

Treasury & Investments — Providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of 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 year ended 31 December is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2020 KD 000's	2019 KD 000's	**2020 KD 000's**	2019 KD 000's	**2020 KD 000's**	2019 KD 000's
Operating income	**137,109**	166,869	**(239)**	7,754	**136,870**	174,623
Segment result	**52,015**	76,487	**(1,646)**	6,610	**50,369**	83,097
Unallocated income					**21,398**	33,024
Unallocated expense					**(42,968)**	(52,478)
Profit for the year					**28,799**	63,643
Segment assets	**4,399,677**	4,562,162	**1,642,198**	1,605,868	**6,041,875**	6,168,030
Unallocated assets					**70,833**	77,387
Total Assets					**6,112,708**	6,245,417
Segment liabilities	**3,133,593**	2,740,335	**2,207,827**	2,688,145	**5,341,420**	5,428,480
Unallocated liabilities and equity					**771,288**	816,937
Total Liabilities and Equity					**6,112,708**	6,245,417

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 2020 or 2019.

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 2020:

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

At 31 December 2019:

				Notional amounts by term to maturity	
	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount total KD 000's	Within 3 months KD 000's	3-12 months KD 000's
Derivatives instruments held as:					
Trading (and non qualifying hedges) Forward foreign exchange contracts	13	(215)	74,130	71,022	3,108

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 cashmargin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest.

For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Bank.

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2020 and 31 December 2019 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2020 KD 000's	2019 KD 000's
Risk weighted assets	**4,576,070**	4,809,253
Capital required: 11.5% (2019: 14%) (Note 3)	**526,248**	673,295
Capital available		
- Tier 1 capital	**679,576**	664,323
- Tier 2 capital	**155,537**	158,164
Total capital	**835,113**	822,487
Tier 1 capital adequacy ratio	**14.85%**	13.81%
Total capital adequacy ratio	**18.25%**	17.10%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2020 and 31 December 2019 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2020 KD 000's	2019 KD 000's
Tier 1 capital	**679,576**	664,323
Total Exposure	**6,848,774**	7,110,158
Financial leverage ratio	**9.92%**	9.34%

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 2020 and 31 December 2019 are included under the 'Risk Management' section of the annual report.

BRANCH NETWORK

1885588

CAPITAL

Abdullah Al-Salem
Ext.: 6030 / 6034
Fax: +965 22 529 256

Audeliya
Ext.: 6020 / 6029
Fax: +965 22 564 031

Crystal Tower
Ext.: 6840 / 6841

Daiya
Ext.: 6370 / 6378
Fax: +965 22 572 990

Fahad Al salem
Ext.: 6270 / 6277
Fax: +965 22 428 313

Ghazali
Ext.: 6420 / 6422
Fax: +965 24 827 470

Jaber Al-Ahmad
Ext.: 6740 / 6744

Mansouriya
Ext.: 6120 / 6126
Fax: +965 22 555 379

Ministry Complex
Ext.: 6170 / 6176
Fax: +965 22 431 854

Mubarak Al Kabeer
Ext.: 2002 / 2717
Fax: +965 22 445 240

Nuzha
Ext.: 6360 / 6369
Fax: +965 22 548 975

Sharq
Ext.: 6680 / 6687
Fax: +965 22 478 406

Surra
Ext.: 6100 / 6101
Fax: +965 25 314 002

Al AHMADI

Ahmadi
Ext.: 6240 / 6249
Fax: +965 23 980 201

Al Reqqa
Ext.: 6430 / 6438
Fax: +965 23 940 098

Fahaheel 1
Ext.: 6040 / 6049
Fax: +965 23 910 761

Fahaheel 2
Ext.: 6380 / 6389
Fax: +965 23 916 865

Hadiya
Ext.: 6140 / 6148
Fax: +965 23 969 243

Jaber Al Ali
Ext.: 6460 / 6466
Fax: +965 23 833 748

Al Mangaf
Ext.: 6260 / 6268
Fax: +965 23 710 868

Mina Al Zoor
Ext.: 6110 / 6119
Fax: +965 23 950 307

Sabahiya
Ext.: 6660 / 6668
Fax: +965 23 613 913

Sabhan
Ext.: 6340 / 6349
Fax: +965 24 732 611

Al FARWANIYAH

The Avenues
Tel.: +965 22 200 901
Fax: +965 22 200 903

Farwaniya 1
Ext.: 6160 / 6163
Fax: +965 24 732 545

Farwaniya 2
Ext.: 6600 / 6609
Fax: +965 24 720 562

Firdous
Ext.: 6390 / 6395
Fax: +965 24 801 903

Jleeb Al Shuyoukh
Ext.: 6060 / 6068
Fax: +965 24 341 710

Kheitan
Ext.: 6320 / 6329
Fax: +965 24 751 811

Sabah Al Naser
Ext.: 6610 / 6619
Fax: +965 24 894 138

Shuwaikh Port
Ext.: 6080 / 6083
Fax: +965 24 813 350

Shuwaikh
Ext.: 6290 / 6293
Fax: +965 24 819 407

AL JAHRAA

Al Oyoun
Ext.: 6630 / 6638
Fax: +965 24 564 363

Jahra (Co-op)
Ext.: 6150 / 6154
Fax: +965 24 555 173

Jahra 2
Ext.: 6350 / 6354
Fax: +965 24 563 490

Qairawan
Ext.: 6730 / 6737
Fax: +965 24 663 052

Saad Al-Abdullah
Ext.: 6780 / 6781

Sulaibikhat
Ext.: 6470 / 6479
Fax: +965 24 869 405

HAWALLI

Al Zahra
Ext.: 6690 / 6699
Fax: +965 25 246 896

Bayan
Ext.: 6180 / 6183
Fax: +965 25 389 031

Hawalli
Ext.: 6280 / 6289
Fax: +965 22 653 941

Jabriya
Ext.: 6400 / 6409
Fax: +965 25 350 480

Midan Hawalli
Ext.: 6700 / 6709
Fax: +965 25 628 504

Mishref
Ext.: 6200 / 6209
Fax: +965 25 392 812

Rumaithiya
Ext.: 6190 / 6195
Fax: +965 25 646 192

Salmiya Main - Fanar
Ext.: 6300 / 6309
Fax: +965 25 716 554

Cube Mall
Ext.: 6831-6832-6833

Salmiya (Co-op)
Ext.: 6050 / 6051
Fax: +965 25 716 842

Shaab
Ext.: 6070 / 6078
Fax: +965 22 664 176

South Surra
Ext.: 6410 / 6419
Fax: +965 25 213 073

MUBARAK AL KABEER

Al Adan
Ext.: 6090 / 6099
Fax: +965 25 425 689

Sabah Al Salem
Ext.: 6670 / 6679
Fax: +965 25 512 160

NOTES

NOTES

NOTES

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