GULF BANK GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2024

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

Report on the Audit of Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Gulf Bank K.S.C.P. (the ''Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2024, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards, as adopted by the Central Bank of Kuwait ("CBK") 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 the Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: *Financial Instruments* ("IFRS 9"), determined in accordance with the CBK guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in notes 2 and 12 to the consolidated financial statements.

The 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 increases 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.

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on loans and advances (continued)

The 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 management's judgement in assessing significant increases in credit risk and classification of credit facilities into various stages, and adjustments to ECL models, where applicable, 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 Group in developing the models, its governance and review controls performed by the management in determining the stage classification and the adequacy of credit losses.

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 Group'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 Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") and the overlays, where applicable, considered by management, in order to determine ECL taking into consideration the CBK guidelines. For a sample of credit facilities, we have computed the ECL including the eligibility and value of collateral considered in the ECL models used by the Group. We also evaluated the various inputs and assumptions used by the Group'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, where applicable, 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 Group'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 Group's 2024 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Group's 2024 Annual Report, other than the consolidated 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 for the year ended 31 December 2024 after the date of our auditors' report.

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Other information included in the Group's 2024 Annual Report (continued)
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS Accounting Standards as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.

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

Report on the Audit of Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated 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 consolidated 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, or 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 2024 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2024 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM AL SAMDAN	ALI B. Al-WAZZAN
LICENCE NO. 208 A	LICENCE NO. 246A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNER	AL-WAZZAN & CO.

10 February 2025
Kuwait

GULF BANK GROUP
Consolidated Income Statement
Year Ended 31 December 2024

	NOTES	**2024 KD 000's**	2023 KD 000's
Interest income	4	**403,476**	369,967
Interest expense	5	**(247,228)**	(219,530)
Net interest income		**156,248**	150,437
Net fees and commissions	6	**25,617**	26,268
Net gains from dealing in foreign currencies and derivatives		**10,567**	10,332
Dividend income		**1,001**	1,010
Other income		**5,895**	2,214
Operating income		**199,328**	190,261
Staff expenses		**53,489**	53,871
Occupancy costs		**2,779**	2,989
Depreciation		**8,116**	7,169
Other expenses		**28,202**	22,818
Operating expenses		**92,586**	86,847
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**106,742**	103,414
Charge (release) of provisions:			
- specific	7	**81,188**	40,777
- general	12,18	**(46,275)**	(584)
Loan recoveries, net of write-off	12	**8,651**	(11,601)
Net provision on other financial assets	9,13	**(62)**	(103)
Impairment loss on other assets	14	**-**	68
		43,502	28,557
OPERATING PROFIT		**63,240**	74,857
Directors' remuneration	22	**240**	295
Contribution to Kuwait Foundation for the Advancement of Sciences		**633**	749
National Labour Support Tax		**1,572**	1,853
Zakat		**623**	749
PROFIT FOR THE YEAR		**60,172**	71,211
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	**16**	20

The attached notes 1 to 30 form part of these consolidated financial statements.

GULF BANK GROUP
Consolidated Statement of Comprehensive Income
Year Ended 31 December 2024

	2024 **KD 000's**	2023 KD 000's
Profit for the year	**60,172**	71,211
Other comprehensive income		
Items that will not to be reclassified subsequently to the consolidated income statement:		
Net changes in fair value of investment securities-equity	**2,836**	(1,991)
Revaluation of premises and equipment	**(371)**	(180)
Other comprehensive income (loss) for the year	**2,465**	(2,171)
Total comprehensive income for the year	**62,637**	69,040

The attached notes 1 to 30 form part of these consolidated financial statements.

GULF BANK GROUP
Consolidated Statement of Financial Position
As at 31 December 2024

	NOTES	2024 KD 000's	2023 KD 000's
ASSETS			
Cash and cash equivalents	9	**1,387,876**	1,093,757
Kuwait Government treasury bonds	10	**2,500**	16,500
Central Bank of Kuwait bonds	11	**140,031**	337,715
Deposits with banks and other financial institutions	9	**135,468**	180,981
Loans and advances	12	**5,466,938**	5,196,622
Investment securities	13	**204,625**	191,420
Other assets	14	**101,762**	118,154
Premises and equipment		**40,948**	39,483
TOTAL ASSETS		**7,480,148**	7,174,632
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**365,430**	256,354
Deposits from financial institutions	15	**944,513**	1,148,583
Customer deposits	16	**4,656,680**	4,219,259
Other borrowed funds	17	**519,824**	570,062
Other liabilities	18	**160,098**	163,574
TOTAL LIABILITIES		**6,646,545**	6,357,832
EQUITY			
Share capital	19	**380,250**	362,143
Proposed bonus shares	22	**19,013**	18,107
Statutory reserve	20	**66,862**	60,538
Share premium	20	**186,937**	186,937
Property revaluation reserve	20	**17,603**	17,974
Fair valuation reserve		**2,120**	(716)
Retained earnings		**163,195**	171,817
		835,980	816,800
Treasury shares	21	**(2,377)**	-
TOTAL EQUITY		**833,603**	816,800
TOTAL LIABILITIES AND EQUITY		**7,480,148**	7,174,632

Bader Nasser Al Kharafi
(Chairman)

Waleed Mandani
(Acting Chief Executive Officer)

The attached notes 1 to 30 form part of these consolidated financial statements.

GULF BANK GROUP

Consolidated Statement of Cash Flows

Year Ended 31 December 2024

	NOTES	**2024** **KD 000's**	2023 KD 000's
OPERATING ACTIVITIES			
Profit for the year before directors' remuneration and taxation		**63,240**	74,857
Adjustments:			
Dividend income		**(1,001)**	(1,010)
Depreciation		**8,116**	7,169
Loan loss provisions	7,12,18	**34,913**	40,193
Net provision on other financial assets	9,13	**(62)**	(103)
Impairment loss on other assets	14	**-**	68
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**105,206**	121,174
Decrease/(increase) in operating assets:			
Kuwait Government treasury bonds		**14,000**	5,500
Central Bank of Kuwait bonds		**197,684**	(12)
Deposits with banks and other financial institutions		**45,514**	(49,724)
Loans and advances		**(291,824)**	(109,434)
Other assets		**10,754**	14,708
Increase/(decrease) in operating liabilities:			
Due to banks		**109,076**	(233,297)
Deposits from financial institutions		**(204,070)**	373,972
Customer deposits		**437,421**	(27,578)
Other liabilities		**(16,609)**	37,665
Taxes paid		**(3,340)**	(2,870)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**403,812**	130,104
INVESTING ACTIVITIES			
Purchase of investment securities		**(285,517)**	(191,626)
Proceeds from sale/maturity of investment securities		**280,847**	128,680
Purchase of premises and equipment		**(9,952)**	(8,172)
Dividend income received		**1,001**	1,010
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(13,621)**	(70,108)
FINANCING ACTIVITIES			
Proceeds from issuance of rights shares	19	-	60,000
Rights shares issuance cost		-	(264)
Net proceeds in other borrowed funds	17	**(50,238)**	76,136
Dividend paid	22	**(43,457)**	(32,005)
Purchase of treasury shares	21	**(2,377)**	-
Proceeds from sale of treasury shares		**-**	6
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(96,072)**	103,873
NET INCREASE IN CASH AND CASH EQUIVALENTS		**294,119**	163,869
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,093,757**	929,888
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**1,387,876**	1,093,757
Additional cash flows information			
Interest received		**405,595**	362,934
Interest paid		**250,149**	192,070

The attached notes 1 to 30 form part of these consolidated financial statements.

GULF BANK GROUP

Consolidated Statement of Changes in Equity

Year Ended 31 December 2024

			RESERVES							
	Share capital KD 000's	Proposed bonus shares KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Sub-total reserves KD 000's	Treasury shares KD 000's	Total KD 000's
At 1 January 2023	320,053	16,003	53,052	153,024	18,154	1,549	158,188	383,967	-	720,023
Profit for the year	-	-	-	-	-	-	71,211	71,211	-	71,211
Other comprehensive loss for the year	-	-	-	-	(180)	(1,991)	-	(2,171)	-	(2,171)
Total comprehensive (loss) income for the year	-	-	-	-	(180)	(1,991)	71,211	69,040	-	69,040
Rights shares issued (Note 19)	26,087	-	-	33,913	-	-	-	33,913	-	60,000
Rights shares issuance cost	-	-	-	-	-	-	(264)	(264)	-	(264)
Dividend paid (Note 22)	-	-	-	-	-	-	(32,005)	(32,005)	-	(32,005)
Issue of bonus shares (Note 22)	16,003	(16,003)	-	-	-	-	-	-	-	-
Realised gain on equity securities at FVOCI	-	-	-	-	-	(274)	274	-	-	-
Profit on sale of treasury shares	-	-	-	-	-	-	6	6	-	6
Transfer to reserve	-	-	7,486	-	-	-	(7,486)	-	-	-
Proposed bonus shares (Note 22)	-	18,107	-	-	-	-	(18,107)	(18,107)	-	-
At 31 December 2023	362,143	18,107	60,538	186,937	17,974	(716)	171,817	436,550	-	816,800
At 1 January 2024	**362,143**	**18,107**	**60,538**	**186,937**	**17,974**	**(716)**	**171,817**	**436,550**	**-**	**816,800**
Profit for the year	-	-	-	-	-	-	60,172	60,172	-	60,172
Other comprehensive (loss) income for the year	-	-	-	-	(371)	2,836	-	2,465	-	2,465
Total comprehensive (loss) income for the year	-	-	-	-	(371)	2,836	60,172	62,637	-	62,637
Dividend paid (Note 22)	-	-	-	-	-	-	(43,457)	(43,457)	-	(43,457)
Issue of bonus shares (Note 22)	18,107	(18,107)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(2,377)	(2,377)
Transfer to reserve	-	-	6,324	-	-	-	(6,324)	-	-	-
Proposed bonus shares (Note 22)	-	19,013	-	-	-	-	(19,013)	(19,013)	-	-
At 31 December 2024	**380,250**	**19,013**	**66,862**	**186,937**	**17,603**	**2,120**	**163,195**	**436,717**	**(2,377)**	**833,603**

The attached notes 1 to 30 form part of these consolidated financial statements.

1. INCORPORATION AND REGISTRATION

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

During the year 2023, a 100% owned subsidiary, Gulf Capital Investment Company KSCC was incorporated with an authorized, issued and fully paid up capital of **KD 10,000 thousand** for engaging in securities activities.

The Bank and its subsidiary are together referred to as (the "Group") in this consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2024 were authorised for issue in accordance with a resolution of the Board of Directors on 14 January 2025. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

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

2. MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.2 Statement of compliance

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards ("IFRS Accounting Standards") with an amendment for measuring the expected credit loss ("ECL") on credit facilities at the higher of ECL computed under IFRS 9 – 'Financial Instruments' in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures.

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

2.3 Presentation of consolidated financial statements

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

2.4 Changes in accounting policies and disclosures

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

The following amendments to existing IFRS accounting standards became effective for annual periods beginning on 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
- Disclosures: Supplier Finance Arrangements -Amendments to IAS 7 and IFRS 7

None of these amendments will have an impact on the Group's consolidated financial statements at 31 December 2024.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December each year.

Subsidiaries are those entities controlled by the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The financial statements of subsidiaries are included in these consolidated financial statements on a line-by-line basis, from the date on which the control is transferred to the Group until the date that such control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on the financial information of the subsidiaries. Intra-group balances, transactions, income and expenses are eliminated in full. Profits and losses resulting from intra-group transactions are also eliminated in full.

2.6 Summary of material accounting policies

a. Financial instruments

Classification of financial instruments

The Group 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 Group 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 Group manages the financial assets in order to generate cash flows. That is, whether the Group'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 Group'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 Group's original expectations, the Group 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 Group 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 Group 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 Group 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.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

a. Financial instruments (continued)

Recognition/de-recognition

A financial asset or a financial liability is recognised at fair value when the Group 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 consolidated income statement.

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Group receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement, or in consolidated 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 Group 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 Group 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 Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 consolidated 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 Group 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.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

a. Financial instruments (continued)

Measurement of financial instruments (continued)

Financial assets carried at amortised cost (continued)

Cash and cash equivalents, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances, 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.

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 consolidated income statement. When the debt instrument is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated 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 consolidated income statement and presented in the consolidated income statement within 'Net trading income' in the period in

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 Group subsequently measures all equity instruments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group'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 consolidated 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 consolidated statement of changes in equity. Dividends, when representing a return on such investments, to be recognised in consolidated income statement as 'Dividend income' when the Group's right to receive

Financial asset at FVTPL

The Group 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 consolidated statement of financial position at fair value. In addition, on initial recognition, the Group 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'.

Financial liabilities carried at amortised cost

Due to banks, deposits from financial institutions, customer deposits, Subordinated Tier 2 bonds and medium term borrowings are classified as financial liabilities. These financial liabilities are initial recognised at their fair value being the issue proceeds net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets

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

- loans and advances 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 Group considers impairment on financial assets mainly in two following categories:

Impairment on credit facilities

Credit facilities include loans and advances, guarantees, letter of credit and acceptances and undrawn commitments. Impairment on credit facilities shall be recognised in the consolidated 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 Group 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 Group 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 that are determined to have low credit risk at the initial recognition date.

<u>Expected Credit Losses</u>

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 Group 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 Group 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.

2. ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets (continued)

Determining the significant increase in credit risk
When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information and back stop indicators and analysis based on the Group'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 Group assesses whether a financial asset or group of financial assets is credit impaired. The Group 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 Group on terms that the Group 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 Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money. The 12-months ECL is equal to the discounted sum over the next 12-months PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of PD over the full remaining life multiplied by LGD and EAD.

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

The Group 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.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

a. Financial instruments (continued)

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. If the amount to be written off is greater than the impairment provision, the difference is first treated as an addition to the provision that is then applied against the gross carrying amount. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Commitments

When estimating LT ECLs for undrawn commitments, the Group 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.

Modification of loans and advances

Where possible, the Group 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 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 Group 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 Group 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. Provision on cash facilities are presented as a deduction from the gross carrying amount of the financial assets carried at amortised cost. Provision on non-cash facilities are recognised in other liabilities.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

a. Financial instruments (continued)

Fair value 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 consolidated 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 Group 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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

b. Derivative financial instruments and hedging

In the ordinary course of business the Group 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 consolidated 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 consolidated income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated 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 consolidated income statement and are disclosed under operating income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

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

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 Group actually hedges and the quantity of the hedging instrument that the Group 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 Group 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 consolidated 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 consolidated 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 consolidated statement of comprehensive income and the ineffective portion is recognised in the consolidated 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 consolidated statement of comprehensive income are re-classified into the consolidated income statement in the same period or periods during which the financial asset or financial liability affects the consolidated income

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 consolidated 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 consolidated 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.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

c. Repossessed collaterals

The Group 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 consolidated income statement.

The Group 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 consolidated income statement net of any reimbursement.

e. End of service indemnity

The Group 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, turnovers and retirement age. These assumptions are reviewed at each reporting date.

Defined contribution plan

The Group makes fixed contribution to state plans under a defined contribution plan and has no further payment obligations once the contributions have been paid. The contributions are recognized as 'staff expenses' in the consolidated income statement when they are due.

f. Treasury shares

Treasury shares consist of the Group's own issued shares that have been reacquired by the Group 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 consolidated 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 consolidated income statement. To the extent that a revaluation surplus reverses a revaluation loss previously recognised in the consolidated income statement, the increase is recognised in the consolidated 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.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

h. Impairment of non-financial assets

The Group 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 Group 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 Group 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 consolidated 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 Group 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 consolidated 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 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. When a financial asset becomes credit-impaired, the Group calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

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

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

l. Leases

At inception of a contract, the Group 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 Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group 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 consolidated 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 Group recognises right-of-use assets in 'property and equipment' in the consolidated statement of financial position.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

l. Leases (continued)

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 Group'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 Group recognises lease liabilities in 'other liabilities' in the consolidated statement of financial position.

m. Fiduciary assets
Assets held or managed in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated 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 consolidated 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 consolidated income statement, foreign exchange differences are recognised in the consolidated 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 Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group 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 Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received, in 'Other liabilities'. The premium received is recognized in the consolidated 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.

2. MATERIAL ACCOUNTING POLICIES (continued)

2.7 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 2025 have not been early adopted in the preparation of the Group's consolidated financial statements. The Group intends to adopt those standards, if applicable, when they become effective.

Amendment to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
- clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
- add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and
- make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

The Amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Group is currently not intending to early adopt the Amendments.

IFRS 18 Presentation and Disclosure in Financial Statements

This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will apply retrospectively. The Group is currently working to identify all impacts the amendments will have on the consolidated financial statements and notes to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant accounting judgements

Classification of financial instruments

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group 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 Group 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 Group’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 consolidated income statement or consolidated statement of comprehensive income. Refer Note 2.6.a classification of financial instruments for more information.

Significant estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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 Group estimates expected credit loss for debt instruments at amortised cost and FVOCI excluding loans and advances for which the Group apply impairment requirements under CBK regulations. The determination of expected credit loss involves significant use of external and internal data and assumptions. Refer Note 2.6.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 Group 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.

4. INTEREST INCOME

	2024 KD 000's	2023 KD 000's
Kuwait Government treasury bonds and CBK Bonds	**13,236**	15,182
Debt investment securities	**7,081**	3,344
Placements with banks	**47,675**	43,070
Loans and advances	**335,484**	308,371
	403,476	369,967

5. INTEREST EXPENSE

	2024 KD 000's	2023 KD 000's
Sight and savings accounts	**5,030**	5,149
Time deposits	**195,802**	172,025
Bank borrowings	**13,910**	13,512
Other borrowed funds	**32,486**	28,844
	247,228	219,530

6. NET FEES AND COMMISSIONS

	2024 KD 000's	2023 KD 000's
Total fees and commission income	**40,734**	40,825
Total fees and commission expense	**(15,117)**	(14,557)
	25,617	26,268

Total fees and commission income includes **KD 655 thousand** (2023: KD 664 thousand) from fiduciary activities (Note 30).

7. SPECIFIC PROVISIONS

	2024 KD 000's	2023 KD 000's
Cash facilities (Note 12)	**68,105**	41,746
Non-cash facilities (Note 18)	**13,083**	(969)
	81,188	40,777

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 2024.

	2024	2023
	KD 000's	KD 000's
Profit for the year	**60,172**	71,211
	Shares	Shares
Weighted average number of shares outstanding during the year, net of treasury shares	**3,797,265,749**	3,553,679,425
	Fils	Fils
Basic and diluted earnings per share	**16**	20

Earnings per share calculations for the year ended 31 December 2024 and 31 December 2023 have been adjusted to the account for the bonus shares issued on 14 April 2024 (Note 22). Earnings per share for the year ended 31 December 2023 was 21 fils per share before retroactive adjustment to account for the bonus shares and rights shares.

9. CASH AND CASH EQUIVALENTS

	2024	2023
	KD 000's	KD 000's
Balances with the Central Bank of Kuwait	**543,118**	289,853
Cash in hand and in current accounts with other banks and other financial institutions	**76,333**	106,794
Deposits with banks and other financial institutions maturing within 30 days	**768,436**	697,118
	1,387,887	1,093,765
Less: Provision for ECL	**(11)**	(8)
	1,387,876	1,093,757

At 31 December 2024, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 135,469 thousand** (2023: KD 180,983 thousand) adjusted by ECL provision amount of **KD 1 thousand** (2023: KD 2 thousand).

At 31 December 2024 and 2023, 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.

	2024 KD 000's	2023 KD 000's
Maturing within one year	**-**	14,000
Maturing after one year	**2,500**	2,500
	2,500	16,500

At 31 December 2024 and 2023, Kuwait Government treasury bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

11. CENTRAL BANK OF KUWAIT BONDS

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

	2024 KD 000's	2023 KD 000's
Central Bank of Kuwait Bonds	**140,031**	337,715

At 31 December 2024 and 2023, 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

Loan and advances represent amount advanced to corporate, institutional customers, banks, SMEs and retail customers. The Group's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2024:

	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	**2,321,758**	**-**	**-**	**-**	**1,587**	**2,323,345**
Financial	**214,146**	**358,626**	**67,978**	**32,042**	**111,869**	**784,661**
Trade and commerce	**453,035**	**11,192**	**14,843**	**-**	**-**	**479,070**
Crude oil and gas	**189,481**	**129,325**	**38,512**	**-**	**-**	**357,318**
Construction	**146,029**	**17**	**-**	**15,405**	**-**	**161,451**
Manufacturing	**174,093**	**2,025**	**-**	**-**	**-**	**176,118**
Real estate	**866,029**	**32,245**	**-**	**-**	**64,700**	**962,974**
Others	**175,476**	**227,940**	**-**	**-**	**57,344**	**460,760**
Gross loans and advances	**4,540,047**	**761,370**	**121,333**	**47,447**	**235,500**	**5,705,697**
Less: Provision for impairment						**(238,759)**
						5,466,938

12. LOANS AND ADVANCES (continued)

At 31 December 2023:

	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	2,322,764	-	-	-	1,587	2,324,351
Financial	185,129	394,055	19,297	5,828	101,191	705,500
Trade and commerce	426,064	12,270	15,648	-	-	453,982
Crude oil and gas	236,272	118,583	-	-	-	354,855
Construction	151,299	9,863	-	-	-	161,162
Manufacturing	283,816	-	-	-	-	283,816
Real estate	823,366	34,828	-	-	-	858,194
Others	151,831	196,738	-	-	-	348,569
Gross loans and advances	4,580,541	766,337	34,945	5,828	102,778	5,490,429
Less: Provision for impairment						(293,807)
						5,196,622

Movement in provision for impairment

	2024 KD 000's			2023 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**31,855**	**261,952**	**293,807**	31,835	262,206	294,041
Amounts written-off	**(76,556)**	**-**	**(76,556)**	(41,726)	-	(41,726)
Charge (release) to consolidated income statement	**68,105**	**(46,597)**	**21,508**	41,746	(254)	41,492
At 31 December	**23,404**	**215,355**	**238,759**	31,855	261,952	293,807

The specific and general provisions are based on the requirements of the CBK instructions and IFRS 9 according to CBK guidelines. Refer Note 2.6.a impairment of financial instruments for more information.

Loan recoveries, net of write-off amounting to **KD 8,651 thousand** (2023: KD 11,601 thousand) represent the net difference between loans written off during the year of **KD 16,960 thousand** (2023: KD 217 thousand) and recoveries of **KD 8,309 thousand** (2023: KD 11,818 thousand).

	2024 KD 000's			2023 KD 000's		
Movement in provisions for impairment of loans and advances by class is as follows:	**Corporate and bank lending**	**Consumer lending**	**Total**	Corporate and bank lending	Consumer lending	Total
At 1 January	**255,232**	**38,575**	**293,807**	261,510	32,531	294,041
Amounts written-off	**(39,652)**	**(36,904)**	**(76,556)**	(11,489)	(30,237)	(41,726)
(Release) charge to consolidated income statement	**(20,230)**	**41,738**	**21,508**	5,211	36,281	41,492
At 31 December	**195,350**	**43,409**	**238,759**	255,232	38,575	293,807

12. LOANS AND ADVANCES (continued)

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

Provision for non-cash facilities of **KD 31,486 thousand** (2023: KD 18,081 thousand) is included under other liabilities (Note 18).

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

	2024 KD 000's	2023 KD 000's
Provision on cash facilities	**238,759**	293,807
Provision on non-cash facilities	**31,486**	18,081
Total provisions on credit facilities	**270,245**	311,888
IFRS 9 ECL on credit facilities	**176,737**	186,682
Excess of total provisions over IFRS 9 ECL on credit facilities	**93,508**	125,206
Excess provisions as a percentage of total provisions	**35%**	40%

13. INVESTMENT SECURITIES

	2024			2023		
	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	**168,681**	**-**	**168,681**	158,095	-	158,095
Other bonds	**642**	**-**	**642**	984	-	984
Equity securities	**-**	**13,932**	**13,932**	-	11,014	11,014
	169,323	**13,932**	**183,255**	159,079	11,014	170,093
Unquoted investments						
Equity securities/others	**-**	**21,391**	**21,391**	-	21,412	21,412
Less: Provision for ECL	**(21)**	**-**	**(21)**	(85)	-	(85)
At 31 December	**169,302**	**35,323**	**204,625**	158,994	32,426	191,420

At 31 December 2024 and 2023, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

14. OTHER ASSETS

	2024 KD 000's	2023 KD 000's
Accrued interest receivable	**30,903**	33,022
Sundry debtors and others	**14,733**	17,287
Less: impairment loss on other receivables	**(819)**	(819)
Repossessed collaterals (refer movement below)	**56,945**	68,664
	101,762	118,154

Movement in repossessed collaterals:

	2024 KD 000's	2023 KD 000's
At 1 January	**68,664**	68,664
Disposals	**(11,719)**	-
At 31 December	**56,945**	68,664

The fair value of the real estate properties was determined by approved valuers based on the market comparable approach (Level 3); and not materially different from their carrying values.

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2024 KD 000's	2023 KD 000's
Due to banks		
Current accounts and demand deposits	**40,412**	14,209
Time deposits	**325,018**	242,145
	365,430	256,354
Deposits from financial institutions		
Current accounts and demand deposits	**53,696**	49,821
Time deposits	**890,817**	1,098,762
	944,513	1,148,583

16. CUSTOMER DEPOSITS

	2024 KD 000's	2023 KD 000's
Current/savings accounts	**1,499,673**	1,545,401
Time deposits	**3,157,007**	2,673,858
	4,656,680	4,219,259

Customer deposits include **KD 12,162 thousand** (2023: KD 14,555 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

17. OTHER BORROWED FUNDS

	Effective interest rate	2024 KD 000's	2023 KD 000's
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	**4.00%**	**25,000**	25,000
Subordinated Tier 2 bonds- KWD 2031 (Floating tranche capped at 5%)	**CBK+2.25%**	**25,000**	25,000
Medium term borrowings-Floating- (2025-2027)	**4.85% to 5.75%**	**469,824**	520,062
		519,824	570,062

18. OTHER LIABILITIES

	2024 KD 000's	2023 KD 000's
Accrued interest payable	**56,599**	59,520
Deferred income	**11,468**	8,904
Provisions for non-cash facilities (refer movement below)	**31,486**	18,081
Staff related provisions	**31,548**	28,731
Lease liabilities	**4,124**	3,385
Others	**24,873**	44,953
	160,098	163,574

Movement in provisions for non-cash facilities:

	2024 KD 000's	2023 KD 000's
At 1 January	**18,081**	19,380
Charge/(release) to the consolidated income statement	**13,405**	(1,299)
At 31 December	**31,486**	18,081

19. SHARE CAPITAL

	2024 KD 000's	2023 KD 000's
Issued and fully paid 3,802,502,099 (2023: 3,621,430,571) shares of 100 fils each	**380,250**	362,143

The authorised share capital of the Bank comprises **4,860,561,006 shares** (31 December 2023: 4,860,561,006 shares) of 100 fils each. The Extraordinary General Assembly meeting of the Bank's shareholders held on 13 May 2023 approved to increase the Bank's authorised share capital from KD 336,056 thousand to KD 486,056 thousand and authorised the Board of Directors to decide on the amount and methods of issued share capital increase. Accordingly, after obtaining necessary approvals, the Bank increased its issued share capital through a rights issue of 260,869,565 shares, each with a nominal value of 100 fils per share and a share premium of 130 fils per share.

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 Group. 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

	2024	2023
Number of treasury shares	**9,150,000**	-
Percentage of treasury shares	**0.24%**	0.00%
Cost of treasury shares (KD 000's)	**2,377**	-
Weighted average market value of treasury shares as at 31 December (KD 000's)	**2,681**	-

Movement in treasury shares was as follows:

	No. of shares	
	2024	2023
Balance as at 1 January	**-**	-
Purchase	**9,150,000**	-
Balance as at 31 December	**9,150,000**	-

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **10 fils** per share (2023: 12 fils per share) and bonus shares of **5%** amounting to **KD 19,013 thousand** (2023: KD 18,107 thousand) on the outstanding issued share capital as at 31 December 2024 which is subject to approval of shareholders at the Annual General Meeting. The cash dividend and proposed bonus shares, if approved by Annual General Meeting, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

During the year, the shareholders at the Annual General Meeting held on 23 March 2024 approved a cash dividend of **12 fils per share** (2022: 10 fils per share) and bonus shares of 5% amounting to **KD 18,107 thousand** (2022: KD 16,003 thousand) for the year ended 31 December 2023. The cash dividend amounting to **KD 43,457 thousand** was recorded and paid subsequently. The bonus shares were distributed on 14 April 2024.

Directors' remuneration of **KD 240 thousand** (2023: KD 295 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

23. RELATED PARTY TRANSACTIONS

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

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

	Number of Board Members or executive management		*Number of related parties*			
	2024	2023	**2024**	2023	**2024**	2023
Board members:					**KD 000's**	KD 000's
Balances						
Loans and advances	**1**	1	**30**	19	**187,648**	195,690
Credit cards	**1**	3	**5**	6	**32**	8
Deposits	**7**	8	**91**	93	**825,947**	863,223
Commitments						
Guarantees /letters of credit	**-**	-	**23**	24	**70,724**	68,824
Transactions						
Interest income	**1**	1	**55**	29	**11,101**	8,914
Interest expense	**5**	4	**23**	21	**50,944**	13,589
Net fees and commissions	**-**	-	**89**	24	**473**	267
Other expenses	-	-	**17**	10	**3,896**	1,719
Purchase of equipment	-	-	**4**	2	**434**	317
Executive management:						
Balances						
Loans and advances	**9**	7	**-**	-	**782**	883
Credit cards	**11**	11	**-**	-	**42**	19
Deposits	**17**	14	**-**	-	**1,967**	2,612
Transactions						
Interest income	**10**	9	**-**	-	**44**	48
Interest expense	**18**	19	**-**	-	**131**	138

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **4.75% to 6.75%** (2023: 5% to 6.75%) 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 2024 was **KD 48,031 thousand** (2023: KD 71,076 thousand).

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

	2024	2023
	KD 000's	KD 000's
Salaries and other short-term benefits	**4,345**	3,789
End of service/termination benefits	**234**	524
	4,579	4,313

24. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Group'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 and liquidity management 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 Group 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 Group's strategic objectives.

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

The Group has constituted a Board Risk Committee (BRC) for enhancing the effectiveness of the Board's monitoring of risk issues facing the Group and to submit periodic reports to the Board of Directors as appropriate. The BRC provides oversight of the Group's Risk Management on a holistic basis and ensure the autonomy and independence of Risk function of the Group. 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 Group has also constituted an Executive Risk Committee (ERC), chaired by the Chief Risk Officer (CRO), which is the apex committee for Risk Governance at the Senior Management level. The Risk Management Department of the Group provides regular reports to the BRC and ERC so that the committee members are well informed of all risk exposures of the Group.

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 Group 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 Group's performance to developments affecting a particular industry, geographic location or ownership.

The Group 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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 Group’s obligor rating process in order to rank order risk and categorize exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

The Group 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 Group. 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 Group has – seven credit committees: Board Credit and Investment Committee (BCIC), Executive Credit Committee (‘ECC’), Management Credit Committee (‘MCC’), Consumer Credit Committee (‘CCC’), Remedial Credit Committee (‘RCC’), Wealth Management Credit Committee (‘WMCC’) 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 Group in compliance with the credit policies of the Group. 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 Group. 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 review the performance of consumer credit portfolio periodically, approve/amend Consumer Credit Criteria subject to the approved Risk Appetite of the Bank and to approve/amend Consumer credit delegation for individual authorities.

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.

WMCC has authority to approve, reject or modify credit applications from Wealth Management clients submitted to it within its delegated authority levels. Applications that fall outside the delegated authority limits of the WMCC are referred to the ECC and BCIC based on respective delegation.

CPC operates within the principles of CBK’s rules and regulations and the Group’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 Group and provisioning decisions. The CPC is responsible for making provisions as per IFRS 9 models and methodologies adopted by the Group in line with the guidelines issued by CBK.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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 Group 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 Group 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 Group's Financial Institutions division and recommended by the MCC and ECC.

The Financial Institutions division regularly reviews the Group'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 Group. The risk appetite set by the Group 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 Group 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 2.6.a impairment of financial instruments for more information related to stage classification.

The Group 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 Group 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 Group 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 Group 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 Group 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

ECL methodology (continued)

Significant increase in credit risk

The Group 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 Group applies consistent quantitative criteria for internally rated portfolio to assess significant increase in credit risk. In the absence of ratings at inception, the Group 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 Group considers all restructured credit facilities which are not credit impaired as stage 2.

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

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.

The Group 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 Group for consideration for classifying the facility in Stage 2/Stage 1. The Group 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 is the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Probability of default

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

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Exposure at default

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

Collateral and other credit enhancements

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

The Group'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 Group that are blocked and legally pledged in its favor; and direct, explicit, irrevocable and unconditional bank guarantees.

As of 31 December 2024, **25%** (2023: 24%) of the total outstanding loans and advances were partially or fully secured by collaterals.

The Group has procedures to ensure that there is no excessive concentration of any particular asset class within the collaterals.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the consolidated 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 Group's comprehensive capital as determined by the regulatory guidelines.

BY CLASS OF FINANCIAL ASSETS	**Maximum exposure 2024 KD 000's**	Maximum exposure 2023 KD 000's
Cash and cash equivalents (excluding cash in hand)	**1,342,890**	1,019,218
Kuwait Government treasury bonds	**2,500**	16,500
Central Bank of Kuwait bonds	**140,031**	337,715
Deposits with banks and other financial institutions	**135,468**	180,981
Loans and advances:		
- Corporate and bank lending	**3,338,632**	3,017,012
- Consumer lending	**2,128,306**	2,179,610
Debt investment securities (Note 13)	**169,302**	158,994
Other assets	**44,817**	49,490
Total	**7,301,946**	6,959,520
Contingent liabilities and commitments	**2,926,907**	2,934,941
Foreign exchange contracts (including spot contracts)	**152,614**	54,045
Total	**3,079,521**	2,988,986
Total credit risk exposure	**10,381,467**	9,948,506

Credit risk can also arise due to a significant concentration of Group'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 2024 is **13%** (2023: 12.3%).

	2024		2023	
	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)	**5,862,090**	**2,074,580**	5,623,301	2,151,684
Other Middle East	**889,115**	**456,809**	962,028	342,765
Europe	**123,320**	**248,401**	141,017	219,415
USA and Canada	**128,355**	**39,692**	104,000	21,421
Asia Pacific	**61,716**	**239,652**	25,550	253,683
Rest of world	**237,350**	**20,387**	103,624	18
	7,301,946	**3,079,521**	6,959,520	2,988,986

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

	2024		2023	
	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	**2,281,263**	**90,649**	2,288,179	47,289
Financial	**1,724,846**	**698,209**	1,618,847	576,959
Trade and Commerce	**473,981**	**636,147**	450,416	686,599
Crude Oil and Gas	**276,576**	**195,459**	154,875	149,065
Construction	**160,503**	**698,408**	160,408	672,707
Government	**984,763**	**12**	1,071,271	58,369
Manufacturing	**174,359**	**158,600**	270,801	167,490
Real Estate	**960,928**	**171,285**	856,199	249,096
Others	**264,727**	**430,752**	88,524	381,412
	7,301,946	**3,079,521**	6,959,520	2,988,986

Internal credit quality rating

The Group'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 Group uses Moody's CreditLens 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.

<u>Facility Risk Rating</u>

The Group 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Internal credit quality rating (continued)

North American Industry Classification System (NAICS) Code:

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

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

Portfolio Risk Rating

The Group 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 Group 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:

The Group 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 Group. The Group has a Credit Application system for dissemination of credit packages to credit committee members thereby improving the efficiency of credit approval process.

The table below shows the credit quality by class of financial assets for consolidated statement of financial position lines, based on the Group's credit rating system.

2024

	Neither past due nor impaired			Past due but not impaired	Total
	High	**Standard**	**Acceptable**		
	KD 000's	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Cash and cash equivalents (excluding cash in hand)	**1,342,692**	**209**	**-**	**-**	**1,342,901**
Kuwait Government treasury bonds	**2,500**	**-**	**-**	**-**	**2,500**
Central Bank of Kuwait bonds	**140,031**	**-**	**-**	**-**	**140,031**
Deposits with banks and other financial institutions	**135,468**	**-**	**-**	**-**	**135,468**
Loans and advances:					
- Corporate and bank lending	**3,027,169**	**448,452**	**22,908**	**18,195**	**3,516,724**
- Consumer lending	**1,970,513**	**23,530**	**65,466**	**52,822**	**2,112,331**
Debt investment securities (Note 13)	**163,751**	**5,551**	**-**	**-**	**169,302**
Other assets	**44,817**	**-**	**-**	**-**	**44,817**
	6,826,941	**477,742**	**88,374**	**71,017**	**7,464,074**

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

2023

	Neither past due nor impaired			Past due but not impaired	Total
	High	Standard	Acceptable		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	1,018,898	328	-	-	1,019,226
Kuwait Government treasury bonds	16,500	-	-	-	16,500
Central Bank of Kuwait bonds	337,715	-	-	-	337,715
Deposits with banks and other financial institutions	180,983	-	-	-	180,983
Loans and advances:					
- Corporate and bank lending	2,645,335	501,699	81,138	30,354	3,258,526
- Consumer lending	2,097,110	26,246	290	44,140	2,167,786
Debt investment securities (Note 13)	146,714	12,365	-	-	159,079
Other assets	49,490	-	-	-	49,490
	6,492,745	540,638	81,428	74,494	7,189,305

75% (2023: 79%) of the past due but not impaired category is below 60 days and **25%** (2023: 21%) is between 60-90 days.

Financial assets by class individually impaired

2024	***Gross exposure***	***Impairment provision***	***Fair value of collateral***
	KD 000's	**KD 000's**	**KD 000's**
Loans and advances:			
- Corporate and bank lending	**17,258**	**877**	**15,587**
- Consumer lending	**59,384**	**22,527**	**6,058**
	76,642	**23,404**	**21,645**

2023	*Gross exposure*	*Impairment provision*	*Fair value of collateral*
	KD 000's	KD 000's	KD 000's
Loans and advances:			
- Corporate and bank lending	13,718	1,626	12,067
- Consumer lending	50,399	17,067	6,069
	64,117	18,693	18,136

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 Group 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 Group, 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

An analysis of the carrying amounts of Credit Facilities (cash facilities: loans and advances, and non-cash facilities: contingent liabilities and commitments), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

At 31 December 2024:	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
Loans and advances				
- High	**4,980,040**	**17,642**	**-**	**4,997,682**
- Standard	**401,224**	**70,758**	**-**	**471,982**
- Acceptable	**65,466**	**22,908**	**-**	**88,374**
- Past due but not impaired	**18,738**	**47,861**	**-**	**66,599**
- Impaired	**-**	**-**	**81,060**	**81,060**
	5,465,468	**159,169**	**81,060**	**5,705,697**

At 31 December 2023:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Loans and advances				
- High	4,715,662	26,783	-	4,742,445
- Standard	433,710	94,235	-	527,945
- Acceptable	290	81,138	-	81,428
- Past due but not impaired	18,075	52,627	-	70,702
- Impaired	-	-	67,909	67,909
	5,167,737	254,783	67,909	5,490,429

At 31 December 2024:	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
Contingent liabilities and commitments				
- High	**2,485,848**	**34,791**	**-**	**2,520,639**
- Standard	**309,811**	**49,495**	**-**	**359,306**
- Acceptable	**47**	**12,452**	**-**	**12,499**
- Impaired	**-**	**-**	**34,463**	**34,463**
	2,795,706	**96,738**	**34,463**	**2,926,907**

At 31 December 2023:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Contingent liabilities and commitments				
- High	2,420,715	24,490	-	2,445,205
- Standard	359,272	88,172	-	447,444
- Acceptable	46	22,720	-	22,766
- Impaired	-	-	19,526	19,526
	2,780,033	135,382	19,526	2,934,941

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

At 31 December 2024:	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
ECL balance as at 1 January 2024	**36,635**	**75,216**	**74,831**	**186,682**
Impact due to transfer between stages:				
- Transfer to Stage 1	**19,449**	**(3,113)**	**(16,336)**	**-**
- Transfer to Stage 2	**(974)**	**7,623**	**(6,649)**	**-**
- Transfer to Stage 3	**(199)**	**(25,648)**	**25,847**	**-**
ECL (release)/charge for the year	**(8,860)**	**(21,519)**	**96,990**	**66,611**
ECL release on written off facilities	**-**	**-**	**(76,556)**	**(76,556)**
ECL balance as at 31 December 2024	**46,051**	**32,559**	**98,127**	**176,737**

At 31 December 2023:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL balance as at 1 January 2023	38,179	78,970	72,599	189,748
Impact due to transfer between stages:				
- Transfer to Stage 1	14,760	(2,785)	(11,975)	-
- Transfer to Stage 2	(3,244)	9,376	(6,132)	-
- Transfer to Stage 3	(221)	(1,214)	1,435	-
ECL (release)/charge for the year	(12,839)	(9,131)	60,630	38,660
ECL release on written off facilities	-	-	(41,726)	(41,726)
ECL balance as at 31 December 2023	36,635	75,216	74,831	186,682

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Further, the Group carries an excess of **35%** (2023: 40%) total provisions over ECL on credit facilities (Note 12) for any increase in ECL resulting due to sensitivity.

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. In general, 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 Group 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 consolidated income statement measures the effect of assumed changes in interest rates on the net interest income for the next 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.

24. FINANCIAL INSTRUMENTS (continued)

B. INTEREST RATE RISK (continued)

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

	2024			2023		
Currency	**Change in basis points**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Change in basis points	Effect on profit KD 000's	Effect on equity KD 000's
KWD	(+) 25	**1,449**	**-**	(+) 25	1,405	-
USD	(+) 25	**1,114**	**-**	(+) 25	696	-
SAR	(+) 25	-	-	(+) 25	107	-

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 Group views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. Open currency positions are monitored daily against the regulatory limits and Board approved internal limits to ensure compliance.

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

	2024			2023		
Currency	**Change in currency rate in %**	**Effect on profit KD 000's**	**Effect on equity KD 000's**	Change in currency rate in %	Effect on profit KD 000's	Effect on equity KD 000's
USD	+5	**(134)**	**88**	+5	(100)	80

The Group's investments are held in a 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.

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK

Liquidity risk is the risk arising from potential inability of the Group to meet its payment obligations on time when they become due or being able to meet such obligations at excessive 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, the Group has diversified funding sources and maintains high quality assets that includes cash, cash equivalents and readily marketable securities.

Liquidity risk arises from the general funding of the Group's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manages the liquidity and funding of the Group to ensure that sufficient funds are available to meet the Bank's current and prospective funding requirements. At all times, the Group holds what it considers to be adequate levels of liquidity to meet lending and repayment requirements, even under stressed conditions.

The Group 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 Group by ensuring that the Group 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 Group has stable funding sources to cover funding requirements over the short and long term period. In addition, Liquidity risk is further monitored by adhering to the CBK maturity ladder mismatch limits and the Loan to Deposit Ratio.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring financial position, maintain liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources; monitoring depositor concentration to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Group 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 liquidity stress that may arise from local or regional markets or geopolitical events.

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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 2024:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	1,387,876	-	-	-	-	-	1,387,876
Kuwait Government treasury bonds	-	-	-	-	2,500	-	2,500
Central Bank of Kuwait bonds	18,972	93,378	27,681	-	-	-	140,031
Deposits with banks and other financial institutions	-	130,468	-	-	5,000	-	135,468
Loans and advances	322,886	532,793	222,443	757,429	1,053,024	2,578,363	5,466,938
Investment securities	-	41,306	101,549	8,953	16,852	35,965	204,625
Other assets	36,970	1,482	2,376	2,069	57,418	1,447	101,762
Premises and equipment	-	-	-	-	-	40,948	40,948
Total assets	1,766,704	799,427	354,049	768,451	1,134,794	2,656,723	7,480,148
Liabilities:							
Due to banks	190,925	49,444	69,842	55,219	-	-	365,430
Deposits from financial institutions	410,277	254,439	121,133	156,515	2,149	-	944,513
Customer deposits	1,845,548	954,138	1,110,348	721,116	25,530	-	4,656,680
Other borrowed funds	-	-	-	70,810	449,014	-	519,824
Other liabilities	29,468	56,669	21,309	20,540	32,112	-	160,098
Total liabilities	2,476,218	1,314,690	1,322,632	1,024,200	508,805	-	6,646,545

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2023:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	1,093,757	-	-	-	-	-	1,093,757
Kuwait Government treasury	-	-	7,000	7,000	-	2,500	16,500
Central Bank of Kuwait bonds	31,441	160,167	144,182	1,925	-	-	337,715
Deposits with banks and other financial institutions	-	141,103	39,878	-	-	-	180,981
Loans and advances	247,131	396,703	419,350	584,085	863,477	2,685,876	5,196,622
Investment securities	-	65,902	57,059	31,109	3,023	34,327	191,420
Other assets	37,834	5,589	1,860	2,896	69,574	401	118,154
Premises and equipment	-	-	-	-	-	39,483	39,483
Total assets	1,410,163	769,464	669,329	627,015	936,074	2,762,587	7,174,632
Liabilities:							
Due to banks	63,995	53,667	25,000	113,692	-	-	256,354
Deposits from financial institutions	439,115	283,005	367,637	58,826	-	-	1,148,583
Customer deposits	2,206,264	655,808	831,201	515,412	10,574	-	4,219,259
Other borrowed funds	-	-	-	115,000	405,062	50,000	570,062
Other liabilities	65,579	43,608	7,818	22,099	24,470	-	163,574
Total liabilities	2,774,953	1,036,088	1,231,656	825,029	440,106	50,000	6,357,832

The tables below summarize the maturity profile of the Group’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 2024:

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	**145,079**	**39,108**	**143,201**	**46,545**	**-**	**373,933**
Deposits from financial institutions	**93,803**	**290,241**	**493,885**	**85,845**	**-**	**963,774**
Customer deposits	**1,577,678**	**334,744**	**2,494,616**	**341,656**	**-**	**4,748,694**
Other borrowed funds	**2,214**	**4,297**	**89,872**	**470,754**		**567,137**
Other liabilities	**29,468**	**56,669**	**41,849**	**32,112**	**-**	**160,098**
Total undiscounted liabilities	**1,848,242**	**725,059**	**3,263,423**	**976,912**	**-**	**6,813,636**

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2023:

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	19,211	634	118,683	130,350	-	268,878
Deposits from financial institutions	91,865	453,904	591,666	35,790	-	1,173,225
Customer deposits	1,634,621	312,343	2,014,635	341,830	-	4,303,429
Other borrowed funds	2,635	5,156	21,564	599,320	-	628,675
Other liabilities	65,579	43,608	29,917	24,470	-	163,574
Total undiscounted liabilities	1,813,911	815,645	2,776,465	1,131,760	-	6,537,781

The table below shows the contractual expiry by maturity of the Group's contingent 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**
At 31 December 2024:						
Contingent liabilities	**3,224**	**53,935**	**373,494**	**592,273**	**735,357**	**1,758,283**
Commitments	**4,577**	**21,432**	**61,272**	**413,062**	**668,281**	**1,168,624**
	7,801	**75,367**	**434,766**	**1,005,335**	**1,403,638**	**2,926,907**

	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
At 31 December 2023:						
Contingent liabilities	20,873	51,068	379,150	527,722	606,425	1,585,238
Commitments	6,495	8,144	108,254	593,025	633,785	1,349,703
	27,368	59,212	487,404	1,120,747	1,240,210	2,934,941

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

The table below shows the contractual expiry by maturity of the Group's forward foreign exchange contracts positions:

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	Total KD 000's
At 31 December 2024:				
Forward foreign exchange	**99,353**	**-**	**-**	**99,353**
At 31 December 2023:				
Forward foreign exchange	34,074	126	280	34,480

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 Group 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 Group.

The operational risks are primarily monitored through the Operational Risk Management Unit in the Risk Management Department. The department has specialized units focusing on Fraud, Technology, Policy & Procedures, Business Continuity, Information and Cyber Security. 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 Unit 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 Group manages this risk through diversification of investments.

A portion of the Group'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:

		2024	*2023*
Market indices	*% Change in equity price*	***Effect on equity KD 000's***	*Effect on equity KD 000's*
Kuwait Stock Exchange	+5%	**697**	551

G. PREPAYMENT RISK

Prepayment risk is the risk that the Group 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.

Majority of the Group'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 Group, have a maturity of less than one year and accordingly, the Group is not exposed to significant prepayment risk.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

	Level 1	***Level 2***	***Level 3***	***Total***
At 31 December 2024:	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***
Financial assets at FVOCI:				
Equity securities	**13,932**	**116**	**21,275**	**35,323**

	Level 1	*Level 2*	*Level 3*	*Total*
At 31 December 2023:	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Financial assets at FVOCI:				
Equity securities	11,014	118	21,294	32,426

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/ disposals KD 000's**	**Exchange rate movements KD 000's**	**At 31 December KD 000's**
2024	**21,294**	**(20)**	**-**	**1**	**21,275**
2023	22,232	151	(1,099)	10	21,294

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 2024 were **KD 169,302 thousand** (2023: KD 158,994 thousand) and **KD 169,201 thousand** (Level 1) (2023: KD 158,831 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 Group 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 Group enters into various contingent liabilities and irrevocable commitments. Even though these obligations may not be reflected in the consolidated statement of financial position, they do contain credit risk and therefore form part of the overall risk of the Group.

The total outstanding contingent liabilities and commitments are as follows:

	2024	2023
	KD 000's	KD 000's
Guarantees	**1,363,359**	1,192,776
Letters of credit and acceptances	**394,924**	392,462
Undrawn irrevocable commitments	**54,485**	154,978
Undrawn revocable commitments	**1,114,139**	1,194,725
	2,926,907	2,934,941

The contractual terms entitle the Group to withdraw undrawn revocable 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, institutional customers and banks.

Treasury & Investments — Providing money market, trading and treasury services, as well as the management of the Group'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**	
	2024	2023	**2024**	2023	**2024**	2023
	KD 000's	KD 000's	**KD 000's**	KD 000's	**KD 000's**	KD 000's
Operating income	**135,469**	138,674	**15,650**	6,219	**151,119**	144,893
Segment result	**56,039**	74,562	**12,458**	4,307	**68,497**	78,869
Unallocated income					**48,209**	45,368
Unallocated expense					**(56,534)**	(53,026)
Profit for the year					**60,172**	71,211
Segment assets	**5,573,953**	5,334,453	**1,832,148**	1,751,205	**7,406,101**	7,085,658
Unallocated assets					**74,047**	88,974
Total Assets					**7,480,148**	7,174,632
Segment liabilities	**3,261,131**	2,950,868	**3,191,679**	3,198,641	**6,452,810**	6,149,509
Unallocated liabilities and equity					**1,027,338**	1,025,123
Total Liabilities and Equity					**7,480,148**	7,174,632

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 Group's total revenue in 2024 or 2023.

28. DERIVATIVES

In the ordinary course of business the Group 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 2024:				***Notional amounts by term to maturity***	
Derivatives instruments held as:	***Positive fair value KD 000's***	***Negative fair value KD 000's***	***Notional amount total KD 000's***	***Within 3 months KD 000's***	***3-12 months KD 000's***
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	**308**	**(7)**	**99,353**	**99,353**	**-**

At 31 December 2023:				*Notional amounts by term to maturity*	
Derivatives instruments held as:	*Positive fair value KD 000's*	*Negative fair value KD 000's*	*Notional amount total KD 000's*	*Within 3 months KD 000's*	*3-12 months KD 000's*
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	3	(1)	34,480	34,200	280

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest.

For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies.

Derivatives held or issued for trading purposes

Most of the Group'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 reducing the market risk. Arbitrage involves identifying and profiting from price differentials between markets or products.

29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group'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 Group.

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular number 2/RB,RBA/336/2014 and its amendments are included under the 'Capital Management and Allocation' section of the annual report. Below ratios are calculated without proposed cash dividend impact.

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2024 and 31 December 2023 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 and its amendments are shown below:

	2024 KD 000's	2023 KD 000's
Risk weighted assets	**5,474,792**	5,223,798
Capital required	**766,471**	731,332
Capital available		
Tier 1 capital	**833,603**	827,353
Tier 2 capital	**116,026**	113,789
Total capital	**949,629**	941,142
Tier 1 capital adequacy ratio	**15.23%**	15.84%
Total capital adequacy ratio	**17.35%**	18.02%

Financial leverage ratio

The Group's financial leverage ratio for the year ended 31 December 2024 and 31 December 2023 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2024 KD 000's	2023 KD 000's
Tier 1 capital	**833,603**	827,353
Total Exposure	**8,540,838**	8,115,018
Financial leverage ratio	**9.76%**	10.20%

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 its amendments 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 2024 and 31 December 2023 are included under the 'Risk Management' section of the annual report.

30. FIDUCIARY ASSETS

At 31 December 2024, the aggregate value of assets held or managed in fiduciary capacity by the Group amounted to **KD 924,742 thousand** (2023: KD 852,820 thousand) and the income related to this activity amounted to **KD 655 thousand** (2023: KD 664 thousand) included in net fees and commissions (Note 6).