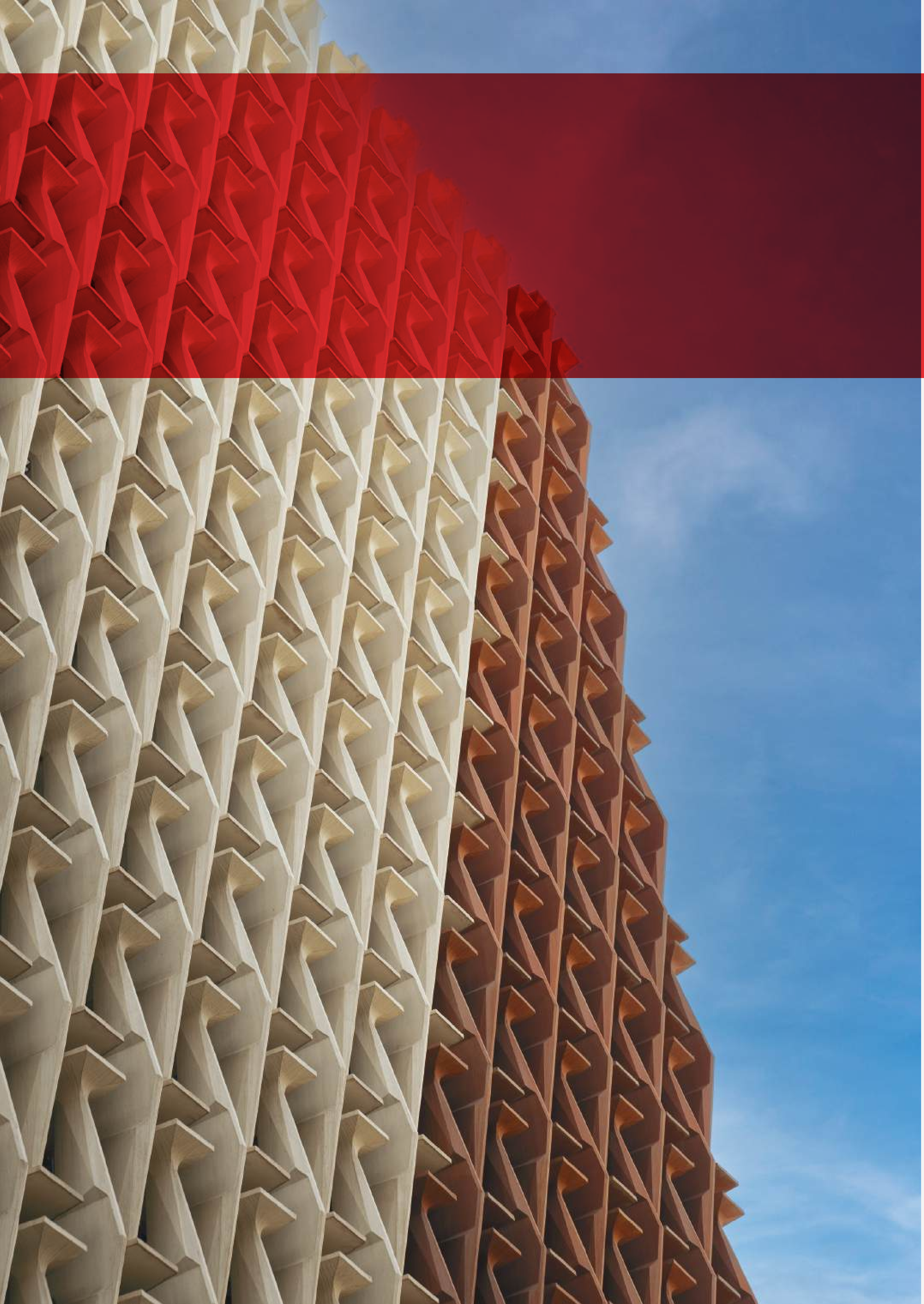
# Annual Report 2022

## Forward Together

بنك الخليج
GULF BANK

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

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



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# GULF BANK **AT A GLANCE**

## Our Business Model

### Consumer Banking

Our Consumer Banking serves a broad range of customer segments, offering customer-centric solutions and a unique experience tailored to each customer segment.

Our diversified product offering includes personal loan options, credit and debit cards, and deposits.

### Corporate Banking

Our Corporate Banking has a comprehensive suite of wholesale, commercial and Small and Medium Enterprise (SME) banking products and services.

These include structured finance, project finance, transaction banking, Advisory / Corporate Finance and Investment Banking, Merchant Banking and Cards.

### Treasury and Investment

Our Treasury focus is to optimize the balance sheet's efficiency, managing the Bank's liquidity while supporting asset growth and sufficient buffers to meet regulatory requirements.

Our Investment services manage the Bank's proprietary investment and offer investment products to clients.

**Gulf Bank is one of the leading Conventional banks in Kuwait**

**6.9**
**KD Billion Total Assets FY'2022**

**+50**
**Branches across Kuwait**

**1984**
**Listed on Kuwait Stock Exchange**

**1960**
**Founded**

## External Recognitions

"Most Rewarding Prepaid Card" - MOUJ Cashback Card - by Mastercard

"Best Launch Experience in The Middle East & North Africa" - Click to pay service - by Mastercard

**An "A" rated Bank by the three major credit rating agencies during 2022**

| A3 | A | A+ |
|---|---|---|
| Moody's | Fitch Ratings | Capital Intelligence |
| Stable | Stable | Stable |

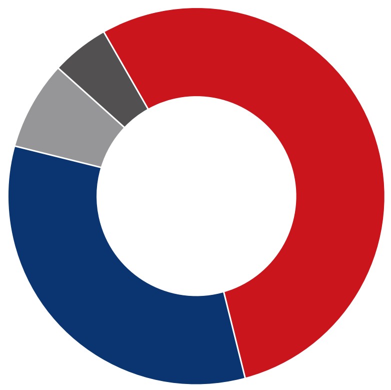
### Active Board Members During 2022

**44 Meetings**

| Committee | Meetings |
|---|---|
| Board Meetings | 7 |
| Audit Committee | 7 |
| Risk Committee | 5 |
| Compliance and Governance Committee | 2 |
| Nomination and Remuneration Committee | 3 |
| Credit and Investment Committee | 20 |

### Shareholder Infomation

**KD 1,005 Million Market Capitalization as of 31 December, 2022**



| Shareholder | % |
|---|---|
| Alghanim Trading | 32.75% |
| Public Institution for Social Securities (PIFSS) | 6.65% |
| Behbehani Investment Co. | 5.47% |
| Other Shareholders | 55.13% |

**17.24%**
**Foreign Investors**

*As of 31 December 2022

Listed in Boursa Kuwait Under Premier Market

S&P DJI Emerging Market Index since December 2018

MSCI Emerging Market Index since November 2020

FTSE Russell Emerging Markets Index since September 2017

# YEAR **2022 IN REVIEW**

## January

- S&P affirms Kuwait sovereign credit ratings at 'A+/A-1'. Outlook remains negative.
- Fitch downgraded Kuwait credit rating to "AA-" from "AA". Outlook revised to Stable from Negative.

## February

- Fitch downgraded Gulf Bank credit rating to "A" from "A+". Revised outlook to Stable from Negative.
- Gulf Bank FY 2021 Financial Results, Net Rrofit of KD 42.1 million, up 46.2%.

## March

- CBK raised discount rate by 0.25% to 1.75%.

- Gulf Bank holds 62nd AGM and 40th EGM.
- Fitch upgraded Gulf Bank Viability Rating to "bbb-" from "bb+".

## April

- S&P affirmed Kuwait sovereign credit ratings at 'A+/A-1'. Outlook remains negative.

- Gulf Bank distribute FY 2021 cash dividends of 7 fils and bonus shares of 5%.
- Gulf Bank receive CBK approval to establish an investment subsidary.
- Gulf Bank Q1 2022 Financial Results, Net Profit of KD 15.0 million, up 25.7%.

## May

- CBK raised discount rate by 0.25% to 2.00%.
- Moody's affirmes Kuwait sovereign credit rating at A1. Outlook remains stable.

MSCI upgrades Gulf Bank from Small Cap to Standard Index.

## June

- CBK raised discount rate by 0.25% to 2.25%.

- Capital Intelligence affirmed Gulf Bank credit rating at "A+". Outlook remains Stable.
- Announcement of Gulf Bank & Al Ahli Bank of Kuwait potential business collaboration.
- Gulf Bank holds 63rd AGM held, elected Mrs. Reem AlSaleh as an independent board member.

## July

- S&P revises outlook on Kuwait sovereign to stable from negative. Credit rating Affirmed the 'A+/A-1' .
- CBK raised discount rate by 0.25% to 2.50%.

Gulf Bank H1 2022 Financial Results, Net Profit of KD 30.3 million, up 83.3%.

## August

- CBK raised discount rate by 0.25% to 2.75%.

## September

- CBK raised discount rate by 0.25% to 3.00%.
- Kuwait National Assembly Election.

## October

- Kuwait New Government was formed.

Gulf Bank 9M 2022 Financial Results, Net Profit of KD 45.7 million, up 66.3%.

## November

- State of Kuwait Closing Accounts for Year Ending 31 March, 2022, reporting a KD -3.0 billion deficit for the year.

CBK approval to engage McKinsey & Company as Gulf Bank's consultant to carry feasibility study of the business collaboration with Al Ahli Bank of Kuwait.

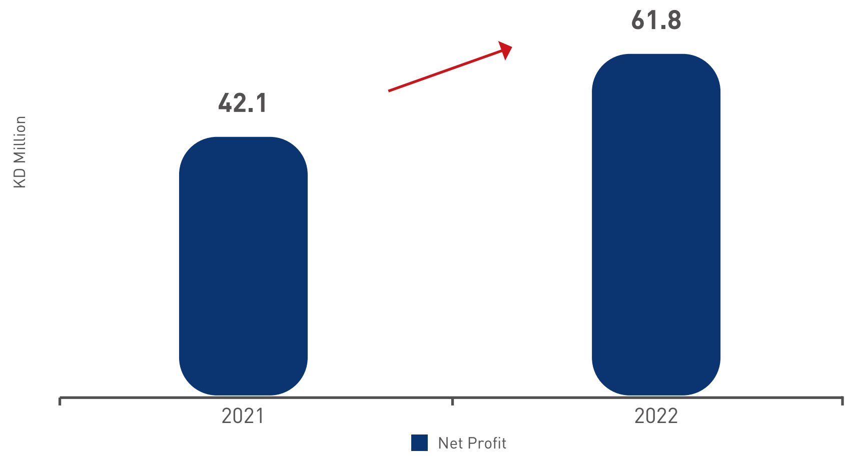
## December

- CBK raised discount rate by 0.50% to 3.50%.

**KUWAIT** - MAJOR EVENTS
**GULF BANK** - MAJOR EVENTS

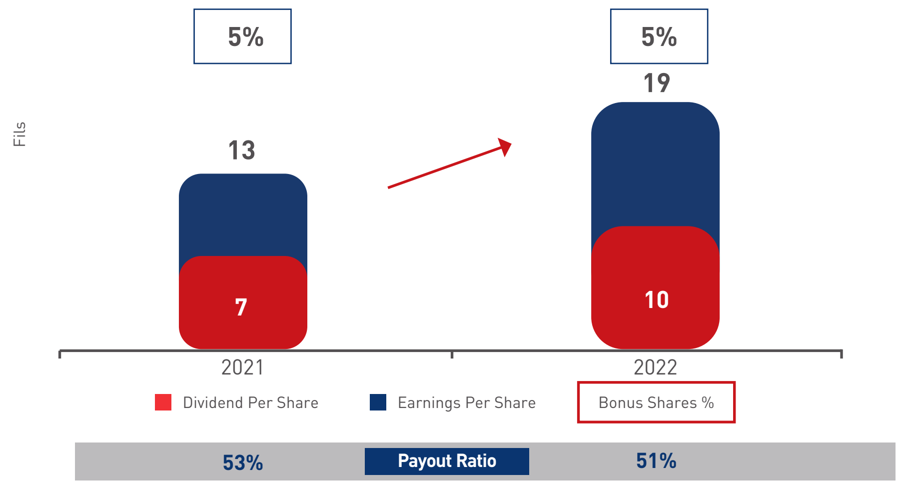
# KEY **HIGHLIGHTS 2022**

1. Net profit up **47%** to **KD 61.8** million for year end 2022




**Net Profit**
**+47%**

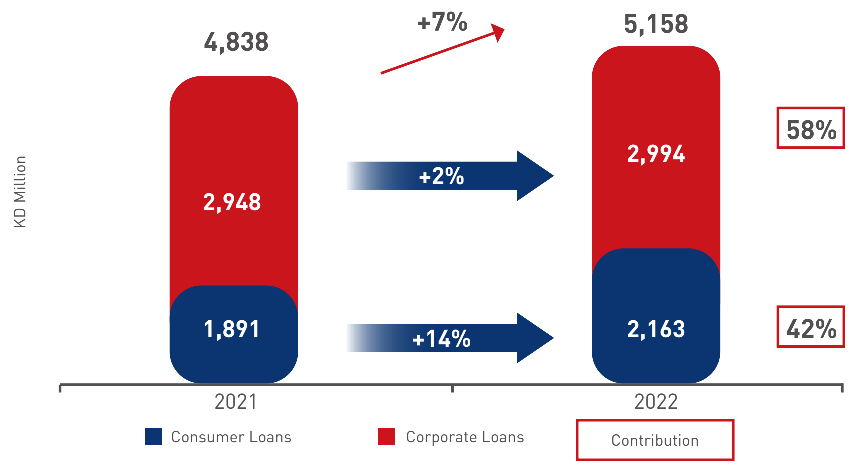
2. Earnings per share up **46% to 19 fils**. Recommending a **5%** bonus shares and a cash dividend of **10 fils** per share, representing 51% payout ratio




**Earnings Per Share**
**+46%**

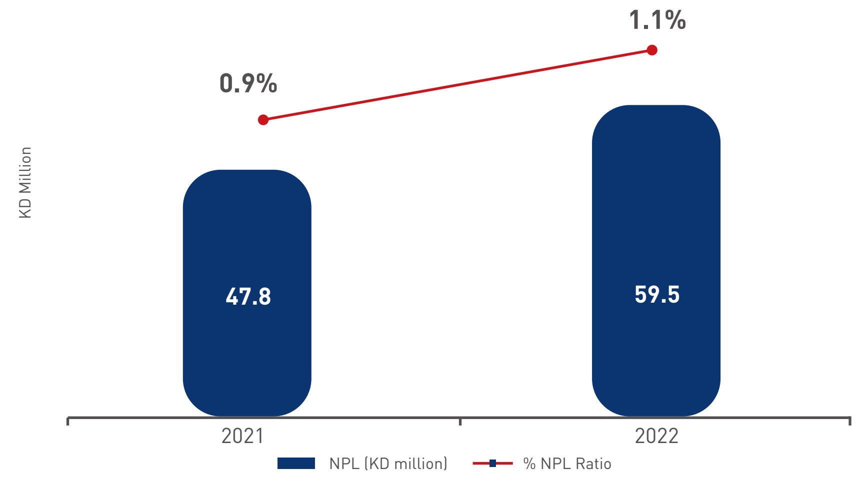
Note: 2022 proposed cash dividends and bonus shares are subject to Annual General Meeting shareholders' approval expected to be held in March 2023.

3. Gross Customer Loans reached **KD 5.2** billion. Up **KD 319** million or **+7%** compared to 2021



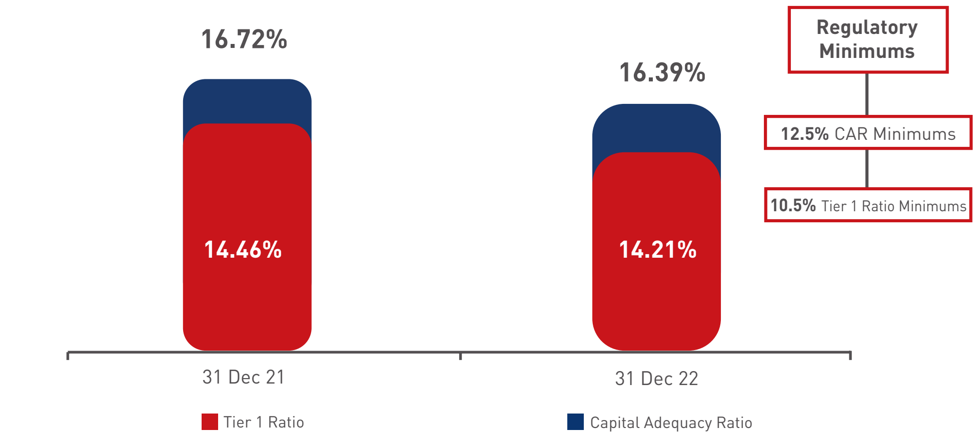

**Gross Customer Loans**
**+7%**

4. Asset quality remained resilient, as non-performing loan ratio stood at **1.1%** for year-end 2022




**NPL Ratio**
**1.1%**

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




**CAR Above Regulatory Minimums**
**389**
**bps**

**Tier 1 Ratio Above Regulatory Minimums**
**371**
**bps**

Note: Tier 1 and Capital Adequacy Ratio (CAR) regulatory minimums include 1% DSIB.

6. The Bank remained an **'A'** rated bank by three major credit rating agencies during 2022

| Rating Agency | Criteria | Rating |
|---|---|---|
| Moody's | Long Term Deposits | A3 |
| | Outlook | Stable |
| Fitch Ratings | Long-Term Issuer Default Rating | A |
| | Outlook | Stable |
| Capital Intelligence | Long-Term Foreign Currency | A+ |
| | Outlook | Stable |

# CHAIRMAN'S **STATEMENT**

**Jassim Mustafa Boodai**
Chairman

## Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present Gulf Bank's Annual Report for the year end 31 December 2022.

Our 2022 results demonstrate excellent strategic progress with Gulf Bank delivering strong net profit, sustained by the growth momentum in our core businesses. We made tremendous strides towards our key strategic priorities centered around digital transformation initiatives to improve the customer experience, accelerate development and further drive operational efficiencies. We are aiming to generate strong and sustainable long-term value to all our stakeholders.

In Kuwait, the economy continued to show resilience and positive signals during the year 2022, despite a challenging global market and an uncertain global economic outlook. These challenges included high inflation levels, tighter monetary policy, and the war in Ukraine, amongst others. However, the local economy remained stable, supported by good oil prices, recovery of economic activity, specifically in the private sector, and ongoing structural reforms.

**Our results of 2022 demonstrate excellent strategic progression with Gulf Bank delivering strong net profit, sustained by our growth momentum in our core businesses**

On the local macroeconomic front, the Central Bank of Kuwait has continued to tighten monetary policy, albeit at a relatively slower pace compared to the US Fed. Since the beginning of the year, the Central Bank of Kuwait has raised its key discount rate 7 times during 2022, resulting in 200 basis points increase, bringing the discount rate to 3.5%, slightly higher than its pre-covid levels. The unparallel rate hike policy adopted by Central Bank of Kuwait in comparison to US Fed decisions, is providing additional support for the local economy.

Despite the interest rate hikes, the consumer spending remained strong in Kuwait, reflected in the year-to-date customer loan growth of around 8.3% according to the December 2022 industry data published by the Central Bank of Kuwait.

### Financial Performance

Gulf Bank delivered a good set of results during 2022, with net profit reaching KD 61.8 million, up 47% from last year, reflecting the strong underlying performance of our core businesses.

Earnings per share is up 46% to 19 fils and the Board of Directors is recommending a distribution of cash dividend of 10 fils per share, representing a 51% cash payout ratio, in addition to 5% bonus shares, for shareholders' approval at the Annual General Meeting to be held in March 2023.

Loans and advances to customers reached KD 4.9 billion, an increase of KD 308 million or 7% vs. the end of 2021. This growth in 2022 came from both the Bank's Corporate and Consumer segments.

Non-performing loan ratio for the year end 2022 was 1.1%, with a strong non-performing loans coverage ratio of 504% including total provisions and collaterals. The Bank ended the year 2022 with a total credit provision at KD 313 million whereas IFRS 9 accounting requirements (i.e., ECL or expected credit losses) were KD 190 million, resulting in a very healthy excess provisioning level of KD 124 million.

The Bank's regulatory capital ratios remained comfortable as the Tier 1 ratio of 14.2% was 3.7% above our regulatory minimum of 10.5% and the Capital Adequacy Ratio (CAR) of 16.4% was 3.9% above our regulatory minimum of 12.5%.

### Operational Review

Gulf Banks success during 2022 and prior years reflects the Banks strong brand presence and branch network in Kuwait. We are reaping the benefits of our strategy to stay locally focused and addressing the changing needs of our customers through digital innovation, continued investment in differentiated customer solutions and human capital has benefited all our stakeholders.

**In Kuwait, the economy continued to show resilience and positive signals during the year 2022, despite challenging global market and an uncertain global economic outlook**

**2022 net profit of KD 61.8 million, an increase of 47% over the year 2021**

**10 fils Cash Dividends and 5% Bonus Shares**

**Non-performing loan ratio for the year end 2022 was 1.1%**

# CHAIRMAN'S **STATEMENT**

Our Corporate Banking segment, which represents 58% of the Bank Loan book as of year-end 2022, continues to grow through attracting new customers, developing its digital banking platforms, and enhancing and expanding our products and services.

In line with its focus on customer experience and simplicity of services, Corporate Banking has commenced its digital transformation initiatives across all its channels, migrating all clients to the new online banking system. The transformation will allow the Bank to deliver services under a centralized Omni-Channel structure which will ultimately aid our customers in adapting with the everchanging economic environment arising from technological advancements.

Gulf Bank continues to play an active role in local corporate finance services. During the year, the Bank was a joint lead manager in the National Industries Group Holding KD 40 million bond issuance along with Kuwait Financial Centre - Markaz. The offering was successfully completed, demonstrating Gulf Bank's ability and commitment to meet the banking and investment needs of our clients. It also demonstrates Gulf Bank's constant efforts to diversify its revenue streams and provide its shareholders with sustainable returns.

In addition, Gulf Banks Consumer Banking segment which represents 42% of the Banks Loan book as of year-end 2022, embarked on many initiatives to provide customers with best-in-class and secure banking services. During the year, the Bank has launched an Omni-Channel Digital Transformation program which aims to move from siloed channel approach to a central Omni-Channel digital banking approach to unify customer interactions across any touchpoint. The initiative will also support the Bank in meeting Kuwait Central Bank's Cyber Security Framework and future customer needs.

In addition, we introduced several products and services leveraging our robust digital and technological infrastructure to satisfy our customer requirements. First, we have successfully launched our new mobile application that provides fast, easy, and safe customer experience. One of the enhanced services of the new app is the "Pay Link" personal payment link service, which enables customers to send payment links in three easy steps without the need to log into the app. Moreover, we have launched "Easy Pay Plus", an updated and enhanced version of the Easy Pay program, which now offers Gulf Bank credit card holders' flexible installments service at 0% interest. In addition, we continued to introduce tailored and rewarding products for our customers, and as a testament, the Bank was recognized by receiving two awards; the first is the "Most Rewarding Prepaid Card" for our Mastercard MOUJ Cashback Prepaid Card. The second award is for the "Best launch experience in the Middle East and North Africa" for the launch of the integrated and innovative "Click to Pay" service. Both awards were given by Mastercard.

**In 2022, we have conducted several initiatives to provide our employees and community with a new skillset and opportunities specifically in the field of data science and cyber solutions**

**We introduced several products and services leveraging our robust digital and technological infrastructure to satisfy our customer requirements**

We remain close to our customers through our branch network, one of the largest footprints in Kuwait, as we currently cover the majority of areas with more than 50 branches and over 300 ATMs.

### GB Capital

During the 2022 Annual General Meeting, Gulf Bank obtained the shareholders' approval to act as an investment advisor and deliver advisory services in accordance with the laws and regulations of the Central Bank of Kuwait ("CBK") and the Capital Markets Authority. Subsequently, the Bank obtained the CBK approval to establish a fully owned investment subsidiary. Several important appointments were made to fill various key positions of the proposed investment company, including the CEO position. The Bank obtained an initial approval from Capital Market Authority to finalize the establishment procedures.

The investment subsidiary activities will be focused on asset management and advisory services, both will be complementary activities to the Bank, where it will enhance customer offerings predominantly for our private and the corporate banking clients. We believe this complementary business will have a positive impact on our fees and commission income over the long run.

### Potential Collaboration

We have made several announcements during the year in relation to a potential collaboration between Gulf Bank and Ahli Bank of Kuwait. Both banks have received a proposal by major shareholders; namely Alghanim Trading Company and Behbehani Investment Company, to consider a possible business collaboration between the two banks whereby both entities are maintained and one of the entities is converted into a Sharia compliant bank. The proposal was presented to the Board of Directors of Gulf Bank and the Board has agreed to proceed with the due diligence process to consider the viability of this proposal and the value added to the Bank's shareholders. Subsequently, both banks have entered into a Memorandum of Understanding which reflects their intent to cooperate in assessing independently the proposal submitted by the major shareholders of both banks.

As Gulf Bank, we aim to serve and optimize the maximum value for our shareholders.

**We remain close to our customers through our branch network, one of the largest footprints in Kuwait**

**The Bank obtain the CBK approval to establish a fully owned investment subsidiary**

# CHAIRMAN'S **STATEMENT**

### Credit Worthiness

Gulf Bank continues to be well recognized in terms of its creditworthiness and financial strength internationally. During the year 2022, Fitch Ratings has upgraded Gulf Bank's Viability Rating to 'bbb-' from 'bb+' and affirmed the Bank's Long-Term Issuer Default Rating at 'A' with a Stable Outlook.

In addition to Fitch Ratings' Viability Rating upgrade and affirmation of Gulf Bank's Long-Term Issuer Default Rating at 'A' with a 'Stable' Outlook, the Bank has a Long-term Foreign Currency Rating of 'A+' with a 'Stable' Outlook by Capital Intelligence Ratings and a Long-Term Deposits rating of 'A3' with a 'Stable' Outlook by Moody's Investor Services during the year 2022.

### Commitment to Community

In 2022, we have conducted several initiatives to empower our employees and provide the community with new skillsets and opportunities specifically in the field of data science and cyber solutions. Our aim is to help future generations achieve local development goals, strengthen the economy, and contribute to our community.

Sustainability is an important and integral part of our strategy. We believe that integrating sustainability and ESG considerations into our practices and activities will enable us to further strengthen our customer experience, offer sustainable products and services for the market, and position us as a key leader amongst local and regional financial institutions.

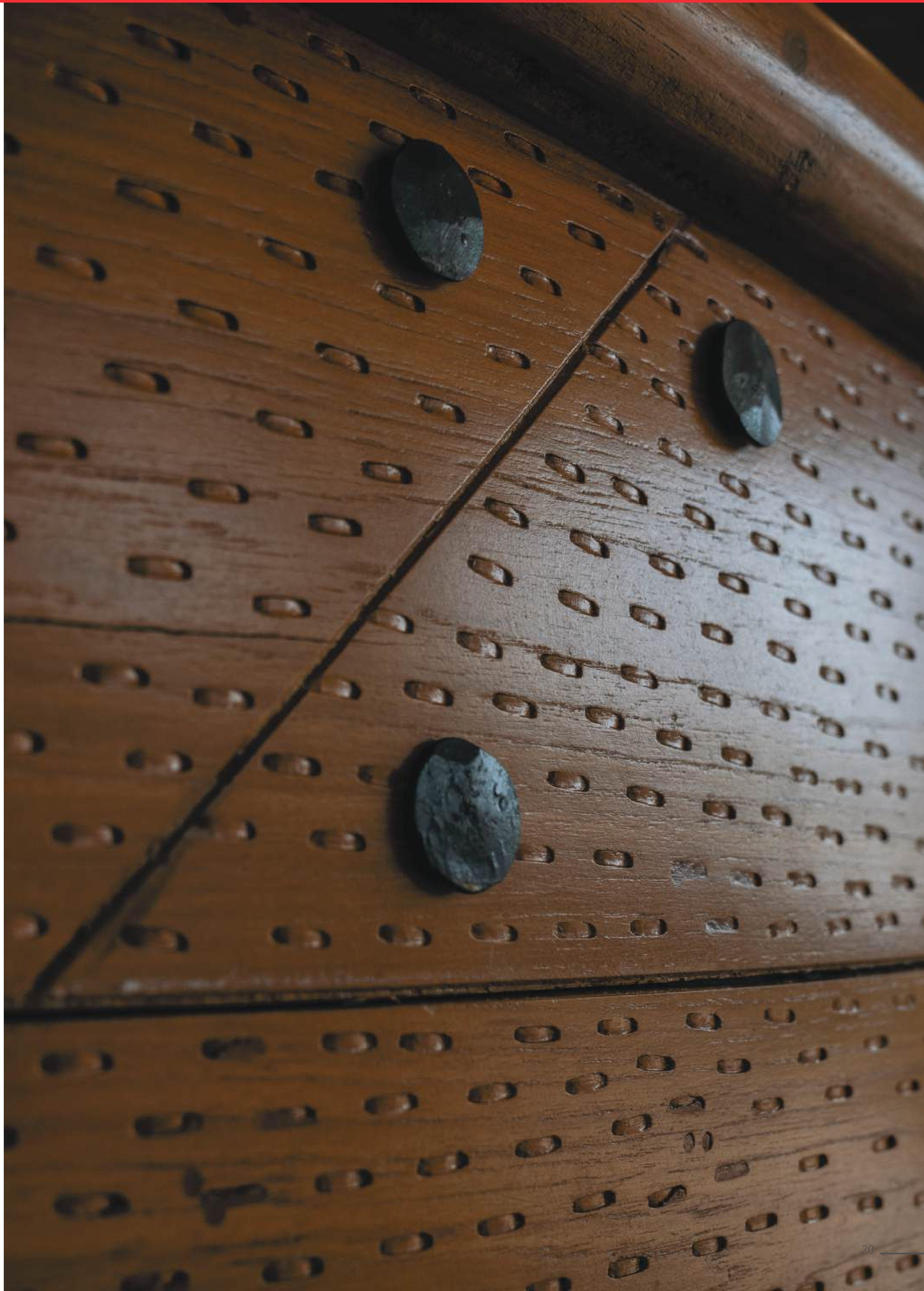
### Thanking our Stakeholders

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

I would also like to express my deep appreciation to all our customers, partners, and shareholders for their support throughout 2022, and to our Board members, management, and employees for contributing to the Bank's journey of success.

**Jassim Mustafa Boodai**
Chairman

**During the year 2022, Fitch Ratings has upgraded Gulf Bank's Viability Rating to 'bbb-' from 'bb+'**



# SUSTAINABILITY

Gulf Bank affirms its transparency in communicating its sustainability performance and outlining its business activities' impacts, risks, and opportunities with respect to Environmental, Social, and Governance (ESG) elements within our business pillars.

At Gulf Bank, we adopt responsible practices with a proactive sustainable approach, using effective leadership and governance through the provision of financial and banking services, innovative digital solutions, talent acquisition, youth empowerment, woman inclusion and diversity. This approach reinforces our contribution to the national and international sustainability agendas including the New Kuwait Vision 2035, UN Women Empowerment Principles (WEPs), the United Nations Sustainable Development Goals (SDGs) and the Global Reporting Initiative (GRI), ESG criteria, and more.

## Environment

Today, the banking sector is heading towards a new era of digital transformation, and we have demonstrated a proven dynamism in responding swiftly to emerging digital demands. With our latest digital-driven strategy, we aim to transform and digitize our banking operations and services in a way that will meet the aspirations of future generations. As part of our strategy, we have launched the new Gulf Bank smartphone application, which allows clients to conduct money transfers, manage online on-boarding, shop online, and take advantage of other innovative online banking features. Since the launch of the new app, more than 17,000 accounts have opened, and 44% of our customers are currently using the app. Gulf Bank's new smartphone application is characterized by smart design, ease, and simplicity of use.

As part of our contribution to the implementation of the New Kuwait Vision 2035, specifically to the sustainable living environment pillar, a range of environmental concerns have been identified, including climate change and resource conservation. Our HR, Procurement and CSR departments have developed clear internal plans to address these issues and have shown incredible efforts in that area. Key achievements in this area include a 100% reduction in our Scope I Greenhouse Gas (GHG) emissions, a reduction in paper consumption due to digitization and printers' consolidation, environmental clean-ups, and waste reduction initiatives.

## Social

At the social level, we continue to support youth empowerment, community wellness, and social engagement through impactful initiatives. The Gulf Bank 642 Marathon, the only certified and accredited local marathon and one of our main community wellness initiatives, is the biggest local sports event that takes place at the heart of Kuwait City, taking runners through beautiful landmarks in Kuwait. Over 11,000 people participated in this year's Gulf Bank's 642 Marathon. Participants from over 100 nationalities joined this year's marathon, and over 2,000 international participants.

**Launched the new Gulf Bank smartphone application, more than 17,000 accounts have opened, and 44% of the customers are currently using the app**

**The Bank achieved 100% reduction in Scope I Greenhouse Gas (GHG) emissions**

**More than 11,000 participants in 2022 Gulf Bank's 642 Marathon**

Gulf Bank plays a key role in supporting youth through programs aimed at achieving one of the most important pillars of Gulf Bank's 2025 strategy and Kuwait's 2035 vision: youth empowerment. In keeping with its ongoing support for Kuwaiti youth both inside and outside of the country, Gulf Bank also continued its strategic partnership with the National Union of Kuwait Students - USA Chapter in sponsoring its 38th annual conference. In addition, Gulf Bank also provided its ongoing support and partnership to INJAZ Kuwait, a non-profit, non-governmental organization which aims to support youth empowerment and their education. Gulf Bank helped impact around 7,350 students by training them in workforce readiness, financial literacy, and entrepreneurship.

In addition, 2022 was a year of a data driven transformation for Gulf Bank, with the recent establishment of the Data unit in 2021, the Bank was ready to take on major initiatives to capitalize on data as an asset that enables optimization of work efforts and improved capabilities in all business units. The focus was on ensuring that the people in Gulf Bank are ready for transformations and are equipped withthe right knowledge and tools to enable sustainable economic growth of the Bank. In May 2022, Gulf Bank established the innovation unit as well, to ensure that Gulf Bank stays ahead of the curve when it comes to disruptive transformations happening in the financial industry as well as the local market. Accordingly, two programs were established including the Data Ambassador and the Bank wide data literacy.

During Ramadan, Gulf Bank also launched a variety of humanitarian initiatives designed to support the local community. The Bank renewed its partnership with the Kuwait Red Crescent Society (KRCS) to distribute appliances to local families in need. As part of its commitment towards social sustainability, Gulf Bank also supported the United Nations High Commissioner for Refugees (UNHCR) in covering costs for refugee needs, including rent for housing, food, health services, and more. During the holy month, Gulf Bank also distributed Iftar meals with the Kuwait Food Bank for the fifth year in a row, and collaborated with local non-profit organization, Altakaful, as part of their campaign to relieve debts.

As part of its ongoing commitment to social responsibility and its continuous support of local youth, Gulf Bank also launched an Off-Roading Challenge, the first sports event of its kind in Kuwait that Gulf Bank spearheaded as part of its role in advocating for local youth's mental and physical health, and social wellbeing.

In recognition of every employee's role in delivering customer excellence and serving the community at large, the Bank is constantly engaging and empowering its employees as part of an inclusive and diversified workplace. We continue to hire fresh graduates at a steady and healthy pace and support the development of fresh young talent. We have also increased our female employee percentage to 44%, aiming to reach an equal gender ratio in the near future.

**Female employee increased to 44%, aiming to reach an equal gender ratio in the near future**

# SUSTAINABILITY

We pride ourselves on contributing to a more sustainable national economy through the development of local skills, particularly through employee training and internships. 1,252 employees participated in our conducted training programs, accounting to 72% of our total workforce. Similarly, the number of interns participating in our Annual Internship Program are 20.

We also continue to support the national economy by opting for local supplies. In 2022, we sourced 95% of our supplies locally, and increased our Kuwaitization rate at managerial positions and above to 60%.

## Governance:

Gulf Bank's Corporate Governance is the guiding force that determines how the Bank is directed and controlled. Effective Corporate Governance, which is appropriately aligned with relevant local regulations and international best practices, is the basic tenet of Gulf Bank's business philosophy. As such, we have developed policies that build a sustainable foundation for ethical business conduct and compliance.

Gulf Bank's Board of Directors members comprises of diverse backgrounds, knowledge, professional skills and wide experience in areas including insurance, finance, legal, compliance and regulatory affairs, audit, research and risk management – who can bring value to the Board discussions and decision-making process.

During 2022, Ms. Reem Abdullah Alsaleh was elected as an Independent Director on the Board of Directors during the Bank's 63rd Ordinary General Assembly, bringing the total number of independent members in the Board of Directors to four out of the eleven in total, representing 36% of non-majority independent board member which is an improvement when compared to previous periods. Furthermore, Ms. Al Saleh is the first woman to become an Independent Board Member on Gulf Bank's Board of Directors. This is a major milestone in the history of the Bank as women empowerment and inclusion is essential at Gulf Bank when it comes to setting future strategies or designing diversity and inclusion policies.

In conclusion, Gulf Bank is proud to mark 2022 as a year of tremendous headway and impressive milestones on the ESG front, with sustainability efforts that have been ongoing and unwavering year-round. With multiple ongoing initiatives both internally and in collaboration with the local community, Gulf Bank is proud to be continuing its ESG efforts that will benefit the Bank, the community and Kuwait at large.

**1,252 employees participated in training programs, accounting to 72% of the total workforce**

**Ms. Reem Abdullah Al Saleh was the first female independent director to be elected for Gulf Bank Board of Directors during 2022**

**The below chart illustrates our alignment to the SDGs, New Kuwait Vision, and Boursa Kuwait.**

| | | SUSTAINABLE DEVELOPMENT GOALS | كويت جديدة NEWKUWAIT | بورصة الكويت BOURSA KUWAIT |
|---|---|---|---|---|
| 1 | **Digital Transformation** | Goal 9: Industry Innovation and Infrastructure | 3.Developed Infrastructure<br>7.Global Positioning | Sustainability Reporting |
| 2 | **Governance and Oversight** | Goal 16: Peace, Justice and Strong Institutions | 1.Effective Public Administration | Board Diversity, Board Independence |
| 3 | **Business Conduct and Compliance** | Goal 16: Peace, Justice and Strong Institutions<br><br>Goal 12: Responsible Consumption and Production | 1.Effective Public Administration | Ethics and Anti-Corruption, Supplier Code of Conduct |
| 4 | **Talent Development and Retention** | Goal 16: Peace, Justice and Strong Institutions<br>Goal 8: Decent Work and Economic Growth | 6.Creative Human Capital | Employee Turnover |
| 5 | **Data Privacy and Security** | Goal 16: Peace, Justice and Strong Institutions | 1.Effective Public Administration | Data Privacy |
| 6 | **Customer Experience and Satisfaction** | Goal 12: Responsible Consumption and Production | 3.Developed Infrastructure | Sustainability Reporting |
| 7 | **Gender Equality** | Goal 5: Gender Equality | 7. Global Positioning | Gender Diversity, Non-Discrimination |
| 8 | **Youth Empowerment** | Goal 1: No Poverty<br>Goal 4: Quality Education<br>Goal 8: Decent Work and Economic Growth<br>Goal 10: Reduced Inequalities | 6.Creative Human Capital<br>7. Global Positioning | Sustainability Reporting |
| 9 | **Community Engagement** | Goal 10: Reduced Inequalities<br>Goal 11: Sustainable Cities and Communities | 7. Global Positioning | Sustainability Reporting |
| 10 | **Financial Protection and Awareness** | Goal 16: Peace, Justice and Strong Institutions | 1.Effective Public Administration | Data Privacy |
| 11 | **Environmental Aspects** | Goal 13: Climate Action<br>Goal 11: Sustainable Cities and Communities | 4. Sustainable Living Environment | GHG Emissions, Emissions Intensity, Energy Usage, Energy Intensity, Energy Mix, Water Usage, Environmental Operations, Environmental Oversight |
| 12 | **Employee wellbeing** | Goal 16: Peace, Justice and Strong Institutions<br>Goal 3: Good Health and Safety | 5.High Quality Healthcare<br><br>7.Global Positioning | Inquiry Rate, Non-Discrimination, Human Rights, Global Health and Safety |

# GULF BANK **STRATEGY 2025**

Gulf Bank's strategy is based on simple and innovative services that facilitate customers' lives and achieve sustainable growth, with the aim of cementing the Bank's position as the leading Kuwaiti Bank of the Future. The Bank's new strategy aims to provide customers with an unprecedented banking experience in Kuwait, based on digital transformation processes already underway both at the customer service level and internal operations level.

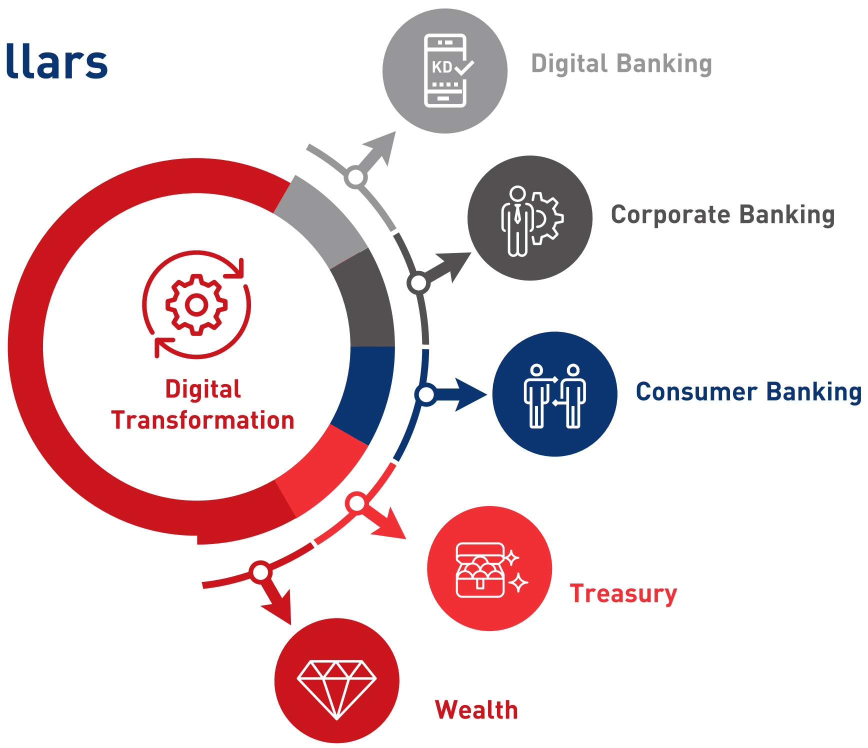
## The focus of Strategy '2025' is on:

Promoting selective growth in the corporate banking and SME segment by expanding our product range and services

Growing Consumer banking market share, while supporting the youth, women and affluent client segments

Developing the Bank's digital banking platforms in order to improve services and increase competitiveness

## Strategic Pillars




**Digital Transformation Strategic Focus**

### Digitization of Operations

- Use Advance Data Science to improve engagement with customers and grow market share.
- Upgrade of the Core Banking System, which will introduce new products, services and features including Omni-channel initiative.
- Install new Treasury System to cater for the Full Treasury Trade Cycle and introduce new automation, products, robust credit and market risk limits monitoring, in addition to seamless operational back-office services.
- Optimize physical branch network utilizing the Banks' digital transformation journey.

### Tailored Customer Offerings

- Improve sales and service levels by identifying profitable segments under consumer banking.
- Develop business with the affluent segment by providing premium services.
- Expand product range, transaction banking, corporate finance and include small and mid-sized enterprises.
- Expand footprint outreach in-line with Kuwait Vision 2035 "New Kuwait".

To ensure the success of this strategy, Gulf Bank has set the foundation to foster a performance-driven culture, introduce new technology solutions and adopt world-class risk management practices. This is facilitated through new Core Values of being 'Ambitious' in providing the best solutions, engaging our 'People' to provide customer excellence and to serve the community, by individually taking 'Ownership' to stand up to our challenges and by removing unnecessary complexities to make our banking enjoyable with 'Simple', efficient and elegant solutions.

Gulf Bank is committed to maintaining a robust sustainability program at the community, economic, and environmental levels through sustainability initiatives that are strategically selected to benefit both the country and the Bank.

## Vision and Mission

### Vision

To be the leading Kuwaiti bank of the future.

### Mission

To provide customers with simple and innovative services, in order to enable sustainable growth.

## Core Values

### Ambitious

We are ambitious in meeting the challenges of the future, and in providing the best banking solutions.

### People

We engage, empower and develop our people in order to provide customer excellence and to serve the community.

### Ownership

We individually take ownership before we hold anyone else accountable, we stand up to our challenges and support each other as one family.

### Simple

We strive to remove unnecessary complexities in our processes to make banking enjoyable for our customers. Solutions that are simple, efficient and elegant.

# 02

# BUSINESS OVERVIEW

# OPERATING **ENVIRONMENT**

## 2022 – A Challenging Road to Recovery

Most global economies continued to recover from the impact of COVID-19 in 2022 in the backdrop of decline in cases and relaxation of restrictions for most of 2022. However, the year had seen multiple twists and challenges that had slowed down economic recovery globally. The IMF expects global real GDP to grow by 2.7% y/y in 2023, following a growth of 3.2% y/y in 2022.

## Global overview on the year 2022 and its major events

Following a spike earlier in 2022, COVID-19 cases remained low for most of the year. While cases continue to be reported, with two-thirds of the global population being vaccinated, many countries relaxed restrictions for most part of the year. However, the road to recovery from the impact of COVID-19 has been anything but smooth. Record high inflation levels and central banks' monetary policy in response, Russia-Ukraine tensions, supply chain disruptions occupied the centre stage in 2022, as most global economies continued to recover from impact of COVID-19.

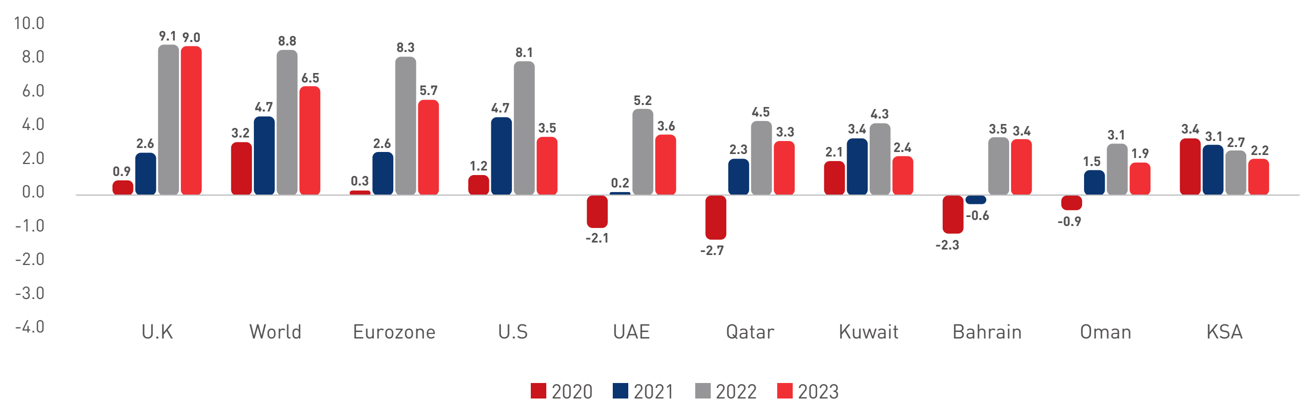
Inflation had hit multi-year high in many countries, driven by release of pent-up demand and supply chain disruptions. Prices of food, fuel and other commodities had spiked during the year. The war between Russia and Ukraine and subsequent sanctions levied by many countries on Russia citing its invasion on Ukraine has led to lower supply of oil, natural gas and other products originating from the two countries. With the Russia and Ukraine being key exporters of food, oil and natural gas, disruption in their supply had led to steep rise in their prices. China's implementation of COVID-19 lockdowns in line with its zero-COVID policy have also disrupted supply chains in terms of difficulty in factory operations and port congestions.

**2.7%**

**IMF expected global real GDP growth in 2023**

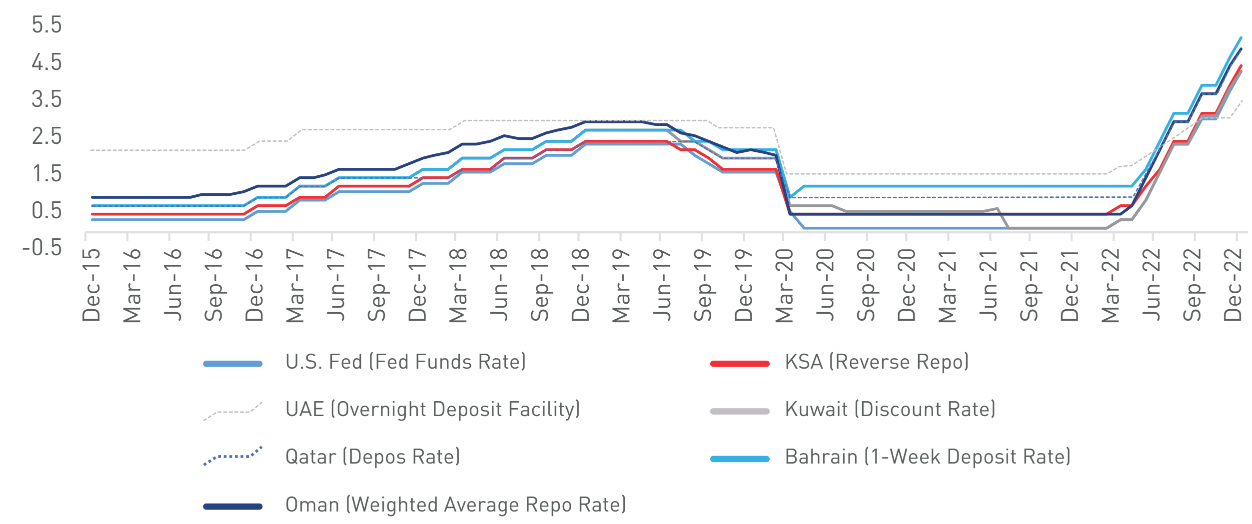
**Inflation had hit multi-year high in many countries, driven by release of pent-up demand and supply chain disruptions**

**Figure: Annual Average Inflation (% Y/Y)**




Source: IMF

Most central banks have hiked interest rates to curb inflation. U.S Fed has increased its policy rate by as much as 425 bps in 2022.




Source: Refinitiv

Global financial markets were negative for the year on the back of Russia-Ukraine war and aggressive policy rate hikes by central banks in response to persistently high inflation levels. Bond market yields were also up for the year with 10-year U.S treasury yields rising by 236 bps during the year. While U.K has already entered recession, Eurozone is expected to face recession in coming months with its economic activity slowing in recent quarters. China's real GDP is expected to grow at 3.2% in 2022, its second lowest since 1977, pressured by impact of the zero-COVID lockdowns and the crisis in the real estate sector.

## Major geopolitical events and their effect in Kuwait

Russia's war on Ukraine had led to rise in oil prices to multi-year highs. The war had also driven up food and commodity prices, causing rise in their prices in Kuwait as well, given the country's dependence on imports. OPEC+ decision to cut oil production on the back of sober economic outlook would require Kuwait to cut its production as well. GCC's ongoing free trade negotiations with U.K and India could improve Kuwait's trade ties with these countries.

## Political overview of Kuwait

Kuwait's political gridlock remained for most of 2022 and culminated in early elections. The government formed by the end of 2021 resigned in April 2022 and was reformulated in August under a new Prime Minister. Following the Emir's decree calling for dissolution of parliament and early elections, Kuwait held its national assembly elections in September 2022, its second election in 2 years. Important laws such as debt law and mortgage law are yet to be passed by the parliament.

**Kuwait held its national assembly elections in September 2022. Important laws such as debt law and mortgage law are yet to be passed by the parliament**

# OPERATING **ENVIRONMENT**

## Kuwait Economy 2022

Kuwait's economy continued to recover in 2022, supported by gains in oil prices and production. Oil prices have increased by 10.5% during the year. While Russia-Ukraine war, recovery in global demand amid relaxation of lockdowns and OPEC+ production cut has supported oil prices, recessionary fears amid rising interest rates and stringent COVID-19 curbs in China have capped gains. IMF estimates Kuwait's oil production for 2022 at 2.73 million barrels per day, up from 2.43 barrels per day in 2021.

Non-oil economic activity as indicated by real estate sales, business credit growth and consumer spending seems to be healthy. Consumer Price Index was at 3.15% y/y in December 2022[1], after reaching a peak of 4.7% in April 2022. While the levels were lower than those seen in developed markets, domestic inflation has been high compared to previous years. Food and Beverages category had been a key driver of inflation, rising by as much as 9.13% y/y in April 2022. Rate of increase in the category had however trended down since then, supported by easing of international food prices and had marked an increase of 7.48% in December 2022. Clothing and Footwear and Education were few other categories that had considerable increase during the year. Education had seen an increase of about 19% y/y for each month until August 2022, due to rise in tuition fees in September 2021. Housing services, which carries a weight of 33% in the index was up by 1.44% in December 2022.

Consumer spending as indicated by total card spending had increased by 25% y/y in 9M 2022[2]. Kuwait credit facilities grew by 8.3% y/y as of December 2022, with consumer credit, construction and industry increasing by 9.1%, 22.6% and 0.2% respectively. Business Credit grew by 7.9% y/y as of December 2022. Real estate sales reached KD 2.79bn in 9M 2022, marking a 2.8% y/y decrease. Decline in residential sales weighed on he sector even as investment and commercial segment saw an uptick.

## Sovereign credit ratings update and impact

Fitch had downgraded Kuwait's sovereign credit rating to AA- with a stable outlook in January 2022, citing political constraints to decision making. However, stronger liquidity levels on the back of favourable oil price and production levels have led to ratings affirmation by S&P and Moody's at A+ and A1 respectively. While S&P revised outlook to stable from negative, Moody's has maintained its view of a stable outlook. Moody's also expect the country's balance sheet and fiscal buffers to remain strong in the foreseeable future.

## Government Finances and Project Awards

Kuwait's budget deficit for FY21/22 was at KD 3bn (USD 9.7bn), down 72% from previous year's record high deficit. Improvement in oil prices and production along with increase in non-oil revenue has supported the country's fiscal position. Kuwait's budget for FY22/23 was finalized in November 2022, with the approval delayed due to dissolution of parliament and subsequent elections. The FY22/23 budget forecasts a deficit of KD 124mn, a drop of 99% compared to previous budget, on the back of projected increase in oil and non-oil revenue compared to the previous budget. The budget assumes oil price at USD 80/bbl.

(1) Kuwait Central Statistical Bureau
(2) Central Bank of Kuwait

**IMF estimates Kuwait's oil production for 2022 at 2.73 million barrels per day, up from 2.43 barrels per day in 2021**

**Consumer Price Index was at 3.15% in December 2022, after reaching a peak of 4.7% in April 2022**

**8.3%**

**Year on year growth in domestic credit as of December 2022**

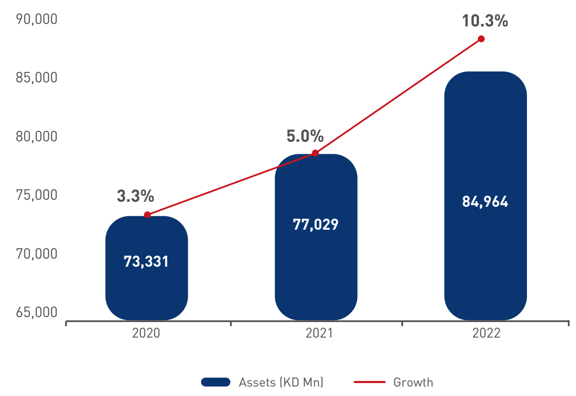
**Fitch downgraded Kuwait's sovereign credit rating to AA- with a stable outlook in January 2022**

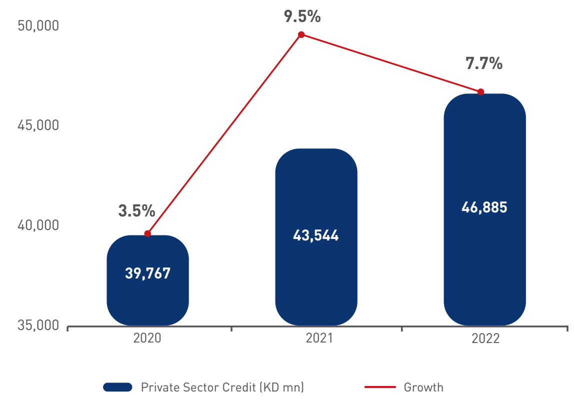
Capital spending had increased by 16% y/y to KD 2.6bn in FY 21/22. However, it is budgeted to be KD 2.9bn in FY22/23, 15.2% lower than the previous budget. Project awards for 9M 2022 totalled to about KD 339mn, down by around 63% y/y[1]. Kuwait plans to spend about KD 955.4mn on 129 development projects in FY2023/2024[2]. The projects include development of Mubarakiya markets, and supply and installation of a main conversion station for the Shagaya Z renewable energy project. Around 400 local development projects are to be initiated soon on Kuwait's artificial island of Al- Saji.

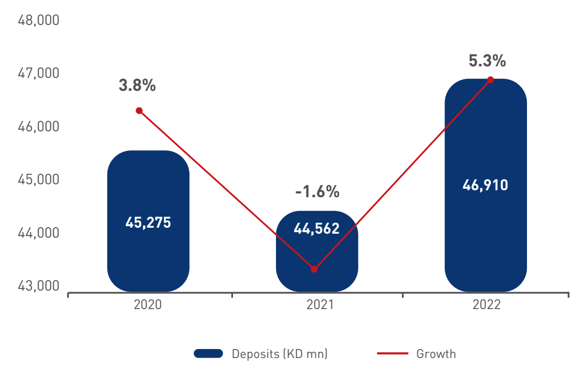
## Banking Industry

Economic recovery and rise in interest rates have contributed to improved banking sector performance in 2022. Net income for listed banks increased by 33% y/y in 9M 2022 on the back of lower provisioning and higher fee and interest income. Banks continued to remain well capitalised with a capital adequacy ratio of 18.0% in Q3 2022. Gross NPLs to total loans was at 1.5% as of Q3 2022.

**Figure: Kuwait Banking Overview**




(Source: Central Bank of Kuwait (CBK))

(1) MEED Projects
(2) Arab Times

**72%**

**Decline in Kuwait budget deficit for FY21/22**

**Kuwait plans to spend about KD 955.4mn on 129 development projects in FY2023/2024**

# OPERATING **ENVIRONMENT**

In the backdrop of rate hikes by the U.S Fed, Kuwait also increased rates by 200 bps during the year. However, given its currency peg to a basket of currencies that includes U.S Dollar, Kuwait has some space to deviate from the Fed's moves while taking into consideration factors such as domestic inflation levels. Through the year, while U.S Fed had opted to rate hikes steeply by 50-75 bps, Kuwait's central bank had chosen to hike rates by a smaller magnitude of 25 bps or in some instances had kept rates unchanged.

### Stock Market Performance

Kuwait market performance was modest for the year, posting an annual gain of 3.5% in 2022. But this follows a rise of 27% in 2021 and comes in the backdrop of negative annual performance in global markets with the MSCI World Index declining by 19.5% and MSCI EM Index declining by 22.4%. While the market performance was supported by positive economic outlook on the back of rise in oil prices and recovery in non-oil economy, global hike in interest rates to curb inflation capped gains. Ali Alghanim Sons Automotive Company was the only IPO in the market this year. The listing marked the first IPO by a family-owned business on the exchange in seven years[1].Earlier in the year, the stock exchange had announced plans to list additional market makers and family-owned businesses in a move aimed at improving trading.

### Looking Ahead to 2023

Global real GDP is expected to grow by 2.7% in 2023. The path of global economy in 2023 would be shaped by the central banks' monetary policy, effectiveness of rate hikes in containing inflation and impact of tighter monetary policy on business activity. Additionally, trajectory of COVID-19 in China and Russia-Ukraine war and normalization of supply chain disruptions would be key determinants.

Kuwait's GDP is expected to grow by 2.6% in 2023. OPEC+ production cut could weigh oil GDP growth. However, with impending EU embargo on Russian oil, tightness in oil markets in 2023 could see OPEC+ reverse its production cuts and in turn provide scope for increased production by Kuwait. Oil prices are expected to average at USD 85.52/barrel in 2023, according to the IMF. Being higher than Kuwait's fiscal breakeven of USD 57.8/barrel, such oil price levels would aid in placing government finances on a strong footing and in turn lead to improved public spending and non-oil GDP growth. The presence of a new government and relatively high oil price levels could support project awards. For banks, lower provisioning and higher interest rates could improve profitability. Further hike in interest rates and sober global economic outlook could exert some pressure on credit growth. In all, despite muted global economic outlook, favourable oil price levels, decline in domestic inflation in recent months, slower pace of rate hikes by the Central Bank of Kuwait (CBK) and recovery of business activity from impact of COVID-19 lockdowns offer much cause for optimism.

Source: [1]Gulf Business

**Economic recovery and rise in interest rates have contributed to improved banking sector performance in 2022**

**In 2022, the stock exchange had announced plans to list additional market makers and family-owned businesses in a move aimed at improving trading**

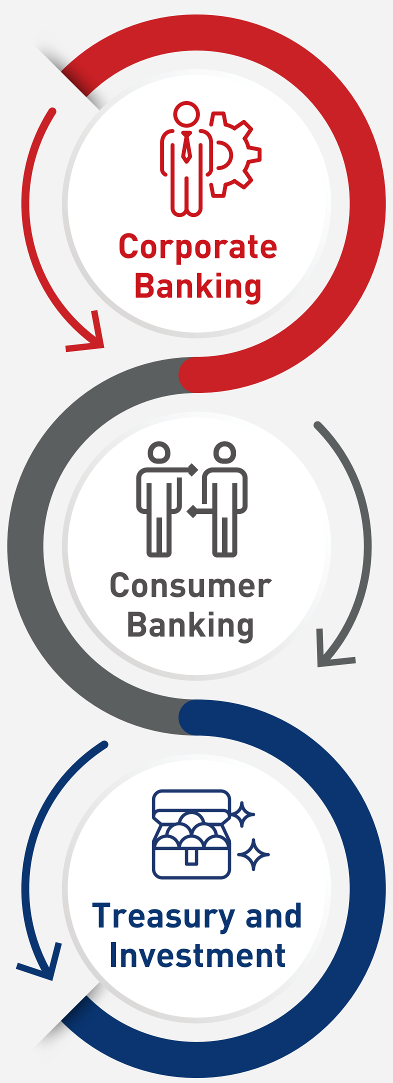
# MANAGEMENT **REPORT**

Gulf Bank delivered another strong year of progress during 2022, as we continue to drive enhanced results for all our stakeholders. The Bank are reaping the benefit of the Kuwait-focused strategy and are proactively meeting the changing needs of the Bank customers through digital innovation and solutions.

Gulf Bank managed to grow in both the corporate and consumer segments although at a faster pace for the latter, with corporate segment representing 58% of the Bank Loan book and consumer segment representing 42% as of year-end 2022. This was supported by the overall positive environment in Kuwait during the year, were the economy continued to show signs of stability, despite challenging global market and an uncertain economic outlook globally. The global challenges include high inflation, tighter monetary policy, and the war in Ukraine, amongst others. However, the local economic stability is supported by good oil prices, recovery of economic activity specifically in the private sector, and ongoing structural reforms.

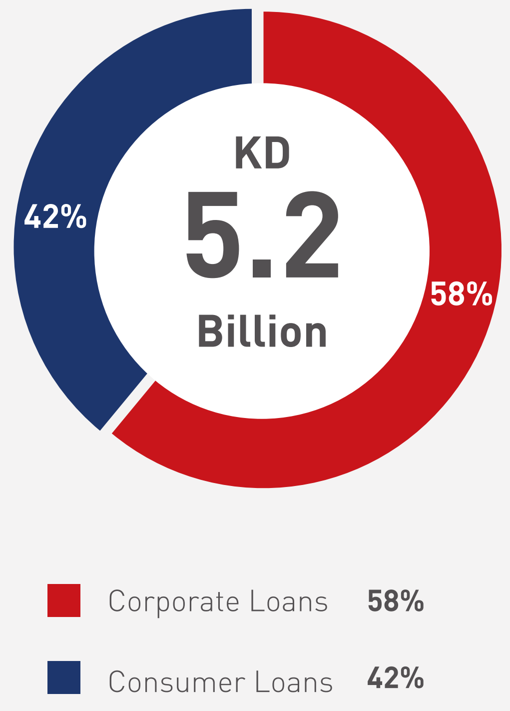
The Bank continues to seek new opportunities to add value to the Bank clients as we navigate a world with new competition and changing expectations.

## Business Model




## Gross Loans by Segment

**(31 December 2022)**




### Corporate Banking

Gulf Bank's Corporate Banking business model is designated to serve a diversified portfolio of clients across various industries and segments which include family conglomerates, multinationals, government entities, specialized commercial and contracting businesses, and small and medium- sized enterprises (SMEs).

Through corporate banking, we strive to nourish and strengthen our relationship with our customers by offering them support through our dedicated and experienced industry focused relationship teams. We continue to invest in our full-fledged specialized digital platform to ease our customers banking experience in a simplified and efficient manner, allowing them to transact as well as benefit from our products and services.

Corporate banking continues to significantly progress and grow through attracting new to bank customers, the ongoing development of the banks digital banking platforms and enhancing and expanding our products and services. Our focus on these three pillars has contributed to our asset growth and cemented the banks competitive edge and position as the leading Kuwaiti bank for the future, aiming to optimize the risk/return by way of focusing on high quality assets from various sectors. As result the bank grew in all corporate banking segments.

Gulf Bank is proud to constantly support the SME segment by offering products and services that cater to their requirements. We continued to support the SME segment by providing non-banking services i.e., collaborating with business advisory firms to provide, logistics, business advisory and concierge services to our SME customers. The bank has also extended its digital banking platform to SME customers to further enable them to benefit from the bank's services and products.

In line with Gulf banks focus on customer experience and simplicity of services and products, corporate banking has commenced its digital transformation initiatives across all banking channels. Whereby the bank managed to migrate all client to the new online banking system. The transformation will allow the bank to provide and perform services under a centralized omni channel structure which will ultimately aid our customers in adapting and coping with the everchanging economic environment arising from technological advancements. The corporate online banking platform currently offers a variety of new services and functions which include trade finance requests and a mobile application dedicated to our corporate and SME segment. The platform is continuously upgraded to deliver a secure electronic banking experience to our corporate customers.

Corporate banking team is and remains its main asset, its the foundation of the bank success, as result the bank to continues invest and support its staff by sponsoring executive courses in best-in-class universities and institutions.

**Corporate Banking focused on:**

**1** attracting new bank customers,

**2** continuing to develop the Bank's digital banking platforms,

**3** enhancing our product offerings and services

**Gulf Bank is proud to constantly support the SME segment by offering products and services that cater to their requirements**

# MANAGEMENT **REPORT**

## Consumer Banking

In line with Gulf Bank's strategy, vision & mission to provide its customers with best-in-class & secure banking services, Gulf Bank has embarked on an Omni-Channel Digital Transformation initiative. The program intends to move from siloed channel approach to central omni-channel digital banking approach to orchestrate customer interactions across any touchpoint. The objective of the initiative is also to prepare Gulf Bank for future customer needs, meet requirements of Central Bank's Cyber Security Framework and be ready for open banking.

The program covers the following:

### 1. The Omni-Channel Contact Centre Solution (Launched on July 8th, 2022):

Technical & Functional upgrade of Gulf Bank's Call Center Solution and Telephony to the latest Avaya Omni-Channel Contact Center Solution with introduction of new services & features, Agent desktop, New call flow, KONG and OBAPI integration, Workforce Optimization, Callbacks & Skill based routing.

Avaya Aura Contact Center is a standards-based customer engagement solution. Avaya Aura Contact Centre is an omnichannel solution that allows contact center to go beyond phone calls and engage with customers seamlessly across phone, text, IM, email, chat, and video all through one easy-to-manage unified platform.

### 2. The Omni-Channel Digital Banking Platform (Launched on February 10th, 2022):

Technical & Functional upgrade of Gulf Bank's Retail & Corporate Online & Mobile Banking Platform to the latest Oracle Banking Digital Experience Platform with introduction of new touch points like Chatbot, Voicebot, Wearables, Siri, and Alexa.

Oracle Banking Digital Experience is an enterprise-class, open, cloud-ready, scalable, digital banking solution from Oracle.

- It is a single platform for banks to deliver engaging digital experiences across all channels
- It is a highly extensible and customizable solution capable of integrating with any existing technology landscape

### 3. The Self Service Banking via Interactive Teller Machines (ITMs) and ATMs (In Pilot phase):

Implementation of in-house ATM Driving SWITCH, and CX Banking & CX Marketing from NCR to provide 70% branch transactions available on self-service channels with rich & personalized user experience.

- NCR's Authentic is a transaction processing switch that allows terminal driving, end to end transaction processing capabilities & agile consumer experience on the terminals
- NCR's CxBanking allows to design modern user interfaces and provides customer experiences across physical and digital banking channels. It allows banks to 'engage' and 'transact' with customers as well as 'manage' that experience in a comprehensive manner.
- NCR CxMarketing allows broad-based advertising, targeted marketing, and personalization on self-services terminals

With the implementation of the program the bank plans to achieve the following benefits for its customers and the bank:

**The Omni-Channel Digital Banking Platform services all lines of businesses, including retail, SME, corporate, and Islamic**

**70%**

**Branch transactions are available on self-service channels with rich & personalized user experience**

1. Provide customers the control to choose the right channel for their needs
2. Prepare a platform with advanced configurability and increased agility, improving time to market for new and updated products / services
3. Develop an agile, digitally driven culture with the flexibility to respond to new challenges
4. Full compliance to Central Bank's Cyber Security Framework and leading practices for cyber and payments security
5. Prepare an API layer that would easily adapt to Open Banking Standards defined by Central Bank
6. Improve Customer Service and Provide Personalized User Experience to customers.

## Treasury, Financial Institutions and Sovereign

### Treasury

Treasury is committed to supporting the growth of Gulf Bank's core business, ensuring that funding is adequate at all times to meet our clients' needs and regulatory requirements, in the most efficient way.

In 2022, the Treasury is functioning at full capacity and continues to offer our clients a broad range of products, including foreign exchange and money market services. Furthermore, our funding profile continues to strengthen, with growing access to the market, regionally and internationally, and further diversification of sources of funds. With the implementation of our Treasury management system, we can expand and grow our foreign exchange business and we will be ready soon to offer various hedging solutions to our clients.

Similar to the importance of investing in technology, we also invest and develop our local talent, whom we consider to be our most important asset, where we continue to support their training developments and involve them throughout the year in rotation within the various desks of the Treasury to handle each other's tasks and activities, for more efficiency.

### Financial Institutions and Sovereign

The Financial Institutions and Sovereigns team facilitates solutions for both Consumer and Corporate clients, allowing for efficient Trade Finance Services as well as Straight Though Processing of global payments in line with international regulations. With access to global correspondent banks and longstanding mutually beneficial international banking relationships, the division also provides various funding solutions to support the diversity of the Bank's funding sources. The Financial Institutions and Sovereign division continues to accelerate its business activity through lending, borrowing, correspondent banking activities as well as facilitating trade related transaction throughout the year. In line with the Bank's initiatives related to ESG, Financial institutions and Sovereign participated in an ESG related transactions in 2022 which provides incentivized pricing to our client in the syndicated facility based on its ESG performance and KPIs. On the digital transformation front, the department has been preparing for the core banking system by aligning all its product offering with the new and enhanced capabilities which will lay the foundation for further growth and enhanced customer experiences. Over the past year the team has doubled in size with 100% young local talent acquisition all of which have received certified credit training as our believe in human capital development within the Bank and the department.

**With the implementation of our Treasury management system, we can expand and grow our foreign exchange business and we will be ready soon to offer various hedging solutions to our clients**

**The Financial Institutions and Sovereign division provides various funding solutions to support the diversity of the Bank's funding sources**

### Investment

The key focus of Gulf Bank's Proprietary Investment activities is to support the liquidity needs of the Bank, diversify income streams, and generate returns within the Bank's risk appetite. In 2022, the activity was mostly focused on managing the existing investment portfolio of listed and unlisted equities as the environment for fixed income products was not favorable.

On the other hand, Gulf bank is licensed by the Kuwait Capital Markets Authority, to offer investment products to the Bank clients. Gulf Bank's Fiduciary activities include carrying out portfolio management services, custody services, investment controller and investment advisory and manages assets. The Bank also acts as a selling agent for local funds and a Fiscal and Paying agent for several local corporate bonds.

Additionally, the Investment Advisory unit is comprised of Investment Managers registered with the Capital Markets Authority Kuwait providing professional financial advice to Gulf Bank clients with a fiduciary duty to assist and manage client portfolios enabling them to reach their financial goals. The WISE Investment Service is Gulf Bank's flagship digital platform allowing clients to invest in international markets through Exchange Traded Funds "ETFs".. This year's challenging market conditions for investors have been formed by a multitude of factors starting with the Russia-Ukraine conflict, high inflation rates, rise in interest rates and surging borrowing costs. While these challenges have continued throughout the year, the Investment Advisory Team warranted regular reviews of client portfolio positions ensuring of capital preservation, sustainable growth over the long-term and clients' investments diversification.

### Establishment of Gulf Bank Capital:

Based on prolonged studies of the market and clients' needs and the Bank's long-term strategy, Gulf Bank's Board gave its approval on the establishment of Gulf Bank Capital as an independent investment arm of the Bank.

Further to the Board's decision, during 2022, the following milestones have been achieved:

- The Bank received CBK approval to establish wholly owned investment subsidiary in April 2022
- The Bank is an advanced stage in obtaining the CMA approval for the establishment of GB Capital and moving the relevant licenses to it
- Several important appointments were made to fill various key positions of the proposed investment company, including the CEO
- Advisors were engaged to assist the Bank in the transformation journey for the establishment of the new company.

**The WISE Investment Service is Gulf Bank's flagship digital platform allowing clients to invest in international markets through Exchange Traded Funds "ETFs"**

**During 2022, Gulf Bank's Board of Directors approved the establishment of Gulf Bank Capital as an independent investment arm of the Bank**

### Data and Digital Transformation

2022 was a year of a data driven transformation, with the recent establishment of the Data unit in 2021, the Bank was ready to take on major initiatives to capitalize on data as an asset that enables optimization of work efforts and improved capabilities in all business units. The focus was to ensure that the people in Gulf Bank are ready for transformations and are equipped with the right knowledge and tools to enable a sustainable economic growth of the Bank. The end goal of 2022 for the Data & Innovation Practice was simply to have 100% data literate employees.

Two major data initiatives were rolled out and completed in 2022 as part of Gulf Bank's digital transformation journey and its commitment to invest in its workforce to enable technical capabilities and foster digital innovation:

### Adopt Data Driven Culture to support Digital Transformation

The Data Ambassadors program focused on building true data science capabilities through a network of data experts (Ambassadors) embedded in each department to enable data driven decision making and automated business insights across different tasks and departments.

The Data Literacy program focused on Data Quality and included Bank-wide in-person workshops that were attended by all departments and branch staff, to emphasize the value of data quality and build awareness around the value of data driven cultures.

### Digital Transformation & Data Culture for the Community

Gulf Bank held its inaugural Datathon, a public competition that enables participants to learn more about data science, data visualizations, and digital analytics tools and techniques. As part of the competition, audience attended free educational workshops hosted by industry leaders from Gulf Bank teams. The workshops were centered around data science, digital and app analytics, and the latest data visualization techniques. The Datathon then became a series of events to bring the tech community of Kuwait together, by providing quarterly events such as the "Data Talk" bringing local academic experts in data to help the youth who are new to tech.

Furthermore, Gulf Bank data and innovation team members chaired Kuwait's first Digital Transformation event hosted by the government's Central Agency of Information Technology that was aimed at enabling Kuwait 2035 Vision through Digital Transformation. Gulf Bank also contributed to several local colleges' events with thought leadership and expertise around data in and innovation.

**2022 was a year of a data driven transformation**

**The Bank adopted a data driven culture through the Data Ambassadors and the Data Literacy programs, in support of digital transformation initiatives**

**Gulf Bank held its inaugural Datathon, a public competition that enables participants to learn more about data science, data visualizations, and digital analytics tools and techniques**

# CFO **STATEMENT**

## MANAGEMENT DISCUSSION & ANALYSIS

**David Challinor**
Chief Financial Officer

The Bank reported a net profit of KD 62 million and earnings per share of 19 fils for the year ending 31 December 2022, compared to a net profit of KD 42 million and earnings per share of 13 fils for the year ending 31 December 2021. The Board of Directors is recommending a cash dividend of 10 fils per share and 5% bonus shares for shareholders' approval at the Annual General Meeting for the year 2022.

The increase in net profit of KD 19.7 million compared with the prior year was driven by a higher net interest income of KD 9.9 million as a result of loan growth and the increase in the CBK discount rate in 2022, and a reduction in total provisions and impairments of KD 17.6 million. However, this was partially offset by an increase of KD 8 million in operating expenses, mainly due to staff costs reflecting the Bank's continued investment in human capital.

Gross Customer Loans increased by KD 319 million or 7%. The consumer segment continued to see strong growth, up nearly KD 272 million or 14%, while the corporate segment growth was up nearly KD 47million or 2% as of year-end 2022.

The Bank's non-performing loan ratio for the year-end 2022 stood at 1.1%, moving from 0.9% reported for the year-end 2021. Additionally, the Bank remains to have ample provisions, resulting in a strong non-performing loans coverage ratio of 504% including total provisions and collaterals for year-end 2022.

At the end of 2022, total provisions on credit facilities were KD 313 million compared with KD 190 million of provisions required under IFRS 9 accounting. Thus, the Bank held excess provisions of KD 124 million, representing 39% of total provisions. This is the fifth consecutive year end since IFRS 9 was introduced where the Bank's excess credit provisions exceeded KD 100 million.

The Bank's Tier 1 ratio as of 31 December 2022 reached 14.21%, 371 basis points above the regulatory minimum of 10.5%. The Bank's Capital Adequacy Ratio (CAR) was 16.39% as of 31 December 2022, 389 basis points above our regulatory minimum of 12.5%.

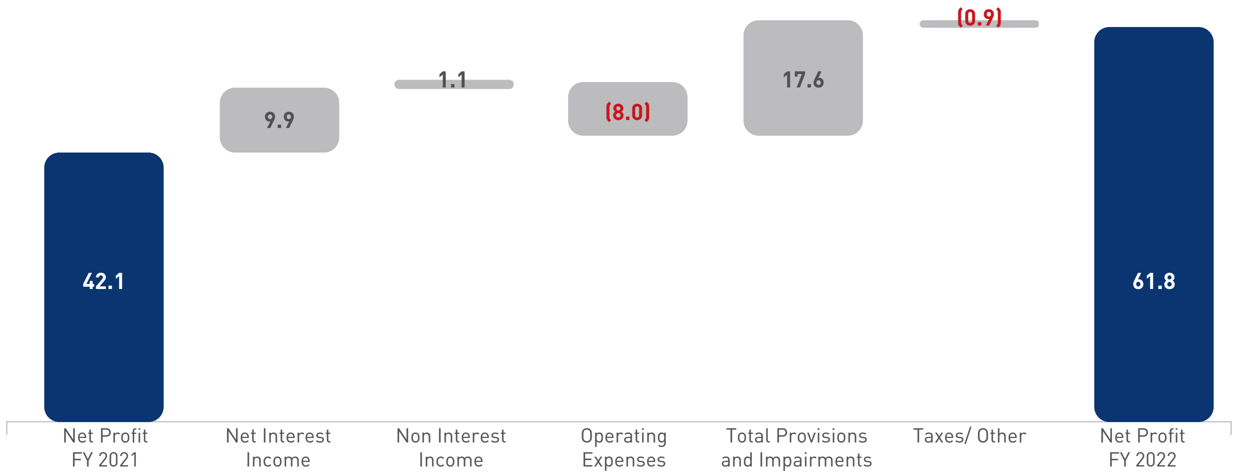
**As at or for the year ended December 31st (in KD millions, except per share and ratio data)**

| KEY FINANCIAL METRICS | 2022 | 2021 | Better/(Worse) in 2022 vs. 2021 |
|---|---|---|---|
| **Income Statement** | | | |
| Net interest income | **142** | 132 | 7% |
| Non-interest income | **39** | 38 | 3% |
| Operating income | **181** | 170 | 6% |
| Operating expenses | **86** | 78 | (10%) |
| Operating profit | **95** | 92 | 3% |
| Provisions / Impairment Losses | **30** | 48 | 37% |
| Net profit | **62** | 42 | 47% |
| Earnings per share (fils) - Basic and diluted | **19** | 13 | 46% |
| Dividends per share – Cash (fils)* | **10** | 7 | 43% |
| *2022 proposed cash dividends are subject to Annual General Meeting shareholders' approval expected to be held in March 2023. | | | |
| **Balance Sheet** | | | |
| Gross loans and advances to customers | **5,158** | 4,838 | 7% |
| Total assets | **6,851** | 6,556 | 5% |
| Customer deposits | **4,247** | 4,304 | (1%) |
| Total stockholders' equity | **720** | 666 | 8% |
| Average daily share price (fils) | **327** | 235 | 39% |
| **Key Financial Ratios** | | | |
| Return on average equity | **9.0%** | 6.5% | 250 bps |
| Return on average assets | **0.9%** | 0.7% | 20 bps |
| Net interest margin | **2.1%** | 2.1% | - |
| Non-performing loan ratio | **1.1%** | 0.9% | (20 bps) |
| Provisions & Impairments / Average Total Assets | **0.4%** | 0.8% | 40 bps |
| Tier 1 capital ratio | **14.21%** | 14.46% | (25 bps) |
| Capital adequacy ratio | **16.39%** | 16.72% | (33 bps) |

# CFO **STATEMENT**

## MANAGEMENT DISCUSSION & ANALYSIS

**Shown below are the major variances in net profit from 2021 to 2022 (KD millions):**




### IFRS9 IMPLEMENTATION

The IFRS9 accounting standard on credit facilities was implemented by the Central Bank of Kuwait at the end of 2018 and, as of year- end 2022, the Bank's total credit provisions of KD 313 million were greater than the IFRS9 requirements by KD 124 million.

| Comparison between total provisions and IFRS 9 Expected Credit Losses (ECL) on credit facilities: | 2022 KD Millions | 2021 KD Millions |
|---|---|---|
| Provision on cash facilities | **294** | 282 |
| Provision on non-cash facilities | **19** | 19 |
| Total provisions on credit facilities (A) | **313** | 300 |
| IFRS 9 ECL on credit facilities (B) | **190** | 189 |
| Excess of total provisions over IFRS 9 ECL on credit facilities (C = A-B) | **124** | 112 |
| Excess provisions as a percentage of total provisions (C/A) | **39%** | 37% |

### ASSET QUALITY

Gross credit costs in 2022, defined as specific provisions plus write-offs, were KD 10 million lower (18%) than 2021.

Total provisions and impairment losses of KD 30 million were incurred in 2022, which represented 0.4% of average total assets, compared to 0.8% reported in 2021.

| PROVISIONS / IMPAIRMENT LOSSES (KD Millions) | 2022 | 2021 | Change |
|---|---|---|---|
| Specific provisions | **33** | 56 | 23 |
| Write-offs | **13** | 0.5 | (12.5) |
| Gross credit costs | **46** | 56 | 10 |
| Recoveries | **(21)** | (12) | 9 |
| Impairment losses | **0.1** | 0.1 | 0 |
| Total credit costs and impairment losses | **25** | 44 | 19 |
| % of average assets | **0.37%** | 0.69% | |
| General provisions | **5** | 4 | (1) |
| Total provisions and impairment losses | **30** | 48 | 18 |
| Provisions and impairment losses (as a % of average total assets) | **0.44%** | 0.75% | |
| Credit costs | **25** | 44 | 19 |
| % of average gross loans | **0.49%** | 0.95% | |

# 03 GOVERNANCE

# BOARD OF **DIRECTORS**

## Jassim Mustafa Boodai

**Chairman, Board of Directors**

**Chairman, Board Compliance and Governance Committee**

**Chairman, Board Credit and Investment Committee**

**Date of Appointment:**

Chairman: March 4, 2020 – Present

Board Member: March 17, 2012 - March 3, 2020

**Experience:**

Vice Chairman and CEO of Integrated Holding Company K.S.C.P. Kuwait

Formerly Board Member of Kuwait Insurance Company, Kuwait

Formerly Vice Chairman of Kuwait China Investment Company, Kuwait

Formerly Chief Operating Officer of Boodai Corporation, Kuwait

Formerly Vice Chairman of Hilal Cement Company, Kuwait

Formerly Chairman of Transport & Warehousing Group Company, Kuwait

Formerly Vice Chairman Jazeera Airways

## Ali Morad Behbehani

**Deputy Chairman of Board of Directors**

**Date of Appointment:**

Deputy Chairman: March 15, 2013 - Present

Board Member: April 11, 2009 - March 14, 2013

**Academic Qualifications:**

BA, English Literature, Kuwait University

**Experience:**

Chairman - Kuwait Insurance Company

Board Member - National Industries Company

President of Morad Yousuf Behbehani Group

Board Member - The Kuwaiti Danish Dairy Company (K.D.D.)

Formerly Board Member of Kuwait National Cinema Company (S.A.K.)

Formerly Board Member of Kuwait Pipe Industries Company

## Omar Hamad AlEssa

**Board Member**

**Deputy Chairman, Board Nomination and Remuneration Committee**

**Deputy Chairman, Board Credit and Investment Committee**

**Date of Appointment:**

April 11, 2009

**Academic Qualifications:**

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

**Experience:**

Owner of The Law Office of Al-Essa & Partners

Formerly Chairman of the Kuwait Bar Association

Formerly President of the Admission Committee of the Kuwait Bar Association

Formerly President of the Arbitration Center of the Kuwait Bar Association

Formerly President of the Development and Training Committee of the Kuwait Bar Association

Formerly Head of the Kuwaitization Group at the Manpower and Government Restructuring Program

Formerly Chairman of Kuwaiti Touristic Enterprises Company, Egypt.

Formerly Appointed adviser to the Public Authority compensation for Iraqi invasion

Formerly Member of the board of Kuwaiti Association for Learning Differences (from 2015 to 2021)

Founder Member of Kuwait transparency Societ.

Founder Member of Kuwaiti Association for Protecting Public Funds

# BOARD OF **DIRECTORS**

## Bader Nasser AlKharafi

**Board Member**

**Deputy Chairman, Board Risk Committee**

### Date of Appointment:

March 17, 2012

### Academic Qualifications:

Bachelor's Degree, Mechanical Engineering, Kuwait University, Kuwait

Master of Business Administration, London Business School, London, UK

Mr. Bader has completed 2 years of his Doctorate in Business Administration Program from IE Business School (Instituto de Empressa) in Madrid, Spain

### Experience:

Mr. Bader has over 20 years of experience in the financial, banking, industrial, and telecommunication sectors

He began his career as an engineer in Kuwait Petroleum Corporation for approximately one year. Thereafter, he joined Al-Kharafi group in which he held several leadership positions concluding in the position of Member of the Executive Committee in the industrial sector of Al-Kharafi group

Mr. Bader is Chairman and member of the Board of Directors in several local and international companies operating in the financial and industrial sector, which include:

Vice Chairman & Group CEO of Mobile Telecommunications Company K.S.C (Zain Group), Kuwait

Vice Chairman of Mobile Telecommunications Company, Saudi Arabia

Chairman of Gulf Cables and Electrical Industries Company, Kuwait

Chairman of Injaz Kuwait, Kuwait

Board Member in the Middle East Advisory of Coutts & Co. (United Kingdom)

Board Member at Refreshment Trading Company (Coca-Cola), Kuwait

Vice Chairman of Diamond International Motors Company (Mitsubishi cars), Egypt

Board Member at Bahrain Steel B.S.C..C, Bahrain

Board Member at Foulath Holding B.S.C., Bahrain

Board Member at Kuwait-British Friendship Society

Board Member at the United Nations High Commissioner for Refugees (UNHCR) - "Sustainability Board"

Board Member and the Chairman of the Executive Committee at Boursa Kuwait

Chairman of National Investments Company (NIC), Kuwait

Vice Chairman of Heavy Engineering Industries & Shipbuilding Co. (HEISCO), Kuwait

Board Member at Mentor Arabia, Lebanon

In September 2019, BNK Automotive owned by Mr. Bader Al-Kharafi signed the new Volvo agency agreement in Kuwait, making BNK Automotive the new official exclusive importer for Volvo Cars and in 2022 BNK Automotive acquired the franchise rights for Polestar

In 2020, BNK Motion, owned by Mr. Bader Al-Kharafi acquired the franchise rights for Piaggio Group and Vanderhall Motor Works



## Abdullah Sayer Bader Al-Sayer

**Board Member**

**Deputy Chairman of Board Audit Committee**

### Date of Appointment:

March 27, 2021

### Academic Qualifications:

Bachelor of Science in Business Administration with Finance Emphasis, Barry University, Miami, Florida, USA

Master of Business Administration with Finance Concentration, Summa Cum Laude (With Highest Honors) from Barry University, Miami, Florida, USA

### Experience:

| | |
|---|---|
| Board Member in AlSayer Group | (2022 to date) |
| Board Member in Bayan Dental | (2019 to date) |
| Board Member in Credit One | (2018 to date) |
| Senior Manager, Al Sayer Group – Al Dhow Holding Co., Kuwait | (2015 to date) |
| Formerly Financial Analyst in Injazzat Real Estate Dev. Co | (2013 – 2015) |
| Formerly, Analyst in Bader Al Abduljader & Partners (Russell Bedford International), Kuwait | (2012 – 2013) |
| Formerly Associate in Qunsult International Ltd, Kuwait | (2012) |

With over 10 years of experience, largely in finance and investment sectors, Mr. Abdullah has played a vital role in diversification of AlSayer Group into Education, Health care and Banking sectors. He has been significant in introducing new technologies as part of the digitization process at AlSayer Group

# BOARD OF **DIRECTORS**

## Dr. Fawaz Mohammad Al Awadhi

**Board Member**

**Member of Board Nomination and Remuneration Committee**

**Member of Board Credit and Investment Committee**

### Date of Appointment:

August 7, 2019

### Academic Qualifications:

Doctor of the Science of Law (J.S.D.) - Washington University in St. Louis (May 2021)

Master of Laws (LL.M.) - University of California, Berkeley (May 2016)

High Diploma - Boston University (May 2015)

Bachelor of Laws (LL.B.) - Kuwait University (June 2007)

### Experience:

Chief Legal Officer – Alghanim Industries Group (July 2020 – Present)

Faculty Member – Legal Department – College of Business Studies (June 2016- Present)

Vice- Chairman in the Board of Members of Takhzeen Warehousing Co. SAK(C) (August 2021 – Present)

Vice- Chairman in the Board of Members of Ejari Real Estate Co. SAK(C) (November 2021- Present)

Vice – Chairman in the Board of Members of Alghanim Industries Co. SAK(C), (Jan 2021- Present)

Vice- Chairman in the Board of Members of Alghanim Industries Group Holding Co. SAK (C) (Formerly/Alamana Kuwait Holding Co. SAK(C)) (Jan 2021- Present)

Vice- Chairman in the Board of Members of X-cite General Trading Co. SAK(C) (March 2022 – Present)

Manager in the Board of Managers of Alghanim International Food Co. LLC, Saudi Arabia (November 2021- Present)

Manager in the Board of Managers of Kirby Contracting Co. LLC, Saudi Arabia (November 2021- Present)

Manager in the Board of Managers of Al Qimma Universal for Real Estate Development Co. LLC, Saudi Arabia (November 2021- Present)

Deputy Chief Legal Officer, Head of Litigation – Alghanim Industries (June 2016 – July 2020)

Legal Counsel – Alghanim Industries (December 2008 – August 2014)

Manager in Board of Managers of Atara Investment Co. LLC – UAE (2020 – Present)

Secretary General of the Kuwaiti Association for Protecting Public Funds, Kuwait (2018 – Present)

Manager in the Board of Managers of Saudi Pipes Insulation Manufacturing Factory Co SPC LLC, Saudi Arabia (2019 – Present)

Manager in the Board of Managers of Kutayba Yusuf Alghanim & Partner for Trading Co. SPC LLC, Saudi Arabia (2018 – Present)

Manager in the Board of Managers of Saudi First Company for Manufacturing Insulation Materials & Steel Buildings LLC, Saudi Arabia (2018 – Present)

Manager in the Board of Managers of Pasture Trading Co. LLC, United Arab Emirates (2018 – Present)

Formerly, Chairman of the Board of Alamana Investment K.S.C Closed, Kuwait (2012)

Formerly, Deputy Chairman of the Board of Kuwait Insulating Material Manufacturing Company (KIMMCO), Kuwait (2012 – 2014)

Formerly, Member of the Board of Alamana Industries K.S.C Closed, Kuwait (2010 – 2014)

Formerly, Member of the Board of Nile City Tourism Corporation, Egypt (2012 – 2014)

Formerly, Managing Director of Shamsin International Trading & Contracting CO. W. L. L., Kuwait (2011 – 2014)

Formerly, Member of Kuwaiti Bar Association, Kuwait (2007 – 2014)

SAK(C) (Jan 2021- Present)

## Barrak Abdulmohsen Al Asfour

**Board Member**

**Member of Board Risk Committee**

### Date of Appointment:

October 31, 2020

### Academic Qualifications:

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

### Experience:

Mr. Barrak has long experience in the international investments

Branch Manager then Manager at Credit Facilities Department at the Bank of Kuwait and the Middle East (BKME), Kuwait (1985 – 1989)

Board Member in 1993, then Deputy Chairman of Kuwait Gypsum Manufacturing & Trading Company from 2004 to present

Moved to the private sector since 1989

Managing Director of Bridgestone Tiers Company W.L.L., from 1992 to present

# BOARD OF **DIRECTORS**

## Reem Abdullah Al Saleh

**Independent Board Member**

**Member of Board Audit Committee**

**Member of Board Compliance and Governance Committee**

### Date of Appointment:

June 25, 2022

### Academic Qualifications:

Bachelor of Accounting from Faculty of Commerce, Economics and Political Sciences - Kuwait University

### Experience:

Board Member of Gulf Inspection International Company & CEO since 2015. She joined the company in 2003 as Director of Business Development she re-established and developed various departments and processes in the company

Independent Board Member of Injazzat Real Estate Development Company K.S.C.

Since 2018, she serves as an additional Director in AlShamali Pvt. Ltd. (India) and M/s Ever Win HR Consultants Pvt. (India)

A consultant to Musaed AlSaleh group since 2015

Formerly Chairman of Kayan International Construction Co

Vice Chairman of Kuwait Computer Services Co

Vice President in the Board of Data Plus since 2018

She is a member of ACI Kuwait Chapter, Kuwaiti Economics Society, and Kuwait Accountants and Auditors Association

## Ahmad Mohammed Al Bahar

**Independent Board Member**

**Chairman, Board Nomination and Remuneration Committee**

### Date of Appointment:

October 31, 2020

### Academic Qualifications:

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

### Experience:

Formerly Chief Executive Officer of Gulf Custody Company (Kuwait)

Formerly Chairman of Gulf Custody Company (Bahrain & Oman)

Formerly, Partner in Charge – Settlement Group of The International Investor

Formerly, Senior Manager – Settlement Department of Kuwait Foreign Trading Con., & Investment Co. (KFTCIC)

Formerly, Manager – Consumer Loans Department of Arab European Financial Management (AREF)

Formerly, Chairman of First Bahrain Co

Formerly, Board Member of National Cleaning Co



## Dr. AbdulRahman Mohammad Al-Taweel

**Independent Board Member**

**Chairman, Board Risk Committee**

**Deputy Chairman, Board Compliance and Governance Committee**

### Date of Appointment:

March 27, 2021

### Academic Qualifications:

Bachelor of Science in Chemical Engineering, University of Colorado, Boulder, USA

Master of Business Administration (MBA), University of Colorado, Boulder, USA

Doctor of Philosophy in Business Administration (PhD) - Finance, University of Colorado, Boulder, USA

### Experience:

Assistant Professor, Finance and Financial Institutions Department, College of Business Administration, Kuwait University

Dr. Abdulrahman has been very active in the academic and teaching profession for over 8 years, conducting various professional seminars, workshops and development programs during his career

He has many intellectual contributions relating to corporate finance and corporate governance in upcoming working papers.

Advisor to the Director General of State Bureau of Financial Controllers from 2019

## Talal Ali Al Sayegh

**Independent Board Member**

**Chairman, Board Audit Committee**

### Date of Appointment:

September 12, 2021

### Academic Qualifications:

Bachelor of Arts in Accounting and Auditing, Kuwait University, Kuwait

Executive MBA in Business Administration, American University Beirut, Lebanon

### Experience:

Formerly Advisor in Al Ahli Bank of Kuwait on AML/CFT and Financial Crime issues

Formerly president of Kuwait Financial Intelligence Unit, Kuwait.

Formerly Deputy Manager On-Site Supervision,
Central Bank of Kuwait

Formerly Senior Credit Analyst in Gulf Bank, Kuwait

# EXECUTIVE **MANAGEMENT**

## Antoine Daher
**Chief Executive Officer**

**Date of Joining Gulf Bank:**

July 7, 2013

**Academic Qualifications:**

BSC in Civil Engineering from Cleveland State University, Ohio, USA

MBA from Case Western Reserve University, Ohio, USA

**Experience:**

More than 20 years of experience in international and local banking sector

Previously Deputy CEO of Gulf Bank in charge of Wholesale Banking and Investments

Previously worked at NBK heading Domestic Corporate Banking, and National Citi Bank in Ohio focusing on Corporate Banking and Structured Finance

## Waleed Mandani
**Deputy Chief Executive Officer**

**Date of Joining Gulf Bank:**

September 5, 2021

**Academic Qualifications:**

BSc in Business Administration from University of Arizona, USA - 1992

Executive Program in Project Management and Leadership from Cornell University, USA – 2011

Specialized training course in Decision Making Strategies at Harvard Business School, USA - 2015

Executive Program in Leading Change and Organizational Renewal at Harvard Business School, USA - 2018

**Experience:**

More than 25 years of experience in leadership positions covering Private Banking, Retail and Wealth Management in Kuwait Finance House, BNP Paribas in Kuwait, and Ahli United Bank Bahrain

Board Member in KFH Capital, and Member of Board Risk Committee 2017 until 2021

Board Member in KNET, and chairman of Board Audit Committee 2022

Vice Chairman of TurkCapital Holding and Board Member 2015 until 2021

## Raghunandan Menon
**Acting Deputy Chief Executive Officer**

**Date of Joining Gulf Bank:**

May 15, 2016

**Academic Qualifications:**

BCom, University of Madras

MBA, XLRI, India

Associate Cost & Management Accountant, India

Chartered Associate of Indian Institute of Bankers

**Experience:**

More than 35 years of experience in Banking and Financial Services

Previously served in senior management positions at Standard Chartered Bank in London, New York, Singapore, and Mumbai Held directorships in the board of Standard Chartered Plc subsidiaries in Korea, Nigeria, and Ireland

## David Challinor
**Chief Financial Officer**

**Date of Joining Gulf Bank:**

April 14, 2021

**Academic Qualifications:**

Honors Degree in Economics from the University of Newcastle, UK

A Fellow of the Institute of Chartered Accountants in England and Wales

Qualified Chartered Accountant with Price Waterhouse in London

**Experience:**

More than 25 years of experience in Financial Service Industry

Previously worked as Chief Financial Officer of Doha Bank, Qatar for 12 years

Experience in large financial institutions in Australia

Member of The Australian Institute of Company Directors

# EXECUTIVE **MANAGEMENT**

## Abdulrahman Alsaddah
**Acting Chief Risk Officer**

**Date of Joining Gulf Bank:**

September 21, 2003

**Academic Qualifications:**

BSc in Accounting, Kuwait University

Program for Leadership Development, Harvard Business School

**Experience:**

More than 17 years of experience in Corporate Banking and Corporate Finance

Previously Deputy Chief Risk Officer at Gulf Bank

Previously Deputy GM of Structured Workout and Remedial in Corporate Banking at Gulf Bank

Served as Board Member in Kuwait Finance and Investment Company (KFIC)

Led and Co-Led several debt restructuring and M&A transactions

## Ali Al Faras
**Chief Internal Auditor**

**Date of Joining Gulf Bank:**

September 20, 2003

**Academic Qualifications:**

Bachelor's degree in English, from Kuwait University, Kuwait

Certified Risk Based Auditor (CRBA)

Certified Compliance Officer (CCO)

General Management Program (GMP27), from Harvard Business School at Boston, USA

Emerging Leaders Program at London Business School, UK

**Experience:**

Over 19 years of experience in the Banking sector mainly at Gulf Bank. Well versed with Internal Controls, Compliance, Policies & Procedures with strong knowledge of risk management aspects. Moreover, managing the Internal Audit function in accordance with the Internal Audit methodology, risk-based approach to assess the risks, effectiveness of internal controls, and to recommend measures to improve efficiency of the controls and to align with Board Audit Committee direction as well as Internal Audit Standards

## Ahmad AlDuwaisan
**General Manager**
**Corporate Banking**

**Date of Joining Gulf Bank:**

September 1, 2001

**Academic Qualifications:**

BSc in Mechanical Engineering, Northeastern University in Boston, USA

Executive MBA, American University, Beirut, Lebanon

**Experience:**

More than 21 years of Corporate Banking experience

Previously Deputy GM of remedial credit and structured workouts and Deputy GM of financial markets at Gulf Bank

Previously a Board Member of Kuwait Finance and Investment Company (KFIC), Head of the Risk and Audit Committee

## Mohammed AlQattan
**General Manager**
**Consumer Banking**

**Date of Joining Gulf Bank:**

August 19, 2014

**Academic Qualifications:**

Bachelor's Degree from Kuwait University in Statistics and Operations Research

MBA in Strategic Management from Maastricht Business School

**Experience:**

More than 22 years of experience in Banking and Financial Services

Previously worked in various leadership positions in the Commercial Facilities Company

Board member in Public Institute for Social Security (PIFSS), Head of Audit & Risk Committee, and Head of the Actuarial Committee

Board member in Credit Information Network Company (Ci-Net)

Previously worked as Vice Chairman in Priority Automobile Company

Previously worked as Board member in Oula Wasata

# EXECUTIVE MANAGEMENT

## Sami Mahfouz

**General Manager**
**Treasury**

**Date of Joining Gulf Bank:**

March 6, 2018

**Academic Qualifications:**

Master's degree in Business Management, from the Holy Spirit University, Lebanon

Completed extensive leadership and technical programs

**Experience:**

More than 25 years of banking experience in the region at leading international banks

Previously worked at Standard Chartered, DIFC heading the MENA Public Sector Coverage Group, and earlier undertook a variety of Financial Markets roles in UAE, Bahrain and Lebanon, latest being Head of Financial Markets, UAE and GCC. Started his career at HSBC Lebanon

## Hani Al Awadhi

**General Manager**
**Investments**

**Date of Joining Gulf Bank:**

August 1, 2022

**Academic Qualifications:**

Bachelor's degree in business administration from the Frank G. Zarb School of Business at Hofstra University, USA

**Experience:**

More than 20 years of experience in the investment realm both locally and abroad prior to Gulf Bank

Prior to joining Gulf Bank, Al Awadhi served as the head of managed funds and acting head of GCC equities at the Gulf Investment Corporation (GIC), managing international investments in hedge funds, private equities, real estate, infrastructure, and more

During his career, Al Awadhi held numerous prominent leadership roles across multiple major financial institutions including the Public Institutions for Social Security (PIFSS), Albourne Partners and Global Investments House and was a board member at Shamal Azzour, Wafra New York and Al Ezzel Power Company in the Kingdom of Bahrain

## Salma Al Hajjaj

**General Manager**
**Human Resources**

**Date of Joining Gulf Bank:**

February 1, 2013

**Academic Qualifications:**

BSc in Mathematics, Kuwait University, Kuwait

MA in Organizational Management from the University of Phoenix in Arizona, USA

**Experience:**

More than 30 years of Human Resources experience

Previously worked at various key HR positions in the oil sector in both KPC and KPI as well as in Gulf Investment Corporation

Previously a Member of the Arabian Society for Human Resources (ASHRM) board of trustees

Member of the Board of INJAZ: a nonprofit organization for the development of the youth

Lifetime member of the International Society of Female Professionals

A Senior Certified Professional Coach from both the International Coaching Federation and the Coach Transformation Academy

## Mona Mansour

**General Manager**
**Customer Service Delivery**

**Date of Joining Gulf Bank:**

August 15, 2004

**Academic Qualifications:**

BSc in Business Administration, Kuwait University, Kuwait

Emerging Leaders Program certificate from London Business School, UK

**Experience:**

More than 30 years of Banking experience

Previously worked at NBK for 20 years with diversified experience in IT, cards, customer services & operations

Currently is one of the major stack holders leading "Gulf Bank transformation project

# EXECUTIVE **MANAGEMENT**

## Dari Al-Bader, CFA

**General Manager**
**Corporate Affairs &**
**Board Secretary**

**Date of Joining Gulf Bank:**

October 21, 2019

**Academic Qualifications:**

BSc in Management Science and Mechanical Engineering from Massachusetts Institute of Technology, Cambridge, MA, USA

MBA from Columbia Business School, NY, USA

Chartered Financial Analyst

**Experience:**

More than 20 years of experience in business and banking

Previously President of Group Corporate Affairs at Alghanim Industries

Previously worked with a number of international and regional organizations such as JP Morgan, Citi Group, Dubai Capital Group, and the National Bank of Kuwait

Chairman of Asiya Capital Investments Company

## Shahzad Anjum

**General Manager**
**Information Technology**

**Date of Joining Gulf Bank:**

August 1, 2019

**Academic Qualifications:**

B.S.  in computer science from Newport's institute Pakistan.

MBA from London Business School, UK

**Experience:**

More than 23 years of Information Technology experience

16+ years of providing IT solutions to leading financial service companies such as GulfBank, Alamana Finance Co. SAK, a leading auto finance company in Kuwait; Enaya Insurance, a leading insurance company and Alghanim Easy-Credit

Held various senior positions and worked as Group CIO at Alghanim industries

# CORPORATE **GOVERNANCE**

## Introduction

A strong and efficient Corporate Governance framework is a key instrument for enhancing the economy's performance in general and the banking industry in particular. As one of the largest banks in Kuwait, Gulf Bank ("the Bank") is committed to achieving best practice practices in corporate governance, business integrity and professionalism. Its Board-approved Corporate Governance Framework is aligned with the Bank's strategic objectives and is based on Central Bank of Kuwait ("CBK") rules and regulations for governance and its other regulators and adheres to the spirit of Basel's principles.

Through the application of a robust risk management strategy and a proper governance framework, the Bank is able to make sound decisions that benefit it. In doing so, the Bank strengthens public confidence in its operations while also defending the interests of its stakeholders.

The Bank's upholding of Corporate Governance principles and imperatives goes hand in hand with the business activity and is implemented at all levels. In its endeavor towards offering a leading example of a comprehensive Corporate Governance culture, the Bank observes a strict compliance with the laws in place and CBK instructions governing this area.

The Bank's Corporate Governance structure stresses the dynamic engagement of the Board of Directors in monitoring the performance of the Executive Management and the activity of the Bank as a whole. Emphasis is put on the Board's responsibility in promoting general confidence in the Bank's management, taking into consideration, in the context of maximizing the Bank's revenues and profits, the impact of risk on the interests of customers, stakeholders and financial soundness of the Bank. The same structure underlines the segregation between the Board and Executive Management's prerogatives and upholds strict checks and balances in that respect.

Gulf Bank's Corporate Governance structure is also driven by the selection of proactive strategies and risk management policies, the appropriate delegation and monitoring of powers and accountability to management in the process of serving the interests of stakeholders through transparent and accurate disclosures. In addition, the Bank conducts business in full compliance with all regulatory requirements and engages positively and dynamically with the community in which it operates.

## Corporate Governance Compliance with CBK Instructions

According to Central Bank of Kuwait (CBK) Corporate Governance regulations and its amendments, the CBK Corporate Governance regulations set out nine pillars for a sound Corporate Governance:

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

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

In carrying out the above, the Bank ensures a continuous compliance with all applicable laws and CBK regulations pertaining to Corporate Governance. In addition, the Corporate Governance principles are promoted among the various stakeholders, including regulators, shareholders, and business community.

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## Stakeholder Definition

In line with best practice, a stakeholder is a party that has an interest in a company and can either affect or be affected by the business. The following entities/ persons are deemed Bank's key stakeholders:

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

## Corporate Governance - Policies and Procedures

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

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

1. Corporate Governance Manual
2. Disclosure and Notification Manual
3. Risk Appetite Document
4. Whistleblowing Policy and Procedure Manual
5. Conflict of Interest Policy
6. Related Party Transactions Policy
7. Customer Complaint Handling Policy and Procedures
8. Internal Audit Charter
9. Human Resources Manual
10. Policy and Procedure Standards
11. Compliance and Disclosure Manual
12. Confidentiality Policy
13. Shareholders and Stakeholders Rights Policy
14. Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) Procedure Manual
15. HR Non – Discrimination and Harassment Policy

# CORPORATE **GOVERNANCE**

## Gulf Bank Corporate Governance Manual – Roles and Responsibilities

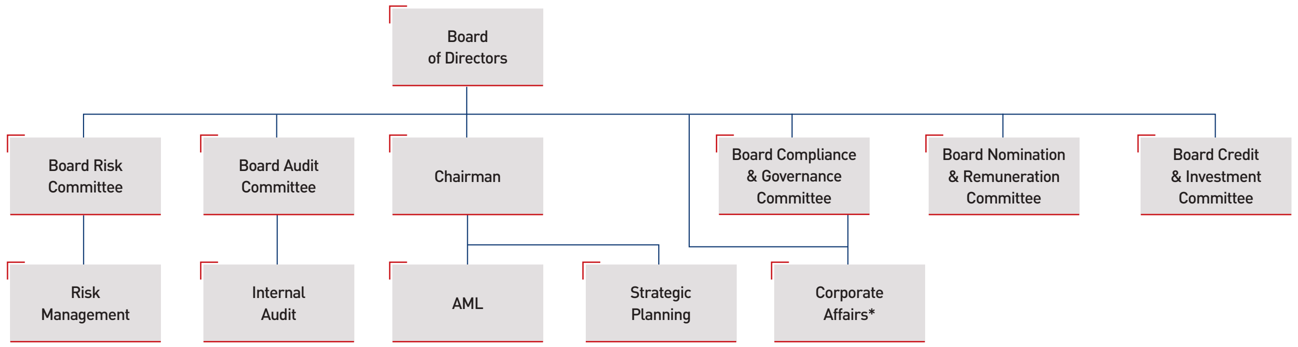
The Corporate Governance Manual defines the Board and Executive Management's respective roles. The overlap between the two roles is precluded. The Manual clearly defines the role of the Chairman, Chief Executive Officer (CEO), Chief Risk Officer (CRO), General Manager, Corporate Affairs, Chief Internal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

## Governance Structure

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

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

## The Board - Governance Organization




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

Gulf Bank's Board of Directors is comprised of highly experienced, highly skilled, and well-respected individuals from a variety of professional and academic backgrounds. The Board members are fully committed to the Bank's long-term sustainability. The Directors are familiar with the Bank's business structure and operational procedures, allowing them to stay abreast of significant changes and act quickly to protect the Bank's long-term interests when necessary.

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

The Board of Directors is intended to accomplish the Bank's aspirations while always keeping shareholders' interests in mind. In accordance with the Corporate Governance Principles, the Board approves and oversees the implementation of the Bank's overall strategy, and it reviews the Bank's Corporate Governance framework on a regular basis to ensure its relevance in light of changes in the Bank's business strategy, scope of activities, and regulatory requirements. Along with Senior Management, the Board is also responsible for determining the Bank's risk appetite, considering the Bank's risk exposure and long-term objectives.

The Board members are properly and continuously trained to tackle the challenges that faces the Bank. Directors also receive comprehensive guidance from the Board Secretary on the Bank's governance framework and associated policies. During the year, the Board completed an in-house induction program and the members participated in several conferences and seminars about banking and financial activity.

## Performance Evaluation

The Board undergoes a comprehensive performance evaluation annually. The evaluation is conducted with professional standards. This evaluation covers wide range of topics and include an assessment of individual Board Member's performance, skills, and expertise at Board level, succession planning, development of the Bank's strategy, and the form and content of management information provided to the Board. The evaluation also addresses training requirements. In 2022, the Board received professional development in several areas, including Corporate Governance, Fraud, latest trends on Information & Cyber Security and the threats, and Anti-Money Laundry (AML).

## Board Overall Responsibilities

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

The Board's core responsibilities include the following:

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

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

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

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

# CORPORATE **GOVERNANCE**

## Organization of the Board's Business

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

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

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

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

## Board Meetings and Attendance

During 2022, there were changes in the Board composition. In May 2022, Dr. Adnan Ahmad Shihab Eldin submitted his resignation from the Board of Directors. In June 2022, the Ordinary General Assembly elected one Independent Board Member (Mrs. Reem Al Saleh) for the current tenor (2021 – 2023), which means that the Board currently consists of seven non-independent members and four independent members. There was re-formation to the Board Committees during 2022.

The Board of Directors met regularly, and Directors received information between meetings about the Bank's activities and the activity of the Management Committees. In 2022, 7 Board meetings and 37 Board Committees meetings were held as detailed below:

| | Board Meeting | Audit Committee | Risk Committee | Compliance and Governance Committee | Nomination and Remuneration Committee | Credit and Investment Committee |
|---|---|---|---|---|---|---|
| Number of meetings in 2022 | 7 | 7 | 5 | 2 | 3 | 20 |
| Jassim Mustafa Boodai | 7 | * | * | 2 | * | 20 |
| Ali Morad Behbehani | 5 | * | * | * | * | * |
| Bader Nasser AlKharafi | 5 | * | 3 | * | * | * |
| Omar Hamad Al Essa | 7 | * | * | * | 3 | 20 |
| Fawaz Mohammad AlAwadhi | 4 | * | * | * | 3 | 20 |
| Barrak Abdulmohsen AlAsfour | 7 | * | 5 | * | * | * |
| Abdullah Sayer Al Sayer | 7 | 7 | * | * | * | * |
| Ahmad Mohammad AlBahar | 7 | * | * | * | 3 | * |
| Abdulrahman M. Al Taweel | 6 | * | 5 | 2 | * | * |
| Talal Ali Al Sayegh | 6 | 7 | * | * | * | * |
| Reem Abdullah Al Saleh** | 3 | 3 | * | 1 | * | * |
| Adnan Ahmad Shihab-Eldin*** | 3 | 4 | * | 1 | * | * |

* Not a member of the committee.

** Joined the Board in June 2022

*** Left the Board in May 2022

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

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

## Board Remuneration

The Board Nomination and Remuneration Committee recommended to the Board of Directors, subject to the approval of the shareholders at the Annual General Assembly Meeting, that the total remuneration of the Board of Directors for 2022 be equal to KD 181,250 thousand (2021: KD 179,167 thousand).

## Board Committees' Structure

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

## Board Committees

**Compliance and Governance Committee** | **Audit Committee** | **Risk Committee** | **Nomination and Remuneration Committee** | **Credit and Investment Committee**

## Board Committees

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

### 1. Board Compliance and Governance Committee

### a. Committee's Scope of Activity

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

### b. Composition of the Committee

- Mr. Jassim Boodai, Committee Chairman
- Dr. Abdulrahman Al Taweel, Committee Deputy Chairman
- Mrs. Reem Al Saleh, Committee Member
- Mr. Dari Al Bader, Committee Secretary

### c. Committee Meetings

The Board Compliance and Governance Committee convenes not less than twice per year. Consist of three non-executive members (including Independent Member) selected by Board of Directors. The presence of two members is required to hold a meeting.

### d. Key Achievements in 2022

- Reviewed and approved the Compliance Testing Plan including the Annual Compliance Plan for Y2022.
- Reviewed the approved the Annual Corporate Governance Report.
- Reviewed and assessed the adequacy of the Bank's Corporate Governance policies and Board practices.
- Reviewed and approved the amendments to its Bylaws.
- Reviewed the process of monitoring and reporting under the Whistleblowing policy.
- Reviewed and approved the GM-Corporate Affairs Balanced Scorecard for 2022 and evaluated his annual performance for 2021.
- Reviewed the new instructions issued by the regulatory authorities in Kuwait and the procedures taken to comply with these instructions.

### e. Changes during the year

During May 2022, Dr. Adnan Shihab Al Din (Committee Deputy Chairman) submitted his resignation from the Board, and subsequent to the election of Mrs. Reem Al Saleh (Independent Board Member) replacing Dr. Adnan on the Board of Directors in June 2022, Dr. Abdulrahman Al Taweel was appointed as BCGC Deputy Chairman, and Mrs. Reem Al Saleh was appointed as BCGC Member.

## 2. Board Audit Committee

### a. Committee's Scope of Activity

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

### b. Composition of the Committee

- Mr. Talal Al Sayegh, Committee Chairman
- Mr. Abdullah Al Sayer, Committee Deputy Chairman
- Mrs. Reem AlSaleh, Committee Member
- Mr. Dari Al Bader, Committee Secretary

### c. Committee Meetings

The Board Audit Committee convenes once every three months or as needed, or at the request of its Chairman or its two members. Chaired by an Independent Director – selected by Board of Directors. The presence of two members is required to hold a meeting.

### d. Key Achievements in 2022

- Monitored the activities of the Internal Audit Division, including review and approval of its plans, strategies, procedures, follow-up activities, organizational structure, Internal Audit manual, General Manager of Internal Audit Balanced Scorecard and operation and staffing budgets.
- Approved the Internal Audit updated three-year risk-based plan (2022 – 2023) and related update as well as reviewed the issues, action plans and recommendations set forth in the Internal Audit reports.
- Held private meetings with GM-Internal Audit, External Auditors and Bank Compliance and Disclosure Officer without the presence of Executive Management as per the regulatory requirements.
- Reviewed the scope and approach of External Auditor's audit plans for the year ending 31st December 2021.
- Reviewed and recommended the annual and quarterly financial statements to the Board of Directors.
- Reviewed issues, action plan and recommendations set forth in the CBK mandated Internal Control Report.

### e. Changes during the year

During May 2022, Dr. Adnan Shihab Al Din (Committee Deputy Chairman) submitted his resignation from the Board, and subsequent to the election of Mrs. Reem AlSaleh (Independent Board Member) replacing Dr. Adnan on the Board of Directors in June 2022, Mr. Abdullah Al Sayer was appointed as BAC Deputy Chairman and Mrs. Reem Al Saleh was appointed as BAC Member. Additionally, Mr. Ali Al Faras was appointed as General Manager and Chief Internal Auditor as of June 16,2022, following securing the required approvals.

## 3. Board Risk Committee

### a. Committee's Scope of Activity

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

### b. Composition of the Committee

- Dr. Abdulrahman Al Taweel — Committee Chairman
- Mr. Bader AlKharafi — Committee Deputy Chairman
- Mr. Barrak AlAsfour — Committee Member
- Mr. Dari Al Bader — Committee Secretary

### c. Committee Meetings

The Board Risk Committee convenes not less than four times a year. Chaired by an Independent Director – selected by Board of Directors. The presence of two members is required to hold a meeting.

### d. Key Achievements in 2022

- Reviewed the periodic risk management reports and risk dashboards and presented quarterly reports to the BoD.
- Reviewed and recommended the risk management, information and cyber security policies and risk committee bylaws for approval and ratification by the Board.
- Reviewed and recommended the Risk Appetite of the Bank for approval and ratification by the Board.
- Reviewed Information & Cyber Security Strategy & Objectives for approval and ratification by the Board.
- Reviewed and approved enhanced Operational Risk Management Strategy.
- Reviewed and approved new risk indicators for monitoring Compliance, AML, Strategic, Information and Cyber Security risks.
- Reviewed summary of all credit approvals given by Credit Committees.
- Ensured appropriate organizational support and guidance was in place to achieve full CBK Cyber Framework compliance, including passing of the external independent audit for CBK with no gaps.
- Held meetings with the Chief Risk Officer without the presence of the Banks Executive Management.
- Periodically reviewed the status and provided guidance on significant projects including the ones related to enhancement of Cyber security of the Bank.
- Received in-depth training on the Bank's stress testing approaches and regulations.

### e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2022.

## 4. Board Nomination and Remuneration Committee

### a. Committee's Scope of Activity

The Board Nomination and Remuneration Committee (BNRC) is responsible for ensuring that all components of the granting financial remuneration framework serve the purpose of the purpose enhancing the effectiveness and management of the Bank's risk management. The Board Nomination and Remuneration Committee also submit recommendations to the Board of Directors (BoD) on the nomination of Board members. In line with the nomination committee's role, reviews are conducted of the nominated members' skills, capabilities and qualifications in accordance with the Bank's approved policies and standards; this takes place in adherence with the Central Bank of Kuwait's (CBK) instructions. The Committee conducts an annual review of the Board of Directors structure and draws recommendations on the changes that can be made in line with the best interest of the Bank.

Furthermore, this Committee ensures that the Board members are consistently knowledgeable of the latest banking updates and are fully capable of vetting the soundness of the principles and practices upon which remuneration is granted.

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

### b. Composition of the Committee

- Mr. Ahmad Mohammad AlBahar, — Committee Chairman
- Mr. Omar Hamad Yusuf Al-Essa, — Committee Deputy Chairman
- Dr. Fawaz Mohammad Al Awadhi, — Committee Member
- Mr. Dari Al Bader, — Committee Secretary

### c. Committee Meetings

The Board Nomination and Remuneration Committee convenes at least twice a year. Chaired by an Independent Director – selected by Board of Directors The presence of two members is required to achieve quorum and hold a meeting.

### d. Key Achievements in 2022

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

### e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2022.

# CORPORATE **GOVERNANCE**

### 5.Board Credit and Investment Committee

#### a. Committee's Scope of Activity

The BCIC is constituted of 3 board members and is chaired by the Chairman of the BoD. The overall purpose and scope of the Board Credit and Investment Committee (BCIC) that was formed in March 2018 are to review, approve, reject or modify or conditionally approve credit proposals exceeding the authority delegated to the Executive Credit Committee and up to the legal lending limit of the Bank, except credit facilities extended to the Bank's Board members as per CBK guidelines. BCIC is also empowered to approve all investments or divestments above the delegated authority of lower-level committees and discounts for settlements and write-offs for abandonment and discounts exceeding the authority delegated to the Executive Credit Committee. BCIC has also the authority to grant a credit delegation to the Executive Credit Committee.

#### b. Composition of the Committee

| | |
|---|---|
| • Mr. Jassim Boodai | Committee Chairman |
| • Mr. Omar Al Essa | Committee Deputy Chairman |
| • Dr. Fawaz Al Awadhi | Committee Member |
| • Mr. Dari Al Bader | Committee Secretary |

#### c. Committee Meetings

The Committee normally meets once in every two weeks or as and when required. At least 2 voting members are required to hold a meeting. Out of the two voting members, one must be the Chairman or the Deputy Chairman of the BCIC.

#### d. Key Achievements in 2022

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

#### e. Changes during the year

No changes in the composition of the Committee and its scope of activity took place in 2022.

### Executive Management Governance Structure

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

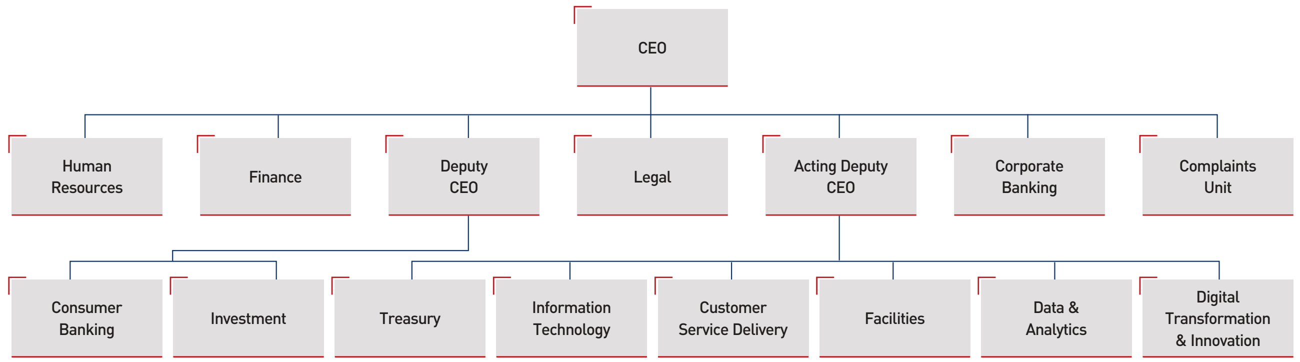
**Credit Committees**

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

**Management Committees**

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

### Executive Management Organization




### Succession Planning

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

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

## Remuneration Policy

The Bank's Executive Remuneration is designed to attract, motivate and retain leadership responsible for strategic growth of the Bank while ensuring sustained shareholder value. Executive remuneration is intended to be based on a philosophy of 'Distinction to establish an ethos of 'Meritocracy', create a strong alignment between business performance and executive payout as well as compliance with Central Bank of Kuwait (CBK) and Capital Markets Authority (CMA) guidelines.

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

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

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

## Salary Structure

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

## Annual Merit Increment

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

## Korn Ferry - Hay Group Job Evaluation

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

## Promotion Increment

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

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

## Employee Benefits

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

**Total Remuneration paid to senior management, material risk takers, risk management and financial & control functions: (2022/2021)**

| Total value of remuneration awards for the current fiscal year | 2022 ***(Remuneration Amount KD Thousand)*** | | 2021 *(Remuneration Amount KD Thousand)* | |
|---|---|---|---|---|
| | Unrestricted | Deferred | Unrestricted | Deferred |
| **Fixed remuneration** | | | | |
| Cash - based | **3,637** | **-** | 3,390 | - |
| Shares and share-linked instruments | **-** | **-** | - | - |
| Other | **-** | **-** | - | - |
| **Variable remuneration** | | | | |
| Cash - based | **2,063** | **-** | 1,122 | - |
| Shares and share-linked instruments | **-** | **-** | - | - |
| Other | **1,328** | **-** | 1,185 | - |

| Employee Categories | 2022 ***(Remuneration Amount KD Thousand)*** | | 2021 *(Remuneration Amount KD Thousand)* | |
|---|---|---|---|---|
| | Number of employees in the category | Total remuneration paid** | Number of employees in the category | Total remuneration paid** |
| ***Senior Management** | **20** | **5,246** | 17 | 3,967 |
| **Material risk takers** | **5** | **677** | 6 | 601 |
| **Financial & Control functions** | **8** | **1,105** | 9 | 1,129 |

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

** Includes actual cash paid plus estimated variable compensation.

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

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

The total remuneration paid to the top five senior executives was **KD2,341 thousand** (2021: KD1,961 thousand).

The total remuneration paid to the Chief Executive Officer, Deputy Chief Executive Officer, Acting Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor was **KD2,536 thousand** (2021: KD1,606 thousand).

# CORPORATE **GOVERNANCE**

## Compliance and Disclosure Unit

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

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

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

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

## Insider Information

In accordance with regulatory authorities' instructions, the Bank set up clear board-approved policies and procedures for dealing with insider information, which prohibit employees, Executive Management, and members of the Board from using such information for personal gain or to trade or engage in any form of market manipulation or market abuse.

## Code of Ethics

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

## Money Laundering

Money laundering is the process of using banks as vehicles to conceal the proceeds of criminal activity. Such activities are illegal, jeopardize a bank's integrity, harm its reputation, deter honest customers, and subject the bank to severe penalties.

Gulf Bank fully supports the international (legal and operational) campaign against this heinous crime and is committed to assisting authorities in the prevention of money laundering.

## Financing Terrorism

Financing Terrorism is any act by which any person provides, collects, or raises funds with the intention of using such funds to commit, or support the committing of, an act of terrorism directly, indirectly, willingly, or with the knowledge that such funds will be utilized, in whole or in part for such act, or in support of a terrorist organization or person.

Any of the acts stated in the preceding paragraph constitute a terrorism financing offense even if the act of terrorism is not finally committed or if the funds are not actually utilized. The country or territory in which the attempted or intended act of terrorism takes place is not relevant.

Gulf Bank fully supports the international convention, as well as the applicable Kuwaiti laws and Central Bank instructions, and will treat any activity that falls under the above definition by an employee or a customer as a serious offence, taking whatever action is deemed appropriate.

## Conflict of Interest

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

The Board ensures that executive management exercise high integrity and avoid conflict of interests. Also, the Board adopts controls to manage the transfer of information within various departments, to prevent using such information for personal gain. for that, Gulf Bank adopted a conflict-of-interest policy to ensure that all transactions are carried out at arms -length and transparently.

## Confidentiality

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

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

## Whistle Blowing Policy

In compliance with CBK instructions, and further to the Bank's commitment towards the shareholders and third parties, and in pursuance of the highest ethics standards and business integrity requirements, the Bank established a "Whistle Blowing Policy" and a direct reporting channel to the Chairman. The policy aims at detecting any practices that fall out of the scope of laws, regulations, and sound professional conduct, so as to be remedied in a timely manner.

It is the employees' responsibility to speak up and report actual or potential suspicious and dishonest activities directly to Chairman of the Board of Directors, either via email, intranet or by letter.

Employees must report any suspected or presumed incidents of serious misconduct or behavior that violates the Bank's Code of Ethics and Conduct, policies, procedures, or any action by a Bank employee or any third party that is or could be harmful to the Bank's interests or reputation.

Those who report illegal or suspicious activities will be adequately protected, and their identities will be kept anonymous. They can express their concerns in complete confidentiality, and their names will not be revealed without their express permission.

## Board Affairs Unit

The Board Affairs Unit oversees handling and managing all matters pertaining to the Board of Directors and its committees. The unit is in charge of creating agendas, scheduling meetings, and compiling minutes for the Board of Directors and its committees, as well as the Annual General Meeting of Shareholders. It also handles all issues pertaining to the Central Bank of Kuwait's Corporate Governance regulations.

The unit serves as a liaison and coordinator between the Board of Directors and Executive Management in matters pertaining to the implementation of the Board's policies and resolutions.

The Board Affairs unit also works with the Disclosure and Compliance Unit to ensure that the relevant instructions issued by the CBK, Capital Market Authority, Boursa Kuwait, and Ministry of Commerce and Industry are followed.

# CORPORATE **GOVERNANCE**

### Investor Relations Unit

The Investor Relations (IR) Unit is dedicated to serving Gulf Bank's shareholders, credit rating agencies, analysts, and investors, locally and internationally. It is the main focal communication point and is responsible for the strategic management of promoting sustainable economic growth and establishing investor confidence in an effective two-way transparent communication between Gulf Bank, the financial community, and other constituencies. The efforts and commitment of our IR team significantly contributes to Gulf Bank's securities achieving fair valuation and strong credit ratings.

Gulf Bank frequently engages with its stakeholders, through the quarterly investor earnings call, attending investor conferences and conduct one-to-one meetings with existing and potential investors, managing the credit rating process of the Banks and producing the Annual Report.

### Customer Complaints Unit

The Bank is eager to find appropriate solutions to customer complaints (individuals). To meet this goal, the bank established an independent unit specializing in customer service complaints in 2011, reporting directly to the CEO. The Unit has its own policies and procedures, as well as the necessary mechanisms to handle customer complaints in accordance with CBK instructions. The unit is also in charge of overseeing the implementation of the Customers Protection Manual, which ensures good performance and transparency in Gulf Bank's banking services provided to its customers.

The supervision over the implementation process of the Customer Protection Manual (CPM) alongside the activities of this unit enabled the Bank to successfully enhance satisfaction, protection, loyalty and trust of customers.

### Related Party Transactions

Certain related parties (Major Shareholders, Board Members, and Officers of the Bank, as well as their families and companies in which they are the primary owners) are customers of the Bank in the ordinary course of business.

The bank has in place robust processes for identifying, assessing, monitoring, and reporting the bank's exposures to related parties. These transactions are concluded at arm's length and on substantially the same terms as comparable transactions with unrelated parties.

The Board of Directors is provided with details of all transactions in which a Director and/or related parties may have actual or potential conflicts. Where a Director is interested, he or she does not participate in the discussion or vote on such issues. The Bank's policy is, to the greatest extent possible, to conduct transactions with related parties on arm's length terms and in accordance with applicable laws and regulations.

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

### Major Shareholders

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

### Annual General Meetings:

Shareholders were able to fully exercise all their rights to attend and participate in the meetings, as 85.537% of the total free shares were represented at the 62nd General Assembly Meeting & the 40th Extraordinary General Assembly Meeting held in March 2022, and 73.033% at the 63rd General Assembly Meeting held in June 2022. The decisions of the meetings are disclosed to Boursa Kuwait, while the ratified minutes of the meetings are sent to the Central Bank of Kuwait and the Capital Markets Authority. The results of the meeting and its decision are announced on the Bank's website. For more information, please visit: https://www.e-gulfbank.com/en/investors/announcements/disclosures.

### Adequacy of Internal Control Systems

The Board of Directors, further to CBK rules and instructions issued in June 2012, November 2016 and revised guidelines issued in September 2019, declares and certifies that it has reviewed the internal control systems in place and confirmed their effectiveness and adequacy.

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

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

- Existence of appropriate Board approved policies and Executive Management approved procedures, which are subject to regular reviews and updates, to validate applicability and sufficiency.
- Existence of several Board level and Management Level which monitor all significant areas and activity.
- Existence of specialized control functions such as Compliance, Risk Management and Internal Audit. Processes consistent with the "Three lines of Defense" principle are in place to ensure weaknesses are identified and reported to Executive Management and the Board.
- Existence of an independent review process by Internal Audit Group, which assesses the Bank's as per its mandate including independent assurance and evaluation of the appropriateness of design & operating effectiveness of governance, systems controls, risk management and internal controls to monitor, manage and mitigate the Bank's key risks and its related processes, as per the approved annual Audit plan. Internal Audit focuses on the areas of significant risks, verifies and assesses the adequacy and effectiveness of the internal control system and reports significant issues and control gaps with the Management agreed actions, to the Board Audit Committee and the Board of Directors.
- Existence of independent control reviews on financial accounting records and statements by External Auditors as per the requirement of local laws and regulations and submit such audit reports in the form of Management letters to Board of Directors and CBK.
- Existence of a comprehensive independent Internal Control Review process, performed annually through an international audit firm (other than the external auditors), as per the requirement of CBK, which identifies and reports any internal control deficiencies along with a Management action plan, to address such issues. The latest report was issued in June 2022 (Annexure-A). A summary of ICR report for the year ended 31st December 2021 was presented to the Board Audit Committee and Board of Directors during 2022 and was reviewed and approved by the latter. The external audit firm has conducted a follow-up review as at 30/09/2022 and 31/12/2022 to ascertain corrective actions to its findings as per CBK requirements.
- The Board Audit Committee provides an oversight and strengthens the independence of Internal and External auditors. The Committee reviews the Internal Audit reports, Central Bank audit reports, Management Letters, Internal Control Review reports and monitors periodically the status of such issues through a sound follow-up process to ensure appropriate implementation of controls to address identified issues.

# INTERNAL CONTROL SYSTEMS **REPORT**

protiviti®

Board of Directors,

Gulf Bank K.S.C.P,

P.O Box: 3200, Safat 13032,

Kuwait

27th June 2022

Dear Sirs,

## Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 13 February 2022, we have examined the accounting and other records and internal control systems of Gulf Bank K.S.C.P, for the year ended 31 December 2021.

We covered the following processes of the Bank:

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

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 7 January 2021 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 20 I 9, instructions dated 14 May 20 I9 concerning Anti-money laundering and combating financing of terrorism , instructions dated 9 February 2012 regarding confidentiality of customers information. financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

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

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

Having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2021, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:

a. the accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 11 November 1996 and letter issued by CBK on 19 January 2022,

b. the findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2021, and

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

Yours faithfully,

**Sanjeev Agarwal**
**Managing Director**
Protiviti Member Firm Kuwait WLL

# CAPITAL MANAGEMENT AND ALLOCATION

### Capital Structure

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

Gulf Bank K.S.C.P. (the "Bank") CET1 comprises of paid up share capital, share premium and reserves including property revaluation reserve and fair valuation reserve less treasury shares. The Bank's Tier 2 comprises of allowed portion of general provisions (1.25% of the credit risk weighted assets) and subordinated Tier 2 bonds. The Bank has been identified as a Domestic Systemically Important bank (D-SIB) and is required to hold additional Common Equity Tier 1 capital (CET1) of 1% (2021: 1%).

### Support measures on Covid-19

During the year 2020 and 2021, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by releasing the Capital Conservation Buffer of 2.5% of risk-weighted assets in the form of CET1; effective from 1 January 2022: 1.5%. Accordingly, the Bank is required to maintain a minimum capital adequacy ratio of 12.5% (2021: 11.5%) and a minimum Tier 1 ratio of 10.5% (2021: 9.5%). Effective from 1 January 2023, CAR is restored back to pre-covid period. For more details refer to Note 3 to the financial statements.

The table below details the regulatory capital for the Bank as at 31 December 2022 and 31 December 2021:

**(KD Million)**

| Composition of Capital | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| **Common Equity Tier 1 Capital: instruments and reserves** | | | |
| Directly issued qualifying common share capital plus stock surplus | **489.0** | 473.1 | 15.9 |
| Retained earnings | **179.3** | 176.1 | 3.2 |
| Accumulated other comprehensive income (and other reserves) | **72.8** | 67.1 | 5.6 |
| **Common Equity Tier 1 capital before regulatory adjustments** | **741.1** | 716.3 | 24.8 |
| Common Equity Tier 1 Capital : regulatory adjustments | **-** | - | - |
| Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | **0.0** | (18.2) | 18.16 |
| **Total regulatory adjustments to Common equity Tier 1** | **0.0** | (18.2) | 18.16 |
| **Common Equity Tier 1 capital (CET1)** | **741.1** | 698.2 | 43.0 |
| Additional Tier 1 capital : instruments | **-** | - | - |
| Additional Tier 1 capital : regulatory adjustments | **-** | - | - |
| **Additional Tier 1 capital (AT1)** | **-** | - | - |
| **Tier 1 capital (T1=CET1+AT1)** | **741.1** | 698.2 | 43.0 |

**(KD Million)**

| Composition of Capital | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| **Tier 2 capital : instruments and provisions** | | | |
| Directly issued qualifying Tier 2 instruments plus related stock surplus | **50.0** | 50.0 | - |
| General provisions included in Tier 2 capital | **64.0** | 58.9 | 5.1 |
| **Tier 2 capital before regulatory adjustments** | **114.0** | 108.9 | 5.1 |
| Tier 2 capital: regulatory adjustments | **-** | - | - |
| **Tier 2 capital** | **114.0** | 108.9 | 5.1 |
| **Total capital (TC= T1+T2)** | **855.1** | 807.1 | 48.1 |
| **Total risk weighted assets** | **5,216.5** | 4,827.7 | 388.8 |
| **Capital ratios and buffers** | **31-Dec-22** | **31-Dec-21** | **Variance** |
| **Common Equity Tier 1 ( as a percentage of risk weighted assets)** | **14.2%** | 14.5% | -0.3% |
| **Tier 1 ( as a percentage of risk weighted assets)** | **14.2%** | 14.5% | -0.3% |
| **Total capital ( as a percentage of risk weighted assets)** | **16.4%** | 16.7% | -0.3% |
| Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets) | **9%** | 8% | 1% |
| of which: capital conservation buffer requirement | **0.0%** | 0.0% | 0.0% |
| of which: bank specific countercyclical buffer requirement | **-** | - | - |
| of which: D-SIB buffer requirement | **1.0%** | 1.0% | 0.0% |
| Common Equity Tier 1 available to meet buffers ( as a percentage of risk weighted assets) | **7.2%** | 7.5% | -0.3% |
| National minima | **-** | - | - |
| National Common Equity Tier 1 minimum ratio | **9.0%** | 8.0% | 1.0% |
| National Tier 1 minimum ratio | **10.5%** | 9.5% | 1.0% |
| National total capital minimum ratio excluding CCY and DSIB buffers | **11.5%** | 10.5% | 1.0% |
| Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap) (in KD million) | **267.5** | 262.6 | 4.9 |
| Cap on inclusion of provisions in Tier 2 under standardized approach (in KD million) | **64.0** | 58.9 | 5.1 |

# CAPITAL MANAGEMENT **AND ALLOCATION**

(KD Million)

| Reconciliation requirements | 31-Dec-22 | 31-Dec-21 |
|---|---|---|
| Total equity in published financial statements | **720.0** | 666.5 |
| Common Equity Tier 1 capital | **741.1** | 698.2 |
| **Reconciliation item*** | **(21.1)** | (31.7) |

*** Reconciliation items 2020-Consumer and instalment loans deferral**

During the year 2020 in response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals are considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42.2 million arising from the modification of contractual cash-flows. The modification loss is charged to retained earnings in 2020 instead of income statement as required by IFRS 9 Financial Instruments in accordance with the CBK Circular No. 2/BS/IBS/461/2020. Refer to Note 2.1 to the financial statements.

As per the Circular, for the purpose of Capital Base, this loss will be included in retained earnings over the period of four years starting from the year 2021 until 2024. Accordingly, the Bank has excluded the modification day 1 loss of **KD 21.1 million** (2021: KD 31.7 million) arising from loan deferral scheme from retained earnings.

## Capital Management

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

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

The following table below details the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank as at 31 December 2022 and 31 December 2021:

(KD Million)

| Credit Risk Exposures | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| Credit risk weighted assets | **5,120.2** | 4,713.0 | 407.2 |
| Less: Excess general provision | **(203.5)** | (203.7) | 0.2 |
| Net credit risk weighted exposures | **4,916.7** | 4,509.3 | 407.4 |
| Market risk weighted assets | **1.3** | 1.7 | (0.4) |
| Operational risk weighted exposures | **298.4** | 316.7 | (18.3) |
| **Total Risk Weighted exposures** | **5,216.5** | 4,827.7 | 388.8 |

**Regulatory Capital requirement at 11.50% (2021 10.5%)** (KD Million)

| Credit Risk | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| Cash items | **-** | - | - |
| Claims on sovereigns | **9.6** | 5.8 | 3.8 |
| Claims on public sector entities (PSEs) | **10.7** | 10.6 | 0.1 |
| Claims on Multi Development Banks (MDBs) | **0.0** | - | 0.0 |
| Claims on banks | **31.2** | 40.4 | (9.2) |
| Claims on corporates | **289.2** | 233.7 | 55.5 |
| Regulatory retail exposures | **205.0** | 167.9 | 37.1 |
| Past due exposures | **3.7** | 3.3 | 0.3 |
| Other exposures | **39.5** | 33.1 | 6.5 |
| **Capital requirement for credit risk** | **588.8** | 494.9 | 94.0 |
| Less : Excess general provision | **(23.4)** | (21.4) | (2.0) |
| **Capital requirement for net Credit Risk** | **565.4** | 473.5 | 91.9 |

(KD Million)

| Market Risk | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| Interest rate position risk | **-** | - | - |
| Foreign exchange risk | **0.2** | 0.2 | (0.0) |
| **Capital requirement for market risk** | **0.2** | 0.2 | (0.1) |
| **Capital requirement for operational risk** | **34.3** | 33.3 | 1.1 |
| **Additional capital requirement (DSIB @ 1%)** | **52.2** | 48.3 | 3.9 |
| **TOTAL CAPITAL REQUIREMENT** | **652.1** | 555.2 | 96.8 |

| Capital adequacy ratios (per cent) | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| Tier 1 ratio | **14.2%** | 14.5% | -0.3% |
| Total capital adequacy ratio | **16.4%** | 16.7% | -0.3% |

The total risk-weighted exposure as at 31 December 2022 is **KD 5,216.5 million** (2021: KD 4,827.7 million), requiring a total capital at **12.5%** (2021: 11.5%) including 1% DSIB, of **KD 652.1 million** (2021: KD 555.2 million).

The Bank's regulatory capital as at 31 December 2022 is **KD 855.1 million** (2021: KD 807.1 million), translating to a capital adequacy ratio of **16.39%** (2021: 16.72%).

# RISK **MANAGEMENT**

### Organization of Governance and Risk Management

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

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

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

### Corporate Governance

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

### Risk Appetite and Portfolio Strategy

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

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

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

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

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

### The Internal Capital Adequacy Assessment Process ('ICAAP')

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

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

The Capital Adequacy Ratio under Pillar 1 (Basel III) as on 31 December 2022 is **16.39%** (2021: 16.72%) and the corresponding Capital Adequacy Ratio under ICAAP is **15.01%** (2021: 15.24%).

### Credit Risk

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

### Market Risk

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

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

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

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

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

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

# RISK **MANAGEMENT**

## Currency Risk

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

## Interest Rate Risk (Banking Book)

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

## Equity Risk (Banking Book)

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

## Liquidity Risk

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

## Operational Risk

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

The Bank's Operational Risk Management framework is intended to identify, assess, monitor, mitigate and control operational risk effectively in the Bank in a consistent manner.

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

## Credit Risk Exposure

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

## Gross Credit Risk Exposure

The summary of the Bank's gross credit risk exposure (before credit risk mitigation) as of 31 December 2022 and 31 December 2021 are shown below. The unfunded (i.e., off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

**(KD Million)**

| Gross Credit Risk Exposure | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|
| Funded Gross Credit Exposure | **7,113.4** | 6,814.4 | 298.9 |
| Unfunded Gross Credit Exposure | **1,532.3** | 1,467.8 | 64.5 |
| **Total Gross Credit Risk Exposure** | **8,645.6** | 8,282.2 | 363.4 |

Funded gross credit risk exposure as of 31 December 2022 is **82%** (2021: 82%) of the total gross credit risk exposure.

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

## Average Credit Risk Exposure

Average credit risk exposure as at 31 December 2022 and 31 December 2021 are detailed below:

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

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Funded** | **Unfunded** | **Total** | Funded | Unfunded | Total |
| Cash items | **55,713** | **-** | **55,713** | 52,732 | - | 52,732 |
| Claims on sovereigns | **1,148,557** | **49** | **1,148,606** | 904,400 | 101 | 904,501 |
| Claims on PSEs | **365,400** | **24,192** | **389,592** | 300,052 | 22,560 | 322,612 |
| Claims on MDBs | **-** | **-** | **-** | 5,386 | - | 5,386 |
| Claims on banks | **788,910** | **272,004** | **1,060,914** | 872,446 | 262,120 | 1,134,566 |
| Claims on corporates | **2,428,760** | **1,239,926** | **3,668,686** | 2,313,421 | 1,120,879 | 3,434,300 |
| Retail exposures | **1,858,841** | **543** | **1,859,384** | 1,657,668 | 485 | 1,658,153 |
| Past due exposures | **38,961** | **5,415** | **44,376** | 49,554 | 6,580 | 56,134 |
| Other exposures | **355,760** | **235** | **355,995** | 341,415 | 249 | 341,664 |
| **Total** | **7,040,902** | **1,542,364** | **8,583,266** | 6,497,074 | 1,412,974 | 7,910,048 |

Average funded gross credit risk exposure for 2022 is **82.03%** (2021: 82.14%) of the total average gross credit risk exposure. The full year average amounts are calculated using a 13-point average of the month end figures from 31 December 2021 to 31 December 2022 inclusive.

# RISK MANAGEMENT

### Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio as at 31 December 2022 and 31 December 2021 are shown below. The geographical distribution is based on the primary purpose of the credit facilities.

**Total gross credit risk exposures as at 31 December 2022 - Region wise** **(KD Thousands)**

| | Kuwait | Other Middle East | Western Europe | USA & Canada | Asia Pacific | Rest of World | Total |
|---|---|---|---|---|---|---|---|
| Cash items | 58,392 | - | - | - | - | - | 58,392 |
| Claims on sovereigns | 1,170,425 | 160,549 | - | 40,845 | - | - | 1,371,819 |
| Claims on PSEs | 189,297 | 134,079 | - | - | - | - | 323,376 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 63,955 | 382,706 | 80,774 | 32,988 | 162,295 | 39,820 | 762,538 |
| Claims on corporates | 3,299,794 | 262,421 | 94,856 | 9,818 | 90,574 | 1,812 | 3,759,274 |
| Retail exposures | 1,967,682 | 164 | 139 | 1 | - | - | 1,967,986 |
| Past due exposures | 41,535 | - | - | - | - | - | 41,535 |
| Other exposures | 349,932 | 9,509 | 397 | 35 | 343 | 478 | 360,694 |
| Total | 7,141,012 | 949,428 | 176,165 | 83,687 | 253,212 | 42,110 | 8,645,613 |
| Percentage of gross credit risk exposure by geographical region | 82.6% | 11.0% | 2.0% | 1.0% | 2.9% | 0.5% | 100% |

Total gross credit risk exposures as at 31 December 2021 - Region wise (KD Thousands)

| | Kuwait | Other Middle East | Western Europe | USA & Canada | Asia Pacific | Rest of World | Total |
|---|---|---|---|---|---|---|---|
| Cash items | 59,057 | - | - | - | - | - | 59,057 |
| Claims on sovereigns | 830,966 | 149,872 | - | - | - | - | 980,838 |
| Claims on PSEs | 197,028 | 194,833 | - | - | - | - | 391,861 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 66,961 | 693,201 | 148,079 | 64,414 | 169,460 | 15,131 | 1,157,246 |
| Claims on corporates | 3,125,366 | 287,613 | 88,849 | 9,754 | 40,075 | 1,651 | 3,553,308 |
| Retail exposures | 1,751,218 | 843 | 287 | 62 | 497 | 482 | 1,753,389 |
| Past due exposures | 31,103 | 9,271 | - | - | - | - | 40,374 |
| Other exposures | 343,743 | 2,170 | 183 | - | - | - | 346,096 |
| Total | 6,405,442 | 1,337,803 | 237,398 | 74,230 | 210,032 | 17,264 | 8,282,169 |
| Percentage of gross credit risk exposure by geographical region | 77.3% | 16.2% | 2.9% | 0.9% | 2.5% | 0.2% | 100% |

The majority of the Bank's credit exposure is in Kuwait which comprises **KD 7.14 billion** (82.5% of total gross credit exposure) at 31 December 2022, compared with KD 6.41 billion (77.3% of total gross credit exposure) at 31 December 2021.

### Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2022 and 2021, broken down by geographical region and standard credit risk portfolio are shown below:

**Total gross credit risk exposures as at 31 December 2022 (Average) - Region wise** **(KD Thousands)**

| | Kuwait | Other Middle East | Western Europe | USA & Canada | Asia Pacific | Rest of World | Total |
|---|---|---|---|---|---|---|---|
| Cash items | 55,713 | - | - | - | - | - | 55,713 |
| Claims on sovereigns | 983,016 | 160,790 | - | 4,800 | - | - | 1,148,606 |
| Claims on PSEs | 197,903 | 191,689 | - | - | - | - | 389,592 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 70,963 | 558,101 | 174,961 | 53,642 | 165,685 | 37,562 | 1,060,914 |
| Claims on corporates | 3,213,036 | 285,277 | 88,795 | 10,130 | 69,488 | 1,960 | 3,668,686 |
| Regulatory retail exposures | 1,856,948 | 855 | 255 | 65 | 797 | 464 | 1,859,384 |
| Past due exposures | 39,572 | 4,804 | - | - | - | - | 44,376 |
| Other exposures | 352,986 | 2,752 | 191 | 3 | 26 | 37 | 355,995 |
| Total | 6,770,137 | 1,204,268 | 264,202 | 68,640 | 235,996 | 40,023 | 8,583,266 |
| Percentage of gross credit risk exposure by geographical region | 78.9% | 14.0% | 3.1% | 0.8% | 2.7% | 0.5% | 100% |

Total gross credit risk exposures as at 31 December 2021 (Average) - Region wise (KD Thousands)

| | Kuwait | Other Middle East | Western Europe | USA & Canada | Asia Pacific | Rest of World | Total |
|---|---|---|---|---|---|---|---|
| Cash items | 52,732 | - | - | - | - | - | 52,732 |
| Claims on sovereigns | 779,425 | 125,076 | - | - | - | - | 904,501 |
| Claims on PSEs | 203,868 | 118,744 | - | - | - | - | 322,612 |
| Claims on MDBs | - | - | - | - | - | 5,386 | 5,386 |
| Claims on banks | 51,457 | 591,506 | 255,247 | 63,845 | 163,717 | 8,794 | 1,134,566 |
| Claims on corporates | 3,030,709 | 248,975 | 84,154 | 9,807 | 54,378 | 6,277 | 3,434,300 |
| Regulatory retail exposures | 1,656,609 | 551 | 62 | 67 | 421 | 443 | 1,658,153 |
| Past due exposures | 53,128 | 3,006 | - | - | - | - | 56,134 |
| Other exposures | 339,182 | 2,277 | 195 | - | - | 10 | 341,664 |
| Total | 6,167,110 | 1,090,135 | 339,658 | 73,719 | 218,516 | 20,910 | 7,910,048 |
| Percentage of gross credit risk exposure by geographical region | 77.9% | 13.8% | 4.3% | 0.9% | 2.8% | 0.3% | 100% |

### Industry Segment Distribution of Gross Credit Risk Exposures

The industry segment split of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2022 and 31 December 2021 are shown below:

**Total gross credit risk exposures as at 31 December 2022- Industry wise** **(KD Thousands)**

| | Personal | Financial | Trade and commerce | Crude oil and gas | Const-ruction | Manufac-turing | Real-Estate | Other Services | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash items | - | - | - | - | - | - | - | 58,392 | 58,392 |
| Claims on sovereigns | - | 401,106 | - | - | - | - | - | 970,713 | 1,371,819 |
| Claims on PSEs | - | 53,907 | - | 233,188 | - | - | - | 36,282 | 323,376 |
| Claims on MDBs | - | - | - | - | - | - | - | - | - |
| Claims on banks | - | 762,538 | - | - | - | - | - | - | 762,538 |
| Claims on corporate | 219,850 | 212,634 | 754,288 | 199,726 | 649,048 | 323,363 | 888,194 | 512,171 | 3,759,274 |
| Regulatory retail exposures | 1,966,507 | - | - | - | - | - | - | 1,479 | 1,967,986 |
| Past due exposures | 20,770 | 41 | 411 | 49 | 11,062 | - | 8,035 | 1,167 | 41,535 |
| Other exposures | 39,070 | 204 | - | - | - | - | 142,532 | 178,887 | 360,694 |
| Total | 2,246,197 | 1,430,429 | 754,699 | 432,963 | 660,110 | 323,363 | 1,038,761 | 1,759,091 | 8,645,613 |
| Percentage of gross credit risk exposure by industry segment | 26.2% | 16.5% | 8.7% | 5.0% | 7.6% | 3.7% | 12.0% | 20.3% | 100% |

Total gross credit risk exposures as at 31 December 2021- Industry wise (KD Thousands)

| | Personal | Financial | Trade and commerce | Crude oil and gas | Const-ruction | Manufac-turing | Real-Estate | Other Services | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash items | - | - | - | - | - | - | - | 59,057 | 59,057 |
| Claims on sovereigns | - | 189,486 | - | - | - | - | - | 791,352 | 980,838 |
| Claims on PSEs | - | 40,940 | - | 225,975 | - | - | - | 124,946 | 391,861 |
| Claims on MDBs | - | - | - | - | - | - | - | - | - |
| Claims on banks | - | 1,157,246 | - | - | - | - | - | - | 1,157,246 |
| Claims on corporate | 263,952 | 175,907 | 792,286 | 207,521 | 639,574 | 350,773 | 632,376 | 490,919 | 3,553,308 |
| Regulatory retail exposures | 1,747,930 | 6 | - | - | - | - | - | 5,453 | 1,753,389 |
| Past due exposures | 10,279 | 44 | 18 | 49 | 20,300 | - | 9,463 | 221 | 40,374 |
| Other exposures | 40,693 | - | - | - | 145 | - | 140,611 | 164,648 | 346,097 |
| Total | 2,062,854 | 1,563,629 | 792,304 | 433,545 | 660,019 | 350,773 | 782,450 | 1,636,595 | 8,282,169 |
| Percentage of gross credit risk exposure by industry segment | 24.9% | 18.9% | 9.6% | 5.2% | 8.0% | 4.2% | 9.4% | 19.8% | 100% |

### Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2022 and 31 December 2021 are shown below:

**Total gross credit risk exposures as at 31 December 2022** **(KD Thousands)**

| | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|---|
| Cash items | 58,392 | - | - | - | - | - | 58,392 |
| Claims on sovereigns | 714,230 | 215,478 | 227,182 | 66,576 | 121,648 | 26,705 | 1,371,819 |
| Claims on PSEs | 29,509 | 35 | - | 77 | 58,444 | 235,311 | 323,376 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 204,228 | 63,921 | 74,500 | 102,232 | 298,459 | 19,198 | 762,538 |
| Claims on corporates | 650,222 | 410,140 | 422,063 | 526,510 | 787,082 | 963,257 | 3,759,274 |
| Regulatory retail exposures | 70,050 | 9,347 | 9,389 | 36,283 | 136,775 | 1,706,142 | 1,967,986 |
| Past due exposures | 13,256 | 45 | 132 | 5,549 | 2,510 | 20,043 | 41,535 |
| Other exposures | 153,698 | 100,300 | 13,787 | 64,097 | - | 28,812 | 360,694 |
| Total | 1,893,585 | 799,266 | 747,053 | 801,324 | 1,404,918 | 2,999,468 | 8,645,613 |
| Percentage of gross credit risk exposure by residual maturity | 21.9% | 9.2% | 8.6% | 9.3% | 16.3% | 34.7% | 100% |

Total gross credit risk exposures as at 31 December 2021 (KD Thousands)

| | Upto 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | 1 to 3 years | Over 3 years | Total |
|---|---|---|---|---|---|---|---|
| Cash items | 59,057 | - | - | - | - | - | 59,057 |
| Claims on sovereigns | 525,988 | 146,557 | 122,074 | 39,583 | 77,895 | 68,741 | 980,838 |
| Claims on PSEs | 4,459 | 9,006 | 122 | 2,719 | 117,181 | 258,374 | 391,861 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 480,854 | 177,364 | 45,635 | 102,183 | 312,629 | 38,581 | 1,157,246 |
| Claims on corporates | 358,641 | 668,770 | 302,535 | 647,765 | 661,457 | 914,140 | 3,553,308 |
| Regulatory retail exposures | 47,794 | 8,151 | 7,044 | 16,417 | 111,784 | 1,562,199 | 1,753,389 |
| Past due exposures | 15,389 | 366 | 57 | 5,882 | 2,321 | 16,359 | 40,374 |
| Other exposures | 135,696 | 91,212 | 36,993 | 50,262 | 1,191 | 30,743 | 346,097 |
| Total | 1,627,878 | 1,101,426 | 514,460 | 864,811 | 1,284,458 | 2,889,136 | 8,282,169 |
| Percentage of gross credit risk exposure by residual maturity | 19.7% | 13.3% | 6.2% | 10.4% | 15.5% | 34.9% | 100% |

# RISK **MANAGEMENT**

## Impaired Loans and Provisions

### Impaired Loans and Provisions by Industry Segments

Impairment on credit facilities shall be recognized in the statement of financial position at an amount equal to the higher of Expected Credit Losses under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. The accounting and measurements of impaired loans and provisions are disclosed in the significant accounting policies note and in Note 12 and Note 24 to the financial statements.

The industry segments split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific and general) as at 31 December 2022 and 31 December 2021 are shown below:

**Impaired loans and provisions (by industry segment) as at 31 December 2022** **(KD Thousands)**

| | Impaired Loans (NPLs) | | Specific Provision Cash | Specific Provision Cover |
|---|---|---|---|---|
| | Past due portion | Balance outstanding | | |
| **Personal** | 20,770 | 32,284 | 11,513 | 35.7% |
| **Financial** | - | - | - | 0.0% |
| **Trade and commerce** | 383 | 867 | 485 | 55.9% |
| **Crude oil and gas** | 49 | 49 | - | 0.0% |
| **Construction** | 5,882 | 6,033 | 151 | 2.5% |
| **Manufacturing** | - | 114 | 114 | 0.0% |
| **Real estate** | 8,035 | 9,655 | 1,620 | 16.8% |
| **Others** | 1,149 | 10,459 | 9,311 | 89.0% |
| **Total** | 36,268 | 59,461 | 23,194 | 39.0% |

Impaired loans and provisions (by industry segment) as at 31 December 2021 (KD Thousands)

| | Impaired Loans (NPLs) | | Specific Provision Cash | Specific Provision Cover |
|---|---|---|---|---|
| | Past due portion | Balance outstanding | | |
| Personal | 10,279 | 18,608 | 8,330 | 44.8% |
| Financial | - | - | - | 0.0% |
| Trade and commerce | - | 102 | 102 | 100.3% |
| Crude oil and gas | 49 | 49 | - | 0.0% |
| Construction | 15,120 | 15,802 | 682 | 4.3% |
| Manufacturing | - | - | 0 | 0.0% |
| Real estate | 9,463 | 13,049 | 3,586 | 27.5% |
| Others | 203 | 203 | 0 | 0.0% |
| Total | 35,114 | 47,813 | 12,700 | 26.6% |

Non-performing loans outstanding exposures have increased by KD 11.6 million in 2022 (for details refer Note 12 and 24 (A) of the financial statements and the following table).

## Provision Charge by Industry Segments

The industry segments split of the provision charges and write-offs are shown below:

**Provision Charges during 2022 (by Industry Segments)** **(KD Thousands)**

| | Charge/(Release) for impairment provision | | |
|---|---|---|---|
| | Specific Charge | General Charge | Total Charge |
| **Personal** | 27,977 | 1,698 | 29,675 |
| **Financial** | 0 | 469 | 469 |
| **Trade and commerce** | 391 | 91 | 482 |
| **Crude oil and gas** | 0 | 145 | 145 |
| **Construction** | -112 | 118 | 6 |
| **Manufacturing** | 118 | 4,078 | 4,196 |
| **Real estate** | -1,966 | 2,558 | 592 |
| **Others** | 9,616 | -7,308 | 2,308 |
| **Total** | 36,024 | 1,849 | 37,873 |

Provision Charges during 2021 (by Industry Segments) (KD Thousands)

| | Charge/(Release) for impairment provision | | |
|---|---|---|---|
| | Specific Charge | General Charge | Total Charge |
| Personal | 22,658 | 1,778 | 24,436 |
| Financial | 591 | 633 | 1,224 |
| Trade and commerce | 6,363 | 220 | 6,583 |
| Crude oil and gas | 0 | 641 | 641 |
| Construction | 18,147 | -217 | 17,930 |
| Manufacturing | 152 | 272 | 424 |
| Real estate | 2,986 | 387 | 3,373 |
| Others | -12 | 4,837 | 4,825 |
| Total | 50,885 | 8,551 | 59,436 |

Specific charge mentioned above excludes **KD 24.8 million** (2021: KD 43.2 million) amounts written off during the year.

# RISK MANAGEMENT

## Impaired Loans and Provisions by Geographical Segments

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31 December 2022 and 31 December 2021 are shown below:

**Impaired loans and provisions (by Geographical Region) as at 31 December 2022** (KD Thousands)

| | Impaired Loans (NPLs) | | Specific Provision Cash | Specific Provision Cover |
|---|---|---|---|---|
| | Past due portion | Balance outstanding | | |
| Kuwait | 36,268 | 59,461 | 23,194 | 39.0% |
| Other Middle East | - | - | - | 0.0% |
| Western Europe | - | - | - | 0.0% |
| USA & Canada | - | - | - | 0.0% |
| Asia Pacific | - | - | - | 0.0% |
| Rest of World | - | - | - | 0.0% |
| Total | 36,268 | 59,461 | 23,194 | 39.0% |

Impaired loans and provisions (by Geographical Region) as at 31 December 2021 (KD Thousands)

| | Impaired Loans (NPLs) | | Specific Provision Cash | Specific Provision Cover |
|---|---|---|---|---|
| | Past due portion | Balance outstanding | | |
| Kuwait | 25,842 | 37,860 | 12,019 | 31.7% |
| Other Middle East | 9,271 | 9,953 | 682 | 6.8% |
| Western Europe | - | - | - | 0.0% |
| USA & Canada | - | - | - | 0.0% |
| Asia Pacific | - | - | - | 0.0% |
| Rest of World | - | - | - | 0.0% |
| Total | 35,114 | 47,813 | 12,700 | 26.6% |

The total credit exposure after applying the relevant Basel III standardized approach credit conversion factor ('CCF') but before CRM as at 31 December 2022 and 31 December 2021, broken down by standard credit risk portfolio, are shown below:

**Gross credit risk exposure before CRM as at 31 December 2022** (KD Thousands)

| | Gross credit exposure | | | Credit exposure before CRM | | | |
|---|---|---|---|---|---|---|---|
| | Funded | Unfunded | Total | Funded Credit Exposure | Unfunded Credit After CCF | FX Contracts After CCF | Total Before CRM |
| Cash items | 58,392 | - | 58,392 | 58,392 | - | - | 58,392 |
| Claims on sovereigns | 1,371,819 | - | 1,371,819 | 1,371,819 | - | 28 | 1,371,847 |
| Claims on PSEs | 313,280 | 10,096 | 323,376 | 313,280 | 5,048 | - | 318,328 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 530,637 | 231,900 | 762,537 | 530,637 | 113,111 | 233 | 643,981 |
| Claims on corporates | 2,475,017 | 1,284,257 | 3,759,274 | 2,475,017 | 557,436 | 184 | 3,032,637 |
| Retail exposures | 1,967,490 | 496 | 1,967,986 | 1,967,490 | 223 | - | 1,967,713 |
| Past due exposures | 36,268 | 5,267 | 41,535 | 36,266 | 2,634 | - | 38,900 |
| Other exposures | 360,447 | 247 | 360,694 | 360,448 | 123 | - | 360,571 |
| Total | 7,113,350 | 1,532,263 | 8,645,613 | 7,113,349 | 678,575 | 445 | 7,792,369 |

Gross credit risk exposure before CRM as at 31 December 2021 (KD Thousands)

| | Gross credit exposure | | | Credit exposure before CRM | | | |
|---|---|---|---|---|---|---|---|
| | Funded | Unfunded | Total | Funded Credit Exposure | Unfunded Credit After CCF | FX Contracts After CCF | Total Before CRM |
| Cash items | 59,057 | - | 59,057 | 59,057 | - | - | 59,057 |
| Claims on sovereigns | 980,721 | 118 | 980,839 | 980,721 | 59 | 22 | 980,802 |
| Claims on PSEs | 380,381 | 11,480 | 391,861 | 380,381 | 5,740 | - | 386,121 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 889,075 | 268,171 | 1,157,246 | 889,075 | 126,470 | 493 | 1,016,038 |
| Claims on corporates | 2,371,425 | 1,181,883 | 3,553,308 | 2,371,425 | 533,145 | 354 | 2,904,924 |
| Retail exposures | 1,752,793 | 596 | 1,753,389 | 1,752,793 | 271 | - | 1,753,064 |
| Past due exposures | 35,114 | 5,259 | 40,373 | 35,114 | 2,629 | - | 37,743 |
| Other exposures | 345,841 | 255 | 346,096 | 345,841 | 128 | - | 345,969 |
| Total | 6,814,407 | 1,467,762 | 8,282,169 | 6,814,407 | 668,442 | 869 | 7,483,718 |

### Credit Risk Mitigation and Credit Risk-Weighted Assets

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

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

Consumer loans are generally not secured, but the credit risk is minimized by the 'assignment of salary' condition that requires the customer's employer to pay their salary directly to their Gulf Bank account. Collateral or security, normally in the form of a blocked customer deposit with the Bank, or a personal guarantee or standing orders, is taken on some occasions when consumer loans are granted without an assignment of salary.

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

The exposure after CRM, as at 31 December 2022 and 31 December 2021 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures as given below:

**Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2022 (KD Thousands)**

| | Credit exposure before CRM | CRM | | Credit exposure after CRM | Risk - Weighted Assets | | |
|---|---|---|---|---|---|---|---|
| | | Eligible Financial Collateral | Eligible Guarantees | | Rated | Unrated | Total |
| **Cash items** | **58,392** | **-** | **-** | **58,392** | **-** | **-** | **-** |
| **Claims on sovereigns** | **1,371,847** | **-** | **-** | **1,371,847** | **83,512** | **-** | **83,512** |
| **Claims on PSEs** | **318,328** | **21,230** | **-** | **297,098** | **92,793** | **-** | **92,793** |
| **Claims on MDBs** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Claims on banks** | **643,981** | **2,071** | **-** | **641,910** | **271,092** | **-** | **271,092** |
| **Claims on corporates** | **3,032,637** | **503,425** | **-** | **2,529,212** | **26,607** | **2,488,214** | **2,514,821** |
| **Retail exposures** | **1,967,713** | **184,948** | **-** | **1,782,765** | **-** | **1,782,385** | **1,782,385** |
| **Past due exposures** | **38,900** | **4,267** | **-** | **34,633** | **-** | **31,922** | **31,922** |
| **Other exposures** | **360,571** | **71,808** | **-** | **288,763** | **-** | **343,675** | **343,675** |
| **Total** | **7,792,369** | **787,749** | **-** | **7,004,620** | **474,004** | **4,646,196** | **5,120,200** |

Credit Risk Exposure after CRM; risk-weighted assets ('RWAs) as at 31 December 2021 (KD Thousands)

| | Credit exposure before CRM | CRM | | Credit exposure after CRM | Risk - Weighted Assets | | |
|---|---|---|---|---|---|---|---|
| | | Eligible Financial Collateral | Eligible Guarantees | | Rated | Unrated | Total |
| Cash items | 59,057 | - | - | 59,057 | - | - | - |
| Claims on sovereigns | 980,802 | 59 | - | 980,743 | 55,028 | - | 55,028 |
| Claims on PSEs | 386,121 | 17,179 | - | 368,942 | 101,071 | - | 101,071 |
| Claims on MDBs | - | - | - | - | - | - | - |
| Claims on banks | 1,016,038 | 1,835 | - | 1,014,203 | 384,933 | 2 | 384,935 |
| Claims on corporates | 2,904,924 | 688,979 | - | 2,215,945 | 44,476 | 2,181,664 | 2,226,140 |
| Retail exposures | 1,753,064 | 153,255 | - | 1,599,809 | - | 1,599,264 | 1,599,264 |
| Past due exposures | 37,743 | 4,355 | - | 33,388 | - | 31,665 | 31,665 |
| Other exposures | 345,969 | 81,050 | - | 264,919 | - | 314,853 | 314,853 |
| Total | 7,483,718 | 946,712 | - | 6,537,006 | 585,508 | 4,127,448 | 4,712,956 |

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

### Trading Portfolio

Trading portfolio is limited to a modest amount of open currency position in the course of facilitating customer needs, trading and the Bank's Balance Sheet management.

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

**The details of the market risk capital charge for the Bank as at 31 December 2022 and 31 December 2021 are shown in the following table: (KD thousands)**

| Market Risk | 31-Dec-22 | 31-Dec-21 | |
|---|---|---|---|
| Interest rate position risk | **-** | - | - |
| Foreign exchange risk | **106** | 134 | (28) |
| **Total market risk capital charge** | **106** | 134 | (28) |
| **Market risk - weighted assets** | **1,325** | 1,675 | (350) |
| **Total market risk capital requirement at 11.50% (2021 10.5%)** | **152** | 176 | (24) |

On 31 December 2022, total market risk weighted assets were **KD 1.33 million** (2021: KD 1.68 million) and total capital requirement was **KD 152 thousand** (2021: KD 176 thousand).

STRATEGIC REVIEW
BUSINESS OVERVIEW
GOVERNANCE
FINANCIAL STATEMENT

### Operational Risk

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

The details of the operational risk capital charge for the Bank as at 31 December 2022 and 31 December 2021 are shown in the following table:

**Operational Risk as at 31 December 2022** **(KD Thousands)**

| | 3-year average gross income | Beta factor | Operational risk capital charge |
|---|---|---|---|
| **Trading and sales** | **27,273** | **18%** | **4,909** |
| **Commercial banking** | **62,122** | **15%** | **9,318** |
| **Retail banking** | **80,400** | **12%** | **9,648** |
| **Total** | **169,795** | | **23,875** |
| **Total operational risk weighted exposure** | | | **298,438** |
| **Total operational risk capital requirement (at 11.50%)** | | | **34,320** |

Operational Risk as at 31 December 2021 (KD Thousands)

| | 3-year average gross income | Beta factor | Operational risk capital charge |
|---|---|---|---|
| Trading and sales | 29,554 | 18% | 5,320 |
| Commercial banking | 70,732 | 15% | 10,610 |
| Retail banking | 78,372 | 12% | 9,405 |
| Total | 178,658 | | 25,335 |
| Total operational risk weighted exposure | | | 316,688 |
| Total operational risk capital requirement (at 10.5%) | | | 33,252 |

As per Basel III, the total operational risk capital charge is calculated by multiplying the three-year average gross income of the business lines by a pre-defined beta factor. The total operational risk weighted exposure is determined by multiplying the operational risk capital charge by 12.5. Gross income includes net interest income and net non-interest income. At 31 December 2022 operational risk-weighted exposure was **KD 298.4 million** (2021: KD 316.7 million) and total operational risk capital requirement at 11.50% was **KD 34 million** (2021 at 10.50%: KD 33 million).

### Equity Risk in the Banking Book

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

The fair value of the investment securities-equity held at 31 December 2022 and 31 December 2021 are shown below, along with the cumulative unrealized gains in the fair valuation reserve in equity and the regulatory capital implications.

**Information related to the licensed Bank's equity position in the banking book as at 31 December 2022** **(KD Thousands)**

| | Publicly traded | traded Privately | Total investment securities |
|---|---|---|---|
| **Total fair value of equity securities** | **10,268** | **23,068** | **33,336** |
| Unrealized gains in equity securities (part of CET1) | **810** | **739** | **1,549** |
| **Regulatory capital details** | | | |
| Regulatory capital requirement | **1,284** | **2,884** | **4,168** |
| **Disposal details** | | | |
| Realized loss on equity securities at FVOCI | | | **(215)** |

Information related to the licensed Bank's equity position in the Banking book as at 31 December 2021 (KD Thousands)

| | Publicly traded | traded Privately | Total investment securities |
|---|---|---|---|
| **Total fair value of equity securities** | 11,038 | 23,832 | 34,870 |
| Unrealized gains in equity securities (part of CET1) | 1,580 | 793 | 2,373 |
| **Regulatory capital details** | | | |
| Regulatory capital requirement | 1,269 | 2,741 | 4,010 |
| **Disposal details** | | | |
| Realized loss on equity securities at FVOCI | | | 505 |

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

### Interest Rate Risk in the Banking Book

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

### Counter Party Credit Risk

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

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

### Remuneration Policy

For details refer to the Annual Report - Corporate Governance section.

### Leverage ratio common disclosure template

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

(KD thousands)

| | | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| 1. | On-balance sheet items (excluding derivatives and SFTs, but including collaterals) | **6,851,480** | 6,555,910 | 295,570 |
| 2. | (Asset amounts deducted in determining Basel III Tier 1 capital) | **-** | - | - |
| **3.** | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)** | **6,851,480** | 6,555,910 | 295,570 |
| **Derivative exposures** | | | | |
| 4. | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | **-** | - | - |
| 5. | Add-on amounts for PFE associated with all derivatives transactions | **-** | - | - |
| 6. | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | **-** | - | - |
| 7. | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | **-** | - | - |
| 8. | (Exempted CCP leg of client-cleared trade exposures) | **-** | - | - |
| 9. | Adjusted effective notional amount of written credit derivatives | **-** | - | - |
| 10. | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | **-** | - | - |
| **11.** | **Total derivative exposures (sum of lines 4 to 10)** | **-** | - | - |
| **Securities financing transaction exposures** | | | | - |
| 12. | Gross SFT assets (with no recognition of netting) | **-** | - | - |
| 13. | (Netted amounts of cash payables and cash receivables of gross SFT assets) | **-** | - | - |
| 14. | CCR exposure for SFT assets | **-** | - | - |
| 15. | Agent transaction exposures | **-** | - | - |
| 16. | **Total securities financing transaction exposures (sum of lines 12 to 15)** | **-** | - | - |
| **Other off-balance sheet exposures** | | | | |
| 17. | Off-balance sheet exposure (before implementation of CCF) | **2,676,511** | 2,426,436 | 250,075 |
| 18. | (Adjustments for conversion to credit equivalent amounts) | **(1,868,124)** | (1,630,582) | (237,542) |
| **19.** | **Off-balance sheet items (sum of lines 17 and 18)** | **808,387** | 795,854 | 12,533 |
| **Capital and total exposures** | | | | |
| 20. | Tier 1 capital | **741,129** | 698,151 | 42,978 |
| 21. | Total exposures (sum of lines 3, 11, 16 and 19) | **7,659,867** | 7,351,764 | 308,103 |
| **Leverage ratio** | | | | |
| **22.** | **Basel III leverage ratio (Tier 1 capital (20) /Total exposures (21))** | **9.68%** | 9.50% | 0.18% |

Following is the reconciliation of on balance sheet assets as per the published financial statements along with the total exposure amount in the leverage ratio measure.

**SUMMARY COMPARISON OF ACCOUNTING ASSETS VS LEVERAGE RATIO EXPOSURE MEASURE**

(KD thousands)

| | | 31-Dec-22 | 31-Dec-21 | Variance |
|---|---|---|---|---|
| 1. | Total consolidated assets as per published financial statements | **6,851,480** | 6,555,910 | 295,570 |
| 2. | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | **-** | - | - |
| 3. | Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure | **-** | - | - |
| 4. | Adjustments for derivative financial instruments | **-** | - | - |
| 5. | Adjustment for securities financing transactions (i.e. repo and similar secured lending) | **-** | - | - |
| 6. | Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | **808,387** | 795,854 | 12,533 |
| 7. | Other adjustments | **-** | - | - |
| **8.** | **Leverage ratio exposure** | **7,659,867** | 7,351,764 | 308,103 |

# 04

# FINANCIAL STATEMENTS

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

Building a better working world

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### Report on the Audit of Financial Statements

### Opinion

We have audited the financial statements of Gulf Bank K.S.C.P. (the '‹Bank"), which comprise the statement of financial position as at 31 December 2022, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 Financial Statements section of our report. We are independent of the Bank 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 financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

*Credit losses on loans and advances*

The recognition of credit losses on loans and advances ("credit facilities") to customers and banks is the higher of Expected Credit Loss ("ECL") 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 Note 2 and Note 12 to the financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages; determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

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

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the current inflationary pressure and high interest rate environment.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Bank in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the current inflationary pressure and high interest rate environment, including a focus on rescheduled credit facilities.

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

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

### Other information included in the Bank's 2022 Annual Report

Management is responsible for the other information. The other information comprises of the information included in the Bank's 2022 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report for the year ended 31 December 2022 after the date of our auditors' report.

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

In connection with our audit of the 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 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.

# INDEPENDENT AUDITORS' **REPORT**

## TO THE SHAREHOLDERS OF GULF BANK K.S.C.P.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRSs as adopted 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

### Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014, and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, 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 2022 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 2022 that might have had a material effect on the business of the Bank or on its financial position.

**ABDULKARIM AL SAMDAN**
LICENCE NO. 208 A
EY
AL-AIBAN, AL-OSAIMI & PARTNER

**TALAL YOUSEF AL-MUZAINI**
LICENCE NO. 209 A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

2 February 2023
Kuwait

# INCOME **STATEMENT**

**Year Ended 31 December 2022**

| | NOTES | 2022 KD 000's | 2021 KD 000's |
|---|---|---|---|
| Interest income | 4 | **244,463** | 185,994 |
| Interest expense | 5 | **(102,272)** | (53,681) |
| **Net interest income** | | **142,191** | 132,313 |
| Net fees and commissions | 6 | **26,498** | 27,428 |
| Net gains from dealing in foreign currencies and derivatives | | **10,292** | 9,058 |
| Dividend income | | **799** | 679 |
| Other income | | **1,277** | 580 |
| **Operating income** | | **181,057** | 170,058 |
| Staff expenses | | **55,550** | 47,712 |
| Occupancy costs | | **2,718** | 2,628 |
| Depreciation | | **6,833** | 6,823 |
| Other expenses | | **21,105** | 21,018 |
| **Operating expenses** | | **86,206** | 78,181 |
| **OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES** | | **94,851** | 91,877 |
| Charge of provisions: | | | |
| - specific | 7 | **32,937** | 55,833 |
| - general | 12,18 | **4,936** | 3,603 |
| Loan recoveries, net of write-off | 12 | **(8,008)** | (11,943) |
| Net provision on other financial assets | | **(42)** | 110 |
| Impairment loss on other assets | 14 | **131** | - |
| | | **29,954** | 47,603 |
| **OPERATING PROFIT** | | **64,897** | 44,274 |
| Directors' remuneration | 22 | **188** | 179 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | **648** | 446 |
| National Labour Support Tax | | **1,609** | 1,098 |
| Zakat | | **648** | 446 |
| **PROFIT FOR THE YEAR** | | **61,804** | 42,105 |
| **EARNINGS PER SHARE**<br>Basic and diluted per share (Fils) | 8 | **19** | 13 |

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



# STATEMENT OF **COMPREHENSIVE INCOME**

**Year Ended 31 December 2022**

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Profit for the year | **61,804** | 42,105 |
| **Other comprehensive income** | | |
| *Items that will not to be reclassified subsequently to the income statement:* | | |
| Net changes in fair value of investment securities-equity | **(1,040)** | (807) |
| Revaluation of premises and equipment | **(40)** | 25 |
| **Other comprehensive loss for the year** | **(1,080)** | (782) |
| **Total comprehensive income for the year** | **60,724** | 41,323 |

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

# STATEMENT OF **FINANCIAL POSITION**

**As at 31 December 2022**

| | NOTES | 2022 KD 000's | 2021 KD 000's |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 9 | **929,888** | 942,495 |
| Kuwait Government treasury bonds | 10 | **22,000** | 74,000 |
| Central Bank of Kuwait bonds | 11 | **337,703** | 281,197 |
| Deposits with banks and other financial institutions | 9 | **131,222** | 124,642 |
| Loans and advances to banks | 12 | **262,786** | 278,451 |
| Loans and advances to customers | 12 | **4,865,894** | 4,558,086 |
| Investment securities | 13 | **128,935** | 141,941 |
| Other assets | 14 | **134,392** | 120,705 |
| Premises and equipment | | **38,660** | 34,393 |
| **TOTAL ASSETS** | | **6,851,480** | 6,555,910 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Due to banks | 15 | **489,651** | 595,501 |
| Deposits from financial institutions | 15 | **774,611** | 673,169 |
| Customer deposits | 16 | **4,246,837** | 4,303,995 |
| Other borrowed funds | 17 | **493,926** | 215,000 |
| Other liabilities | 18 | **126,432** | 101,753 |
| **TOTAL LIABILITIES** | | **6,131,457** | 5,889,418 |
| **EQUITY** | | | |
| Share capital | 19 | **320,053** | 304,813 |
| Proposed bonus shares | 22 | **16,003** | 15,240 |
| Statutory reserve | 20 | **53,052** | 46,562 |
| Share premium | 20 | **153,024** | 153,024 |
| Property revaluation reserve | 20 | **18,154** | 18,194 |
| Fair valuation reserve | | **1,549** | 2,374 |
| Retained earnings | | **158,188** | 144,442 |
| | | **720,023** | 684,649 |
| Treasury shares | 21 | **-** | (18,157) |
| **TOTAL EQUITY** | | **720,023** | 666,492 |
| **TOTAL LIABILITIES AND EQUITY** | | **6,851,480** | 6,555,910 |

**Jassim Mustafa Boodai**
(Chairman)

**Antoine Daher**
(Chief Executive Officer)

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



# STATEMENT OF **CASH FLOWS**

**Year Ended 31 December 2022**

| | NOTES | 2022 KD 000's | 2021 KD 000's |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **61,804** | 42,105 |
| Adjustments: | | | |
| Dividend income | | **(799)** | (679) |
| Depreciation | | **6,833** | 6,823 |
| Loan loss provisions | 7,12,18 | **37,873** | 59,436 |
| Net provision on other financial assets | | **(42)** | 110 |
| Impairment loss on other assets | | **131** | - |
| *CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES* | | **105,800** | 107,795 |
| *Decrease/(increase) in operating assets:* | | | |
| Kuwait Government treasury bonds | | **52,000** | 34,500 |
| Central Bank of Kuwait bonds | | **(56,506)** | (473) |
| Deposits with banks and other financial institutions | | **(6,614)** | (121,612) |
| Loans and advances to banks | | **15,011** | (86,767) |
| Loans and advances to customers | | **(344,210)** | (497,449) |
| Other assets | | **(13,022)** | (21,274) |
| *(Decrease)/increase in operating liabilities:* | | | |
| Due to banks | | **(105,850)** | 44,958 |
| Deposits from financial institutions | | **101,442** | (32,168) |
| Customer deposits | | **(57,158)** | 270,276 |
| Other liabilities | | **23,862** | 12,851 |
| *NET CASH FLOWS USED IN OPERATING ACTIVITIES* | | **(285,245)** | (289,363) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of investment securities | | **(54,262)** | (22,498) |
| Proceeds from sale/maturity of investment securities | | **65,508** | 52,085 |
| Purchase of premises and equipment | | **(11,140)** | (7,138) |
| Dividend income received | | **799** | 679 |
| *NET CASH FLOWS FROM INVESTING ACTIVITIES* | | **905** | 23,128 |
| **FINANCING ACTIVITIES** | | | |
| Net proceeds from other borrowed funds | 17 | **278,926** | 115,000 |
| Dividend paid | 22 | **(21,078)** | (15,056) |
| Proceeds from sale of treasury shares | | **13,885** | 2,861 |
| *NET CASH FLOWS FROM FINANCING ACTIVITIES* | | **271,733** | 102,805 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(12,607)** | (163,430) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **942,495** | 1,105,925 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 9 | **929,888** | 942,495 |
| ***Additional cash flows information*** | | | |
| Interest received | | **234,629** | 184,319 |
| Interest paid | | **82,111** | 55,739 |

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

# STATEMENT OF
# CHANGES IN EQUITY

**Year Ended 31 December 2022**

| | Share capital KD 000's | Proposed bonus shares KD 000's | RESERVES: 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 2021 | 304,813 | - | 42,135 | 153,024 | 18,169 | 3,686 | 140,073 | 357,087 | (24,536) | 637,364 |
| Profit for the year | - | - | - | - | - | - | 42,105 | 42,105 | - | 42,105 |
| Other comprehensive income (loss) for the year | - | - | - | - | 25 | (807) | - | (782) | - | (782) |
| Total comprehensive income (loss) for the year | - | - | - | - | 25 | (807) | 42,105 | 41,323 | - | 41,323 |
| Dividend paid (Note 22) | - | - | - | - | - | - | (15,056) | (15,056) | - | (15,056) |
| Realised gain on equity securities at FVOCI | - | - | - | - | - | (505) | 505 | - | - | - |
| Sale of treasury shares | - | - | - | - | - | - | - | - | 6,379 | 6,379 |
| Loss on sale of treasury shares | - | - | - | - | - | - | (3,518) | (3,518) | - | (3,518) |
| Transfer to reserve | - | - | 4,427 | - | - | - | (4,427) | - | - | - |
| Proposed bonus shares (Note 22) | - | 15,240 | - | - | - | - | (15,240) | (15,240) | - | - |
| At 31 December 2021 | 304,813 | 15,240 | 46,562 | 153,024 | 18,194 | 2,374 | 144,442 | 364,596 | (18,157) | 666,492 |
| **At 1 January 2022** | **304,813** | **15,240** | **46,562** | **153,024** | **18,194** | **2,374** | **144,442** | **364,596** | **(18,157)** | **666,492** |
| Profit for the year | - | - | - | - | - | - | 61,804 | 61,804 | - | 61,804 |
| Other comprehensive loss for the year | - | - | - | - | (40) | (1,040) | - | (1,080) | - | (1,080) |
| Total comprehensive income (loss) for the year | - | - | - | - | (40) | (1,040) | 61,804 | 60,724 | - | 60,724 |
| Dividend paid (Note 22) | - | - | - | - | - | - | (21,078) | (21,078) | - | (21,078) |
| Issue of bonus shares (Note 22) | 15,240 | (15,240) | - | - | - | - | - | - | - | - |
| Realised loss on equity securities at FVOCI | - | - | - | - | - | 215 | (215) | - | - | - |
| Sale of treasury shares | - | - | - | - | - | - | - | - | 18,157 | 18,157 |
| Loss on sale of treasury shares | - | - | - | - | - | - | (4,272) | (4,272) | - | (4,272) |
| Transfer to reserve | - | - | 6,490 | - | - | - | (6,490) | - | - | - |
| Proposed bonus shares (Note 22) | - | 16,003 | - | - | - | - | (16,003) | (16,003) | - | - |
| **At 31 December 2022** | **320,053** | **16,003** | **53,052** | **153,024** | **18,154** | **1,549** | **158,188** | **383,967** | **-** | **720,023** |

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



# NOTES TO
# THE FINANCIAL STATEMENTS

**31 December 2022**

## 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.

The financial statements for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 16 January 2023. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

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

## 2. ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

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

### Statement of compliance

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

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

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

### Presentation of financial statements

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

# NOTES TO THE FINANCIAL STATEMENTS



## 2.2 Changes in accounting policies and disclosures

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

### IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Bank as there were no modifications of the Bank's financial instruments during the period.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2022 did not have any material impact on the accounting policies, financial position or performance of the Bank.

## 2.3 Summary of significant accounting policies

### a. Financial instruments

### Classification of financial instruments

The Bank classifies its financial assets, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") (with and without recycling of gains or losses to profit or loss on derecognition of debt and equity instruments, respectively), and fair value through profit or loss ("FVTPL"). The Bank determines the classification of financial assets based on the business model in which assets are managed and their contractual cash flow characteristics.

*Business model assessment*

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

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

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



*SPPI Test*

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

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

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

### Recognition/de-recognition

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS



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

### Measurement of financial instruments

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

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

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

### Financial assets carried at amortised cost

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

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

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

### Debt instruments at FVOCI

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

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

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





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

### Equity instruments at FVOCI

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

### Financial asset at FVTPL

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

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

### 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. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

## Impairment on financial assets

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

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

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

*Impairment on credit facilities*

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

*Impairment on other financial assets (other than credit facilities)*

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

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

The Bank recognises a 12-month ECL on current accounts with banks and other financial institutions, placements with banks and other financial institutions and debt securities carried at amortised cost that are determined to have low credit risk at the initial recognition date.

## Expected Credit Losses

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

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

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

*Stage 1: 12 months ECL*

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



2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

*Stage 2: Lifetime ECL – not credit impaired*

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

*Stage 3: Lifetime ECL – credit impaired*

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

*Determining the significant increase in credit risk*

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

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

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

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

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

*Measurement of ECLs*

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

# NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

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

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

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

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

*Write off*

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

*Commitments*

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

*Modification of loans and advances to customers*

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

### Provisions for credit losses in accordance with CBK instructions

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

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

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

### 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 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.

# NOTES TO THE FINANCIAL STATEMENTS



## Day 1 profit or loss

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

## Repurchase and resale agreements

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

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

## Offsetting

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

## b. Derivative financial instruments and hedging

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

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

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

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





*Hedge effectiveness requirements*

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

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

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

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

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

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

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

## c. Repossessed collaterals

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

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

## d. Provisions

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

### e. End of service indemnity

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

### f. Treasury shares

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

### g. Premises and equipment

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

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

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

| | |
|---|---|
| Buildings | 5 to 10 years |
| Equipment | 3 to 5 years |

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



2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

### h. Impairment of non-financial assets

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

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

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

### i. Revenue recognition

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

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

### j. Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest rate method. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees paid or received between parties to the contract, transaction costs and all other 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 Bank 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 Bank 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

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

### l. Leases

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

# NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

l. Leases (continued)

*Right-of-use assets*

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

*Lease Liabilities*

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

### m. Fiduciary assets

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

### n. Foreign currencies

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

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

### o. Cash and cash equivalents

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

### p. Segment reporting

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



### q. Financial guarantees

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

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

### r. Government grants

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

## 2.4 Significant accounting judgements, estimates and assumptions

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

### Classification of financial instruments

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

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

### Impairment losses on financial instruments

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

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

2. ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgements, estimates and assumptions (continued)

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

### Valuation of unquoted financial instruments

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

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

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

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

### 2.5 Standards issued but not effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2023 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective. None of these are expected to have a significant impact on the financial statements of the Bank.

## 3. IMPACT OF COVID-19

During the year 2020 and 2021, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. Below are the measures valid up to 31 December 2022:

- Decrease the Liquidity Coverage Ratio from 100% to 80%; effective from 1 January 2022: 90%
- Decrease the Net Stable Financing Ratio from 100% to 80%; effective from 1 January 2022: 90%
- Decrease the regulatory Liquidity Ratio from 18% to 15%; effective from 1 January 2022: 16.5%
- Increase the maximum limits of the negative cumulative gap for liquidity across various time bands
- Increase the maximum limits available for finance from 90% to 100% of deposits; effective from 1 January 2022: 95%
- Release the Capital Conservation Buffer of 2.5% of risk-weighted assets in the form of CET1; effective from 1 January 2022: 1.5%
- Decrease the risk weights for lending to SMEs from 75% to 25% for the purposes of Capital Adequacy

Above measures are further disclosed in the respective notes to the annual financial statements. Effective from 1 January 2023 all regulatory ratios are restored back to pre-covid period.





During 2021, the CBK issued a circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 regarding the deferral of the financial obligations for a six-month period with cancellation of interest resulting from this deferral. The Bank implemented the scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows amount of KD 26,084 thousand in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant and is included in other assets in the statement of financial position in accordance with the Law (Note 14).

## 4. INTEREST INCOME

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Kuwait Government treasury bonds and CBK Bonds | **7,364** | 5,573 |
| Debt investment securities | **2,251** | 3,339 |
| Placements with banks | **14,736** | 2,333 |
| Loans and advances to banks and customers | **220,112** | 174,749 |
| | **244,463** | 185,994 |

## 5. INTEREST EXPENSE

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Sight and savings accounts | **3,985** | 3,711 |
| Time deposits | **77,677** | 39,304 |
| Bank borrowings | **10,115** | 5,077 |
| Other borrowed funds | **10,495** | 5,589 |
| | **102,272** | 53,681 |

## 6. NET FEES AND COMMISSIONS

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Total fees and commission income | **39,289** | 38,060 |
| Total fees and commission expense | **(12,791)** | (10,632) |
| | **26,498** | 27,428 |

Total fees and commission income includes **KD 637 thousand** (2021: KD 537 thousand) from fiduciary activities.

## 7. SPECIFIC PROVISIONS

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Loans and advances to customers | | |
| – Cash (Note 12) | **32,305** | 52,628 |
| – Non-cash (Note 18) | **632** | 3,205 |
| | **32,937** | 55,833 |

# NOTES TO THE FINANCIAL STATEMENTS

## 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 2022.

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Profit for the year | 61,804 | 42,105 |
| Weighted average number of shares outstanding during the year, net of treasury shares | Shares 3,177,363,203 | Shares 3,159,065,997 |
| Basic and diluted earnings per share | Fils 19 | Fils 13 |

Earnings per share calculations for the year ended 31 December 2021 have been adjusted to account for the bonus shares issued on 14 April 2022 (Note 22). Earnings per share for the year ended 31 December 2021 was 14 fils per share before retroactive adjustment to the number of shares following the bonus issue.

## 9. CASH AND CASH EQUIVALENTS

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Balances with the Central Bank of Kuwait | 378,319 | 316,277 |
| Cash in hand and in current accounts with other banks and other financial institutions | 88,108 | 74,407 |
| Deposits with banks and other financial institutions maturing with in 30 days | 463,466 | 551,878 |
| | 929,893 | 942,562 |
| Less: Provision for ECL | (5) | (67) |
| | 929,888 | 942,495 |

At 31 December 2022, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 131,259 thousand** (2021: KD 124,645 thousand) adjusted by ECL provision amount of **KD 37 thousand** (2021: KD 3 thousand).

At 31 December 2022 and 2021, 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.

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Maturing within one year | 5,500 | 52,000 |
| Maturing after one year | 16,500 | 22,000 |
| | 22,000 | 74,000 |

At 31 December 2022 and 2021, 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.

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Central Bank of Kuwait Bonds | 337,703 | 281,197 |

At 31 December 2022 and 2021, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

## 12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

### At 31 December 2022:

| | 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 |
|---|---|---|---|---|---|---|
| **A. Loans and advances to customers** | | | | | | |
| Personal | 2,259,720 | - | - | - | 1,812 | 2,261,532 |
| Financial | 113,594 | 75,645 | - | - | 30,630 | 219,869 |
| Trade and commerce | 392,568 | 12,252 | 15,089 | - | - | 419,909 |
| Crude oil and gas | 296,532 | 65,855 | - | - | - | 362,387 |
| Construction | 148,706 | 10,129 | - | - | - | 158,835 |
| Manufacturing | 266,524 | 11,351 | - | - | - | 277,875 |
| Real estate | 971,021 | 39,195 | - | - | - | 1,010,216 |
| Others | 207,215 | 239,907 | - | - | - | 447,122 |
| Gross loans and advances to customers | 4,655,880 | 454,334 | 15,089 | - | 32,442 | 5,157,745 |
| Less: Provision for impairment | | | | | | (291,851) |
| *Loans and advances to customers* | | | | | | 4,865,894 |
| **B. Loans and advances to banks** | | | | | | |
| Gross loans and advances to banks | 57,891 | 184,112 | 9,189 | 4,595 | 9,189 | 264,976 |
| Less: Provision for impairment | | | | | | (2,190) |
| *Loans and advances to banks* | | | | | | 262,786 |

# NOTES TO THE FINANCIAL STATEMENTS

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

**At 31 December 2021:**

| | 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 |
|---|---|---|---|---|---|---|
| A. Loans and advances to customers | | | | | | |
| Personal | 2,069,060 | - | - | - | 2,106 | 2,071,166 |
| Financial | 115,862 | 73,834 | - | - | - | 189,696 |
| Trade and commerce | 424,826 | 10,013 | 15,848 | - | - | 450,687 |
| Crude oil and gas | 299,164 | 45,375 | - | - | - | 344,539 |
| Construction | 179,554 | 9,953 | - | - | - | 189,507 |
| Manufacturing | 304,883 | 13,613 | - | - | - | 318,496 |
| Real estate | 726,515 | 30,761 | - | - | - | 757,276 |
| Others | 214,485 | 302,476 | - | - | - | 516,961 |
| Gross loans and advances to customers | 4,334,349 | 486,025 | 15,848 | - | 2,106 | 4,838,328 |
| Less: Provision for impairment | | | | | | (280,242) |
| *Loans and advances to customers* | | | | | | 4,558,086 |
| B. Loans and advances to banks | | | | | | |
| Gross loans and advances to banks | 60,606 | 190,575 | 9,075 | 4,606 | 15,125 | 279,987 |
| Less: Provision for impairment | | | | | | (1,536) |
| *Loans and advances to banks* | | | | | | 278,451 |

**Movement in provision for impairment**

| | **2022 KD 000's** | | | 2021 KD 000's | | |
|---|---|---|---|---|---|---|
| | **Specific** | **General** | **Total** | Specific | General | Total |
| At 1 January | **24,323** | **257,455** | **281,778** | 14,888 | 253,804 | 268,692 |
| Amounts written-off | **(24,793)** | **-** | **(24,793)** | (43,193) | - | (43,193) |
| Charge to income statement | **32,305** | **4,751** | **37,056** | 52,628 | 3,651 | 56,279 |
| At 31 December | **31,835** | **262,206** | **294,041** | 24,323 | 257,455 | 281,778 |

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

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 13,472 thousand** (2021: KD 654 thousand) and recoveries of **KD 21,480 thousand** (2021: KD 12,597 thousand).



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

| Movement in provisions for impairment of loans and advances by class is as follows: | **2022 KD 000's** | | | 2021 KD 000's | | |
|---|---|---|---|---|---|---|
| | **Corporate lending** | **Consumer lending** | **Total** | Corporate lending | Consumer lending | Total |
| At 1 January | **254,805** | **26,973** | **281,778** | 251,018 | 17,674 | 268,692 |
| Amounts written-off | **-** | **(24,793)** | **(24,793)** | (27,927) | (15,266) | (43,193) |
| Charge to income statement | **6,705** | **30,351** | **37,056** | 31,714 | 24,565 | 56,279 |
| At 31 December | **261,510** | **32,531** | **294,041** | 254,805 | 26,973 | 281,778 |

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

Provision for non-cash facilities of **KD 19,380 thousand** (2021: KD 18,563 thousand) is included under other liabilities (Note 18).

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

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Provision on cash facilities | **294,041** | 281,778 |
| Provision on non-cash facilities | **19,380** | 18,563 |
| **Total provisions on credit facilities** | **313,421** | 300,341 |
| IFRS 9 ECL on credit facilities | **189,748** | 188,631 |
| Excess of total provisions over IFRS 9 ECL on credit facilities | **123,673** | 111,710 |
| Excess provisions as a percentage of total provisions | **39%** | 37% |

## 13. INVESTMENT SECURITIES

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **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 | **85,547** | **-** | **85,547** | 71,626 | - | 71,626 |
| Other bonds | **10,005** | **-** | **10,005** | 32,596 | - | 32,596 |
| Equity securities | **-** | **10,268** | **10,268** | - | 11,038 | 11,038 |
| | **95,552** | **10,268** | **105,820** | 104,222 | 11,038 | 115,260 |
| ***Unquoted investments*** | | | | | | |
| Other bonds | **-** | **203** | **203** | - | 3,019 | 3,019 |
| Equity securities/others | **-** | **23,068** | **23,068** | - | 23,832 | 23,832 |
| | **-** | **23,271** | **23,271** | - | 26,851 | 26,851 |
| Less: Provision for ECL | **(156)** | **-** | **(156)** | (166) | (4) | (170) |
| **At 31 December** | **95,396** | **33,539** | **128,935** | 104,056 | 37,885 | 141,941 |

At 31 December 2022 and 2021, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

# NOTES TO THE FINANCIAL STATEMENTS

## 14. OTHER ASSETS

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Accrued interest receivable | 25,989 | 16,155 |
| Sundry debtors and others | 14,406 | 19,654 |
| Less: impairment loss on other receivables | (751) | (620) |
| Government Grant receivable (Note 3) | 26,084 | 26,084 |
| Repossessed collaterals (refer movement below) | 68,664 | 59,432 |
| | 134,392 | 120,705 |

*Movement in repossessed collaterals:*

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| At 1 January | 59,432 | 60,238 |
| Additions | 9,232 | - |
| Disposals | - | (806) |
| At 31 December | 68,664 | 59,432 |

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

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| **Due to banks** | | |
| Current accounts and demand deposits | 10,991 | 11,790 |
| Time deposits | 478,660 | 583,711 |
| | 489,651 | 595,501 |
| **Deposits from financial institutions** | | |
| Current accounts and demand deposits | 86,752 | 100,966 |
| Time deposits | 687,859 | 572,203 |
| | 774,611 | 673,169 |

## 16. CUSTOMER DEPOSITS

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Current accounts | 1,298,371 | 1,404,148 |
| Savings accounts | 380,079 | 410,168 |
| Time deposits | 2,568,387 | 2,489,679 |
| | 4,246,837 | 4,303,995 |

Customer deposits include **KD 13,589 thousand** (2021: KD 12,756 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

## 17. OTHER BORROWED FUNDS

| | Effective interest rate | 2022 KD 000's | 2021 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- (2024-2026) | 4.00% to 5.70% | 443,926 | 165,000 |
| | | 493,926 | 215,000 |

## 18. OTHER LIABILITIES

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Accrued interest payable | 32,060 | 11,899 |
| Deferred income | 4,115 | 3,855 |
| Provisions for non-cash facilities (refer movement below) | 19,380 | 18,563 |
| Staff related provisions | 30,364 | 26,607 |
| Lease liabilities | 4,182 | 2,830 |
| Others | 36,331 | 37,999 |
| | 126,432 | 101,753 |

*Movement in provisions for non-cash facilities:*

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| At 1 January | 18,563 | 15,406 |
| Charge to the income statement | 817 | 3,157 |
| At 31 December | 19,380 | 18,563 |

## 19. SHARE CAPITAL

| | 2022 KD 000's | 2021 KD 000's |
|---|---|---|
| Authorised, issued and fully paid shares | 320,053 | 304,813 |

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2022 is 3,200,534,293 shares (2021: 3,048,127,898 shares).

# NOTES TO THE FINANCIAL STATEMENTS

## 20. RESERVES

### a) Statutory reserve

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

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

### b) Share premium

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

### c) Property revaluation reserve

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

## 21. TREASURY SHARES AND TREASURY SHARES RESERVE

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Number of treasury shares | **-** | 37,000,000 |
| Percentage of treasury shares | **0.00%** | 1.21% |
| Cost of treasury shares (KD 000's) | **-** | 18,157 |
| Weighted average market value of treasury shares as at 31 December (KD 000's) | **-** | 8,695 |

Movement in treasury shares was as follows:

| | *No. of shares* | |
|---|---|---|
| | **2022** | 2021 |
| Balance as at 1 January | **37,000,000** | 50,000,000 |
| Bonus shares | **1,850,000** | - |
| Sales | **(38,850,000)** | (13,000,000) |
| Balance as at 31 December | **-** | 37,000,000 |

## 22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **10 fils** per share (2021: 7 fils per share) and bonus shares of **5%** amounting to **KD 16,003 thousand** (2021: KD 15,240 thousand) on the outstanding issued share capital as at 31 December 2022 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 22 March 2022 approved a cash dividend of 7 fils per share (2020: 5 fils per share) and bonus shares of 5% amounting to KD 15,240 thousand (2020: KD Nil) for the year ended 31 December 2021. The cash dividend was recorded and paid subsequently. The bonus shares was distributed on 14 April 2022.

Directors' remuneration of **KD 188 thousand** (2021: KD 179 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 Bank, their families and companies of which they are the principal owners) were customers of the Bank in the ordinary course of business. The terms of these transactions were approved as per the Bank's policies.

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

| | Number of Board Members or executive management | | Number of related parties | | | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 | **2022 KD 000's** | 2021 KD 000's |
| *Board members:* | | | | | | |
| **Balances** | | | | | | |
| Loans and advances | **1** | 1 | **10** | 10 | **166,370** | 163,558 |
| Credit cards | **3** | 2 | **5** | 4 | **18** | 34 |
| Deposits | **8** | 8 | **77** | 73 | **42,389** | 72,124 |
| **Commitments/derivatives** | | | | | | |
| Guarantees /letters of credit | **-** | - | **13** | 10 | **32,742** | 7,898 |
| **Transactions** | | | | | | |
| Interest income | **1** | 1 | **18** | 15 | **5,582** | 4,147 |
| Interest expense | **4** | 4 | **16** | 13 | **564** | 374 |
| Net fees and commissions | **-** | - | **17** | 12 | **138** | 100 |
| Other expenses | **-** | - | **12** | 13 | **1,764** | 1,257 |
| Purchase of equipment | **-** | - | **2** | 3 | **276** | 162 |
| *Executive management:* | | | | | | |
| **Balances** | | | | | | |
| Loans and advances | **7** | 4 | **-** | - | **1,158** | 207 |
| Credit cards | **11** | 14 | **-** | - | **22** | 20 |
| Deposits | **17** | 15 | **-** | - | **4,229** | 2,631 |
| **Transactions** | | | | | | |
| Interest income | **7** | 5 | **-** | - | **41** | 9 |
| Interest expense | **18** | 16 | **-** | - | **74** | 22 |

23. RELATED PARTY TRANSACTIONS (continued)

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **4.5% to 6.25%** (2021: 2% to 5.5%) 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 2022 was **KD 66,821 thousand** (2021: KD 109,687 thousand).

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

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Salaries and other short-term benefits | **4,845** | 3,655 |
| End of service/termination benefits | **401** | 312 |
| | **5,246** | 3,967 |

## 24. FINANCIAL INSTRUMENTS

### Strategy in using financial instruments

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

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

### Risk management

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

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

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

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





### A. CREDIT RISK

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

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

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

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

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

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

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

Other than BRC, the Bank has – 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 Bank in compliance with the credit policies of the Bank. BCIC is also vested the authority to grant credit delegation to ECC as stipulated by the Board of Directors.

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

The MCC with lower delegated authority meets regularly to approve, reject or modify credit applications

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

submitted to it. Applications that fall outside the delegated authority limits of the MCC are referred to the ECC and BCIC based on respective delegation. All MCC decisions are periodically reviewed by the CRO.

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

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

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

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

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

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

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

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





## ECL methodology

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

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

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

- Stage 1: The 12 months ECL is calculated as the loss that result from default events on a Credit Facility that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL provision based on the expectation of a default occurring in the 12 months following the reporting date.
- Stage 2: When a Credit Facility has shown a significant increase in credit risk since origination due to quantitative and qualitative factors, the Bank records an allowance for the LT ECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For Credit Facility considered credit-impaired i.e, having objective evidence of default, the Bank calculates ECL on credit facilities classified in Stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying the haircuts prescribed by CBK guidelines.

*Significant increase in credit risk*

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)
ECL methodology (continued)

*Staging review*

A key indicator of changes in the credit quality of loan portfolio is how much of it has been moved between stages, as this indicates whether the loan portfolio has undergone a significant increase in credit risk. During the year 2020 and 2021 following the Covid crisis, the Bank had performed a qualitative review of the portfolio to reflect the increased credit risk on clientsengaged in severely impacted sectors and stage transitioned those identified with increase in risk.

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

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

## Probability of default

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

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

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

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





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

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

## Loss given default

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

## Exposure at default

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

*Incorporation of forward looking information*

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

## Collateral and other credit enhancements

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

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

As of 31 December 2022, **28%** (2021: 27%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals.

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

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 statement of financial position, including positive fair value of derivatives without taking into account any collateral and other credit enhancements. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Bank's comprehensive capital as determined by the regulatory guidelines.

| BY CLASS OF FINANCIAL ASSETS | Maximum exposure 2022 KD 000's | Maximum exposure 2021 KD 000's |
|---|---|---|
| Cash and cash equivalents (excluding cash in hand) | **871,496** | 883,438 |
| Kuwait Government treasury bonds | **22,000** | 74,000 |
| Central Bank of Kuwait bonds | **337,703** | 281,197 |
| Deposits with banks and other financial institutions | **131,222** | 124,642 |
| Loans and advances to banks | **262,786** | 278,451 |
| Loans and advances to customers: | | |
| - Corporate lending | **2,735,061** | 2,694,332 |
| - Consumer lending | **2,130,833** | 1,863,754 |
| Debt investment securities (Note 13) | **95,599** | 107,071 |
| Other assets | **65,728** | 61,273 |
| Total | **6,652,428** | 6,368,158 |
| Contingent liabilities and commitments | **2,673,488** | 2,404,830 |
| Foreign exchange contracts (including spot contracts) | **17,098** | 35,050 |
| Total | **2,690,586** | 2,439,880 |
| Total credit risk exposure | **9,343,014** | 8,808,038 |

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2022 is **12.3%** (2021: 12.4%).





| Geographic region: | 2022 | | 2021 | |
|---|---|---|---|---|
| | Assets KD 000's | Off balance sheet items KD 000's | Assets KD 000's | Off balance sheet items KD 000's |
| Domestic (Kuwait) | **5,623,556** | **2,192,686** | 4,983,925 | 1,922,166 |
| Other Middle East | **829,490** | **140,520** | 1,161,217 | 202,455 |
| Europe | **74,072** | **103,873** | 131,637 | 105,329 |
| USA and Canada | **59,154** | **24,498** | 49,942 | 24,288 |
| Asia Pacific | **24,156** | **229,009** | 24,345 | 185,642 |
| Rest of world | **42,000** | **-** | 17,092 | - |
| | **6,652,428** | **2,690,586** | 6,368,158 | 2,439,880 |

| Industry sector: | 2022 | | 2021 | |
|---|---|---|---|---|
| | Assets KD 000's | Off balance sheet items KD 000's | Assets KD 000's | Off balance sheet items KD 000's |
| Personal | **2,228,055** | **82,473** | 2,042,570 | 46,362 |
| Financial | **1,115,694** | **404,543** | 1,194,003 | 494,106 |
| Trade and Commerce | **415,268** | **694,871** | 446,317 | 622,861 |
| Crude Oil and Gas | **135,037** | **110,354** | 125,762 | 97,450 |
| Construction | **156,973** | **651,437** | 187,089 | 621,214 |
| Government | **1,197,966** | **50,001** | 1,162,555 | 67,858 |
| Manufacturing | **267,104** | **179,686** | 311,845 | 116,887 |
| Real Estate | **998,705** | **204,811** | 746,350 | 135,802 |
| Others | **137,626** | **312,410** | 151,667 | 237,340 |
| | **6,652,428** | **2,690,586** | 6,368,158 | 2,439,880 |

## Internal credit quality rating

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

The Bank uses Moody's 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.

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)
Internal credit quality rating (continued)

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

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

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

## Facility Risk Rating

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

## North American Industry Classification System (NAICS) Code:

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

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

## Portfolio Risk Rating

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

## RAROC Model

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

## Credit Infrastructure:

Bank has a specialized unit with core objective of supporting the development, approval and monitoring of credit products, manage credit risk infrastructure and MIS Reporting. The unit supports management of credit/risk systems, Credit Application System, Risk Rating Models, RAROC Model and credit related policies of the Bank. The Bank has a 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 statement of financial position lines, based on the Bank's credit rating system.

| **2022** | **Neither past due nor impaired** | | | | |
|---|---|---|---|---|---|
| | **High KD 000's** | **Standard KD 000's** | **Acceptable KD 000's** | **Past due but not impaired KD 000's** | **Total KD 000's** |
| Cash and cash equivalents (excluding cash in hand) | **871,047** | **450** | **4** | **-** | **871,501** |
| Kuwait Government treasury bonds | **22,000** | **-** | **-** | **-** | **22,000** |
| Central Bank of Kuwait bonds | **337,703** | **-** | **-** | **-** | **337,703** |
| Deposits with banks and other financial institutions | **108,942** | **22,317** | **-** | **-** | **131,259** |
| Loans and advances to banks | **214,467** | **50,509** | **-** | **-** | **264,976** |
| Loans and advances to customers: | | | | | |
| - Corporate lending | **2,321,870** | **585,867** | **53,625** | **11,923** | **2,973,285** |
| - Consumer lending | **2,043,681** | **39,816** | **300** | **41,202** | **2,124,999** |
| Debt investment securities (Note 13) | **66,135** | **29,620** | **-** | **-** | **95,755** |
| Other assets | **65,728** | **-** | **-** | **-** | **65,728** |
| | **6,051,573** | **728,579** | **53,929** | **53,125** | **6,887,206** |

| 2021 | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| | High KD 000's | Standard KD 000's | Acceptable KD 000's | Past due but not impaired KD 000's | Total KD 000's |
| Cash and cash equivalents (excluding cash in hand) | 848,715 | 34,790 | - | - | 883,505 |
| Kuwait Government treasury bonds | 74,000 | - | - | - | 74,000 |
| Central Bank of Kuwait bonds | 281,197 | - | - | - | 281,197 |
| Deposits with banks and other financial institutions | 124,645 | - | - | - | 124,645 |
| Loans and advances to banks | 246,742 | 33,245 | - | - | 279,987 |
| Loans and advances to customers: | | | | | |
| - Corporate lending | 2,130,475 | 703,523 | 78,906 | 5,640 | 2,918,544 |
| - Consumer lending | 1,683,995 | 56,646 | - | 131,330 | 1,871,971 |
| Debt investment securities (Note 13) | 85,176 | 22,065 | - | - | 107,241 |
| Other assets | 61,273 | - | - | - | 61,273 |
| | 5,536,218 | 850,269 | 78,906 | 136,970 | 6,602,363 |

**80%** (2021: 91%) of the past due but not impaired category is below 60 days and **20%** (2021: 9%) is between 60-90 days.

# NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL INSTRUMENTS (continued)
A. CREDIT RISK (continued)

**Financial assets by class individually impaired**

| **2022** | **Gross exposure KD 000's** | **Impairment provision KD 000's** | **Fair value of collateral KD 000's** |
|---|---|---|---|
| Loans and advances to customers: | | | |
| - Corporate lending | **21,096** | **11,578** | **8,197** |
| - Consumer lending | **38,365** | **11,616** | **6,020** |
| | **59,461** | **23,194** | **14,217** |

| 2021 | Gross exposure KD 000's | Impairment provision KD 000's | Fair value of collateral KD 000's |
|---|---|---|---|
| Loans and advances to customers: | | | |
| - Corporate lending | 29,057 | 4,268 | 24,089 |
| - Consumer lending | 18,756 | 8,432 | 339 |
| | 47,813 | 12,700 | 24,428 |

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

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

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

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

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





An analysis of the carrying amounts of Credit Facilities (cash facilities: loans and advances to banks and customers, 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 2022:** | **Stage 1 KD 000's** | **Stage 2 KD 000's** | **Stage 3 KD 000's** | **Total KD 000's** |
|---|---|---|---|---|
| **Loans and advances to banks and customers** | | | | |
| - High | **4,531,325** | **47,014** | **-** | **4,578,339** |
| - Standard | **544,542** | **131,650** | **-** | **676,192** |
| - Acceptable | **298** | **53,627** | **-** | **53,925** |
| - Past due but not impaired | **9,429** | **42,065** | **-** | **51,494** |
| - Impaired | **-** | **-** | **62,771** | **62,771** |
| | **5,085,594** | **274,356** | **62,771** | **5,422,721** |

| At 31 December 2021: | Stage 1 KD 000's | Stage 2 KD 000's | Stage 3 KD 000's | Total KD 000's |
|---|---|---|---|---|
| Loans and advances to banks and customers | | | | |
| - High | 4,045,828 | 13,547 | - | 4,059,375 |
| - Standard | 611,039 | 182,375 | - | 793,414 |
| - Acceptable | - | 78,906 | - | 78,906 |
| - Past due but not impaired | 94,130 | 42,840 | - | 136,970 |
| - Impaired | - | - | 49,650 | 49,650 |
| | 4,750,997 | 317,668 | 49,650 | 5,118,315 |

| **At 31 December 2022:** | **Stage 1 KD 000's** | **Stage 2 KD 000's** | **Stage 3 KD 000's** | **Total KD 000's** |
|---|---|---|---|---|
| **Contingent liabilities and commitments** | | | | |
| - High | **2,100,153** | **34,955** | **-** | **2,135,108** |
| - Standard | **311,712** | **187,485** | **-** | **499,197** |
| - Acceptable | **46** | **19,748** | **-** | **19,794** |
| - Impaired | **-** | **-** | **19,389** | **19,389** |
| | **2,411,911** | **242,188** | **19,389** | **2,673,488** |

| At 31 December 2021: | Stage 1 KD 000's | Stage 2 KD 000's | Stage 3 KD 000's | Total KD 000's |
|---|---|---|---|---|
| Contingent liabilities and commitments | | | | |
| - High | 1,953,110 | 15,120 | - | 1,968,230 |
| - Standard | 234,532 | 151,009 | - | 385,541 |
| - Acceptable | - | 31,718 | - | 31,718 |
| - Impaired | - | - | 19,341 | 19,341 |
| | 2,187,642 | 197,847 | 19,341 | 2,404,830 |

# NOTES TO
# THE FINANCIAL STATEMENTS

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 2022: | 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 2022 | 41,724 | 96,272 | 50,635 | 188,631 |
| Impact due to transfer between stages: | | | | |
| - Transfer to Stage 1 | 11,757 | (1,641) | (10,116) | - |
| - Transfer to Stage 2 | (1,379) | 5,563 | (4,184) | - |
| - Transfer to Stage 3 | (176) | (1,787) | 1,963 | - |
| ECL (release)/charge for the year | (13,747) | (19,437) | 59,094 | 25,910 |
| ECL release on written off facilities | - | - | (24,793) | (24,793) |
| ECL balance as at 31 December 2022 | 38,179 | 78,970 | 72,599 | 189,748 |

| At 31 December 2021: | 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 2021 | 40,972 | 75,196 | 55,810 | 171,978 |
| Impact due to transfer between stages: | | | | |
| - Transfer to Stage 1 | 5,070 | (1,483) | (3,587) | - |
| - Transfer to Stage 2 | (2,505) | 5,485 | (2,980) | - |
| - Transfer to Stage 3 | (234) | (1,845) | 2,079 | - |
| ECL (release)/charge for the year | (1,579) | 18,919 | 42,506 | 59,846 |
| ECL release on written off facilities | - | - | (43,193) | (43,193) |
| ECL balance as at 31 December 2021 | 41,724 | 96,272 | 50,635 | 188,631 |

### ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Further, the Bank carries an excess of 39% 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. Normally, the banking business is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies. A majority of the interest bearing assets and liabilities reprice within one year. Accordingly, there is a limited exposure to interest rate risk.

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





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

| Currency | 2022 Change in interest rate in basis points | 2022 Impact on income statement KD 000's | 2022 Impact on statement of comprehensive income KD 000's | 2021 Change in interest rate in basis points | 2021 Impact on income statement KD 000's | 2021 Impact on statement of comprehensive income KD 000's |
|---|---|---|---|---|---|---|
| KWD | (+) 25 | 1,511 | - | (+) 25 | 2,154 | (2) |
| USD | (+) 25 | 505 | - | (+) 25 | 797 | - |

## CHANGES IN INTERBANK OFFERED RATES (IBOR)

The Bank's exposure to its floating-rate financial assets and liabilities is mainly through USD LIBOR, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Bank's IBOR project team is managing the transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. Transition away from LIBORs to the risk-free or alternative "reference rate" regime will affect the pricing of loans and floating rate debt securities.

### Financial assets and liabilities

The Bank is in the process of transitioning to risk-free benchmark reference rates not later than June 2023. The Bank's exposure to financial assets as of 31 December 2022 that are based on USD LIBOR maturing after June 2023 is KD 450,181 thousand. The Bank's exposure to USD IBOR linked financial liabilities is relatively insignificant. The Bank is in discussion with the counterparties/clients and lead/agent banks to effect an orderly transition of remaining USD exposures to the relevant reference rate.

## C. CURRENCY RISK

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

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

| Currency | 2022 Change in currency rate in % | 2022 Impact on income statement KD 000's | 2022 Impact on statement of comprehensive income KD 000's | 2021 Change in currency rate in % | 2021 Impact on income statement KD 000's | 2021 Impact on statement of comprehensive income KD 000's |
|---|---|---|---|---|---|---|
| USD | +5 | (145) | 116 | +5 | (171) | 107 |

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

24. FINANCIAL INSTRUMENTS (continued)

## D. LIQUIDITY RISK

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

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

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

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

Liquidity risk is further minimized by adherence to the strict CBK liquidity requirements. In response to the Covid-19, CBK had provided temporary relaxation to the regulatory liquidity ratios until 31 December 2022, namely: minimum LCR of 90% (2021: 80%); minimum NSFR of 90% (2021: 80%); maturity ladder mismatch limits for specific time periods: -15% for 7 day or less (2021: -20%); -25% for 1 month or less (2021: -30%); -35% for 3 months or less (2021: -40%); -45% for 6 months or less (2021: -50%); the requirement to hold 16.5% (2021: 15%) of KD customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 95% (2021: 100%).

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



| At 31 December 2022: | 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 |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Cash and cash equivalents | 929,888 | - | - | - | - | - | 929,888 |
| Kuwait Government treasury bonds | - | - | - | 5,500 | 14,000 | 2,500 | 22,000 |
| Central Bank of Kuwait bonds | 29,975 | 163,819 | 141,983 | 1,926 | - | - | 337,703 |
| Deposits with banks and other financial institutions | - | 35,147 | 79,787 | 16,288 | - | - | 131,222 |
| Loans and advances to banks | - | 57 | 32,070 | 50,035 | 165,463 | 15,161 | 262,786 |
| Loans and advances to customers | 255,913 | 591,334 | 274,080 | 544,651 | 688,570 | 2,511,346 | 4,865,894 |
| Investment securities | 1,531 | 35,048 | 18,079 | 15,710 | 24,010 | 34,557 | 128,935 |
| Other assets | 28,425 | 29,381 | 4,309 | 1,879 | 70,012 | 386 | 134,392 |
| Premises and equipment | - | - | - | - | - | 38,660 | 38,660 |
| **Total assets** | **1,245,732** | **854,786** | **550,308** | **635,989** | **962,055** | **2,602,610** | **6,851,480** |
| **Liabilities:** | | | | | | | |
| Due to banks | 201,353 | 123,426 | 93,611 | 71,261 | - | - | 489,651 |
| Deposits from financial institutions | 241,734 | 227,801 | 190,394 | 114,682 | - | - | 774,611 |
| Customer deposits | 2,416,165 | 885,406 | 341,848 | 593,672 | 9,746 | - | 4,246,837 |
| Other borrowed funds | - | - | - | - | 421,260 | 72,666 | 493,926 |
| Other liabilities | 52,798 | 33,568 | 7,310 | 8,045 | 24,711 | - | 126,432 |
| **Total liabilities** | **2,912,050** | **1,270,201** | **633,163** | **787,660** | **455,717** | **72,666** | **6,131,457** |

# NOTES TO
# THE FINANCIAL STATEMENTS

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

| At 31 December 2021: | 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 |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Cash and cash equivalents | 942,495 | - | - | - | - | - | 942,495 |
| Kuwait Government treasury bonds | 11,000 | 15,000 | - | 26,000 | 19,500 | 2,500 | 74,000 |
| Central Bank of Kuwait bonds | 48,485 | 123,232 | 109,480 | - | - | - | 281,197 |
| Deposits with banks and other financial institutions | - | 124,642 | - | - | - | - | 124,642 |
| Loans and advances to banks | 233 | 5,434 | 15,001 | 67,928 | 189,855 | - | 278,451 |
| Loans and advances to customers | 239,970 | 597,624 | 225,010 | 656,986 | 603,203 | 2,235,293 | 4,558,086 |
| Investment securities | - | 13,593 | 25,684 | 13,561 | 50,215 | 38,888 | 141,941 |
| Other assets | 26,188 | 935 | 30,507 | 2,371 | 60,319 | 385 | 120,705 |
| Premises and equipment | - | - | - | - | - | 34,393 | 34,393 |
| Total assets | 1,268,371 | 880,460 | 405,682 | 766,846 | 923,092 | 2,311,459 | 6,555,910 |
| Liabilities: | | | | | | | |
| Due to banks | 59,850 | 163,934 | 248,689 | 123,028 | - | - | 595,501 |
| Deposits from financial institutions | 257,087 | 201,403 | 157,335 | 42,975 | 14,369 | - | 673,169 |
| Customer deposits | 2,489,572 | 776,486 | 498,483 | 497,863 | 41,591 | - | 4,303,995 |
| Other borrowed funds | - | - | - | - | 165,000 | 50,000 | 215,000 |
| Other liabilities | 32,247 | 30,604 | 8,934 | 7,449 | 22,519 | - | 101,753 |
| Total liabilities | 2,838,756 | 1,172,427 | 913,441 | 671,315 | 243,479 | 50,000 | 5,889,418 |

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



| **At 31 December 2022:** **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 | **121,039** | **33,749** | **329,004** | **15,550** | **-** | **499,342** |
| Deposits from financial institutions | **93,456** | **134,469** | **493,734** | **66,742** | **-** | **788,401** |
| Customer deposits | **1,705,818** | **377,749** | **2,161,245** | **58,441** | **-** | **4,303,253** |
| Other borrowed funds | **1,851** | **3,574** | **16,488** | **526,553** | **-** | **548,466** |
| Other liabilities | **52,798** | **33,568** | **15,355** | **24,711** | **-** | **126,432** |
| **Total undiscounted liabilities** | **1,974,962** | **583,109** | **3,015,826** | **691,997** | **-** | **6,265,894** |

| At 31 December 2021: Financial liabilities: | Less than 1 month KD 000's | 1 to 3 months KD 000's | 3 to 12 months KD 000's | 1 to 5 years KD 000's | Over 5 years KD 000's | Total KD 000's |
|---|---|---|---|---|---|---|
| Due to banks | 59,999 | 164,603 | 373,818 | - | - | 598,420 |
| Deposits from financial institutions | 257,539 | 202,886 | 203,170 | 14,611 | - | 678,206 |
| Customer deposits | 1,879,422 | 342,428 | 1,992,173 | 111,872 | - | 4,325,895 |
| Other borrowed funds | 512 | 991 | 4,566 | 228,277 | - | 234,346 |
| Other liabilities | 32,247 | 30,604 | 16,383 | 22,519 | - | 101,753 |
| Total undiscounted liabilities | 2,229,719 | 741,512 | 2,590,110 | 377,279 | - | 5,938,620 |

The table below shows the contractual expiry by maturity of the Bank'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 2022:** | | | | | | |
| **Contingent liabilities** | **28,640** | **63,379** | **331,387** | **433,080** | **656,529** | **1,513,015** |
| **Commitments** | **5,499** | **24,019** | **139,364** | **400,522** | **591,069** | **1,160,473** |
| | **34,139** | **87,398** | **470,751** | **833,602** | **1,247,598** | **2,673,488** |

| | 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 2021: | | | | | | |
| Contingent liabilities | 18,759 | 37,240 | 285,325 | 440,062 | 682,276 | 1,463,662 |
| Commitments | 5,756 | 9,417 | 113,132 | 281,053 | 531,810 | 941,168 |
| | 24,515 | 46,657 | 398,457 | 721,115 | 1,214,086 | 2,404,830 |

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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

| Derivatives | Less than 1 month KD 000's | 1 to 3 months KD 000's | 3 to 12 months KD 000's | Total KD 000's |
|---|---|---|---|---|
| **At 31 December 2022:** | | | | |
| **Forward foreign exchange** | **992** | **6,842** | **-** | **7,834** |
| At 31 December 2021: | | | | |
| Forward foreign exchange | - | - | 6,851 | 6,851 |

## E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are primarily monitored through the Operational & Technology Risk Management Unit in the Risk Management Department. The department has specialized units focusing on Fraud, 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 & Technology 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 Bank manages this risk through diversification of investments.

A portion of the Bank's investments are held in well diversified portfolio of managed funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

The effect on equity (as a result of change in the fair value of equity instruments held as FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

| Market indices | % Change in equity price | **2022 Impact on statement of comprehensive income KD 000's** | 2021 Impact on statement of comprehensive income KD 000's |
|---|---|---|---|
| Kuwait Stock Exchange | +5% | **513** | 552 |





## G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Majority of the Bank's interest bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

## 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

**At 31 December 2022:**

| Financial assets at FVOCI: | Level 1 KD 000's | Level 2 KD 000's | Level 3 KD 000's | Total KD 000's |
|---|---|---|---|---|
| Equity securities | **10,268** | **836** | **22,232** | **33,336** |
| Debt securities | **-** | **203** | **-** | **203** |
| | **10,268** | **1,039** | **22,232** | **33,539** |

At 31 December 2021:

| Financial assets at FVOCI: | Level 1 KD 000's | Level 2 KD 000's | Level 3 KD 000's | Total KD 000's |
|---|---|---|---|---|
| Equity securities | 11,038 | 686 | 23,146 | 34,870 |
| Debt securities | - | 3,015 | - | 3,015 |
| | 11,038 | 3,701 | 23,146 | 37,885 |

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 |
|---|---|---|---|---|---|
| **2022** | **23,146** | **(363)** | **(555)** | **4** | **22,232** |
| 2021 | 25,415 | (1,627) | (632) | (10) | 23,146 |

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 2022 were **KD 95,396 thousand** (2021: KD 104,056 thousand) and **KD 94,737 thousand** (Level 1) (2021: KD 105,235 thousand) respectively.

# NOTES TO
# THE FINANCIAL STATEMENTS

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of other financial assets and liabilities which are carried at amortised cost are estimated using the valuation models that incorporate a range of input assumptions. These assumptions may include estimates using credit spreads, forward looking discounted cash flow models using the assumptions which the management believes are consistent with those which would be used by market participants in valuing such financial assets and liabilities. The Bank has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact.

The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

## 26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Guarantees | **1,146,960** | 1,177,918 |
| Letters of credit and acceptances | **366,055** | 285,744 |
| Undrawn irrevocable commitments | **33,323** | 17,542 |
| Undrawn revocable commitments | **1,127,150** | 923,626 |
| | **2,673,488** | 2,404,830 |

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

27. SEGMENTAL ANALYSIS (continued)

Segmental information for the year ended 31 December is as follows:

| | **Commercial Banking** | | **Treasury & Investments** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2022 KD 000's** | 2021 KD 000's | **2022 KD 000's** | 2021 KD 000's | **2022 KD 000's** | 2021 KD 000's |
| Operating income (loss) | **147,115** | 143,334 | **8,140** | 12,492 | **155,255** | 155,826 |
| Segment result | **84,091** | 66,744 | **6,086** | 10,708 | **90,177** | 77,452 |
| Unallocated income | | | | | **25,802** | 14,232 |
| Unallocated expense | | | | | **(54,175)** | (49,579) |
| **Profit for the year** | | | | | **61,804** | 42,105 |
| Segment assets | **5,236,887** | 4,950,610 | **1,510,204** | 1,509,633 | **6,747,091** | 6,460,243 |
| Unallocated assets | | | | | **104,389** | 95,667 |
| **Total Assets** | | | | | **6,851,480** | 6,555,910 |
| Segment liabilities | **3,196,890** | 3,399,102 | **2,757,554** | 2,345,760 | **5,954,444** | 5,744,862 |
| Unallocated liabilities and equity | | | | | **897,036** | 811,048 |
| **Total Liabilities and Equity** | | | | | **6,851,480** | 6,555,910 |

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

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2022 or 2021.

## 28. DERIVATIVES

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

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

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

| At 31 December 2022: | | | | 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 | 52 | (46) | 7,834 | 7,834 | - |

| At 31 December 2021: | | | | 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 | 7 | (4) | 6,851 | - | 6,851 |

### 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 Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of 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 Bank's capital management are to ensure that the Bank complies with regulatory capital requirements, maintains a strong and healthy capital ratio in order to support its operations and to maximize shareholders' value.

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Bank.

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

The Bank›s regulatory capital and capital adequacy ratios for the year ended 31 December 2022 and 31 December 2021 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Risk weighted assets | **5,216,454** | 4,827,656 |
| Capital required: 12.5% (2021: 11.5%) | **652,057** | 555,180 |
| Capital available | | |
| Tier 1 capital | **741,129** | 698,151 |
| Tier 2 capital | **114,002** | 108,912 |
| Total capital | **855,131** | 807,063 |
| Tier 1 capital adequacy ratio | **14.21%** | 14.46% |
| Total capital adequacy ratio | **16.39%** | 16.72% |

### Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2022 and 31 December 2021 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

| | **2022 KD 000's** | 2021 KD 000's |
|---|---|---|
| Tier 1 capital | **741,129** | 698,151 |
| Total Exposure | **7,659,867** | 7,351,764 |
| Financial leverage ratio | **9.68%** | 9.50% |

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/BS/ 342/2014 dated 21 October 2014 for the year ended 31 December 2022 and 31 December 2021 are included under the 'Risk Management' section of the annual report.

## 30. FIDUCIARY ASSETS

At 31 December 2022, the aggregate value of assets held or managed in fiduciary capacity by the Bank amounted to **KD 1,101,000 thousand** (2021: KD 907,700 thousand) and the income related to this activity amounted to **KD 637 thousand** (2021: KD 537 thousand) included in net fees and commissions (Note 6).

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