GULF BANK K.S.C.P.

FINANCIAL STATEMENTS

31 DECEMBER 2021

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

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 2021, 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 2021, 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 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") determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2 and Note 12 to the financial statements.

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

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

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

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

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

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

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

Report on the Audit of Financial Statements (continued)

Other information included in the Bank's 2021 Annual Report
Management is responsible for the other information. The other information comprises of the information included in the Bank's 2021 Annual Report, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

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

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

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

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

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

Report on the Audit of Financial Statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM AL SAMDAN	TALAL YOUSEF AL-MUZAINI
LICENCE NO. 208 A	LICENCE NO. 209A
EY	DELOITTE & TOUCHE - AL-WAZZAN & CO.
AL-AIBAN, AL-OSAIMI & PARTNER	

10 February 2022
Kuwait

GULF BANK K.S.C.P.
Income Statement
Year Ended 31 December 2021

	NOTES	**2021 KD 000's**	2020 KD 000's
Interest income	4	**185,994**	209,348
Interest expense	5	**(53,681)**	(84,581)
Net interest income		**132,313**	124,767
Net fees and commissions	6	**27,428**	24,136
Net gains from dealing in foreign currencies		**9,058**	7,443
Dividend income		**679**	572
Other income		**580**	1,350
Operating income		**170,058**	158,268
Staff expenses		**47,712**	36,873
Occupancy costs		**2,628**	2,765
Depreciation		**6,823**	7,618
Other expenses		**21,018**	16,670
Operating expenses		**78,181**	63,926
OPERATING PROFIT BEFORE PROVISIONS/ IMPAIRMENT LOSSES		**91,877**	94,342
Charge of provisions:			
- specific	7	**55,833**	64,476
- general	12,18	**3,603**	4,218
Loan recoveries, net of write-off	12	**(11,943)**	(5,512)
Net provision on other financial assets		**110**	(122)
Impairment loss on other assets	14	**-**	992
		47,603	64,052
OPERATING PROFIT		**44,274**	30,290
Directors' remuneration	22	**179**	135
Contribution to Kuwait Foundation for the Advancement of Sciences		**446**	302
National Labour Support Tax		**1,098**	752
Zakat		**446**	302
PROFIT FOR THE YEAR		**42,105**	28,799
EARNINGS PER SHARE			
Basic and diluted per share (Fils)	8	**14**	10

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

GULF BANK K.S.C.P.
Statement of Comprehensive Income
Year Ended 31 December 2021

	2021 KD 000's	2020 KD 000's
Profit for the year	**42,105**	28,799
Other comprehensive income		
Items that will not to be reclassified subsequently to the income statement:		
Net changes in fair value of investment securities-equity	**(807)**	(3,486)
Revaluation of premises and equipment	**25**	(256)
Other comprehensive loss for the year	**(782)**	(3,742)
Total comprehensive income for the year	**41,323**	25,057

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

GULF BANK K.S.C.P.
Statement of Financial Position
As at 31 December 2021

	NOTES	**2021 KD 000's**	2020 KD 000's
ASSETS			
Cash and cash equivalents	9	**942,495**	1,105,925
Kuwait Government treasury bonds	10	**74,000**	108,500
Central Bank of Kuwait bonds	11	**281,197**	280,724
Deposits with banks and other financial institutions	9	**124,642**	3,033
Loans and advances to banks	12	**278,451**	192,063
Loans and advances to customers	12	**4,558,086**	4,116,537
Investment securities	13	**141,941**	174,855
Other assets	14	**120,705**	97,018
Premises and equipment		**34,393**	34,053
TOTAL ASSETS		**6,555,910**	6,112,708
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**595,501**	550,543
Deposits from financial institutions	15	**673,169**	705,337
Customer deposits	16	**4,303,995**	4,033,719
Other borrowed funds	17	**215,000**	100,000
Other liabilities	18	**101,753**	85,745
TOTAL LIABILITIES		**5,889,418**	5,475,344
EQUITY			
Share capital	19	**304,813**	304,813
Proposed bonus shares	22	**15,241**	-
Statutory reserve	20	**46,562**	42,135
Share premium	20	**153,024**	153,024
Property revaluation reserve	20	**18,194**	18,169
Fair valuation reserve		**2,374**	3,686
Retained earnings		**144,441**	140,073
		684,649	661,900
Treasury shares	21	**(18,157)**	(24,536)
TOTAL EQUITY		**666,492**	637,364
TOTAL LIABILITIES AND EQUITY		**6,555,910**	6,112,708

Jassim Mustafa Boodai
(Chairman)

Antoine Daher
(Chief Executive Officer)

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

GULF BANK K.S.C.P.
Statement of Cash Flows
Year Ended 31 December 2021

	NOTES	2021 KD 000's	2020 KD 000's
OPERATING ACTIVITIES			
Profit for the year		**42,105**	28,799
Adjustments:			
Effective interest rate adjustment		**-**	(34)
Dividend income		**(679)**	(572)
Depreciation		**6,823**	7,618
Loan loss provisions	7,12,18	**59,436**	68,694
Net provision on other financial assets		**110**	(122)
Impairment loss on other assets		**-**	992
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**107,795**	105,375
Decrease/(increase) in operating assets:			
Kuwait Government treasury bonds		**34,500**	123,500
Central Bank of Kuwait bonds		**(473)**	(2,049)
Deposits with banks and other financial institutions		**(121,612)**	125,417
Loans and advances to banks		**(86,767)**	20,838
Loans and advances to customers		**(497,449)**	(1,164)
Other assets		**(21,274)**	13,495
Increase/(decrease) in operating liabilities:			
Due to banks		**44,958**	151,830
Deposits from financial institutions		**(32,168)**	(313,150)
Customer deposits		**270,276**	83,818
Other liabilities		**12,851**	(29,808)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		**(289,363)**	278,102
INVESTING ACTIVITIES			
Purchase of investment securities		**(22,498)**	(14,371)
Proceeds from sale/maturity of investment securities		**52,085**	8,808
Purchase of premises and equipment		**(7,138)**	(5,263)
Dividend income received		**679**	572
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**23,128**	(10,254)
FINANCING ACTIVITIES			
Net proceeds from other borrowed funds	17	**115,000**	-
Dividend paid	22	**(15,056)**	(31,947)
Proceeds from sale of treasury shares		**2,861**	22,143
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**102,805**	(9,804)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(163,430)**	258,044
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,105,925**	847,881
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**942,495**	1,105,925
Additional cash flows information			
Interest received		**184,319**	217,055
Interest paid		**55,739**	101,520

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

GULF BANK K.S.C.P.
Statement of Changes in Equity
Year Ended 31 December 2021

			RESERVES								
	Share capital KD 000's	Proposed bonus shares KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury shares reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's	Subtotal reserves KD 000's	Treasury shares KD 000's	Total KD 000's
At 1 January 2020	304,813	-	39,106	153,024	18,425	24,111	7,522	190,927	433,115	(73,605)	664,323
Profit for the year	-	-	-	-	-	-	-	28,799	28,799	-	28,799
Other comprehensive loss for the year	-	-	-	-	(256)	-	(3,486)	-	(3,742)	-	(3,742)
Total comprehensive (loss) income for the year	-	-	-	-	(256)	-	(3,486)	28,799	25,057	-	25,057
Dividend paid (Note 22)	-	-	-	-	-	-	-	(31,947)	(31,947)	-	(31,947)
Modification loss on consumer lending (Note 3)	-	-	-	-	-	-	-	(42,212)	(42,212)	-	(42,212)
Realised gain on equity securities at FVOCI	-	-	-	-	-	-	(350)	350	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	49,069	49,069
Loss on sale of treasury shares	-	-	-	-	-	(24,111)	-	(2,815)	(26,926)		(26,926)
Transfer to reserve	-	-	3,029	-	-	-	-	(3,029)	-	-	-
At 31 December 2020	304,813	-	42,135	153,024	18,169	-	3,686	140,073	357,087	(24,536)	637,364
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)	-	15,241	-	-	-	-	-	(15,241)	(15,241)	-	-
At 31 December 2021	**304,813**	**15,241**	**46,562**	**153,024**	**18,194**	**-**	**2,374**	**144,441**	**364,595**	**(18,157)**	**666,492**

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

1. INCORPORATION AND REGISTRATION

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

The financial statements for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 13 January 2022. 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 (Note 3).

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

Presentation of financial statements

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

2.2 Changes in accounting policies and disclosures

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

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

The amendments include the following practical expedients:

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

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (continued)
As of 31 December 2021, the Bank has not transitioned to an alternative interest rate benchmark for any of its position and will transition to risk-free benchmark reference rates ("RFRs") not later than June 2023. The Banks's exposure to financial assets as of 31 December 2021 that are based on USD LIBOR maturing after June 2023 is **KD 557,367 thousand**. The Bank's exposure to USD IBOR linked financial liabilities is relatively insignificant. The non-USD floating rate exposures amounts to only **KD 13,612 thousand**. 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. The Bank is in discussion to effect an orderly transition of these exposures to the relevant RFRs.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 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.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Recognition/de-recognition

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

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

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

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

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

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

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

Measurement of financial instruments

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

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

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

Financial assets carried at amortised cost

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

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Measurement of financial instruments (continued)

Financial assets carried at amortised cost (continued)
Cash and cash equivalents, Kuwait Government treasury bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, loans and advances 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'.

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 since these are determined to have low credit risk at the reporting date and these financial instrument represent investments in corporate and sovereign bonds that are of high credit quality grade.

Expected Credit Losses

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

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

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

Stage 1: 12 months ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Impairment on financial assets (continued)

Determining the significant increase in credit risk
When determining whether the risk of default has increased significantly since initial recognition, the 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.

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.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the 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.

Guarantee contracts and letters of credit

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

Modification of loans and advances to customers

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

Provisions for credit losses in accordance with CBK instructions

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

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

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Fair values measurement

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

Day 1 profit or loss

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

Repurchase and resale agreements

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

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

Offsetting

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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.

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

c. Repossessed collaterals

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

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

d. Provisions

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

e. End of service indemnity

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

f. Treasury shares

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

g. Premises and equipment

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

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

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

Buildings	5 to 10 years
Equipment	3 to 5 years

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

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.

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

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

l. Leases

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

Right-of-use assets

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

l. Leases (continued)

Lease Liabilities

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

m. Fiduciary assets

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

n. Foreign currencies

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

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

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

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

r. Government grants

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

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

s. Other borrowed funds

Other borrowed funds include Subordinated Tier 2 bonds and medium term borrowings. These are financial liabilities and 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.

2.4 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.

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. ACCOUNTING POLICIES (continued)

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 2022 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.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. 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. An entity 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 Bank does not expect any material impact on its financial statements.

3. IMPACT OF COVID-19

Covid-19 Pandemic 2020
The coronavirus (Covid-19) has brought about uncertainties in the global economic environment. The Covid-19 pandemic has resulted in authorities implementing numerous measures attempting to contain the spread and impact of Covid-19, such as travel bans and restrictions, quarantines, and limitations on business activities, including full and partial closures. Covid-19 could continue to negatively impact businesses, the Bank's counterparties and customers, and the Kuwait and/or global economy for a longer period of time.

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

The Bank implemented the 2021 scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows 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 in accordance with the Law. The Bank has recorded the Government Grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the statement of financial position (Note 14).

2020-Consumer and instalment loans deferral
In response to Kuwait Banking Association's Board Resolution, the Bank announced postponement of payment of consumer and instalment loans as well as payment due on credit cards for a period of six months effective from 1 April 2020, waiving also the interest and any other fees resulting from such postponement. The instalment deferrals are considered as short-term liquidity support to address individual borrower's potential cash-flow issues. The loan deferral scheme resulted in a modification day 1 loss of KD 42,212 thousand arising from the modification of contractual cash-flows, as on 1 April 2020. The modification loss is charged to retained earnings in accordance with the Bank's accounting policy as stated in Note 2.1.

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

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

3. IMPACT OF COVID-19 (continued)

2020-Government grant

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

During the year 2020, the Bank received Covid-19 financial support from the Public Authority for Manpower of the Government of Kuwait and recognized in the income statement as a deduction to 'staff expenses' on a systematic basis over the periods in which the Bank recognizes expenses for the related staff expenses.

Support measures on Covid-19

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

- 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

Business continuity

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

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

4. INTEREST INCOME

	2021 KD 000's	2020 KD 000's
Kuwait Government treasury bonds and CBK Bonds	**5,573**	9,425
Debt investment securities	**3,339**	4,692
Placements with banks	**2,333**	5,902
Loans and advances to banks and customers	**174,749**	189,329
	185,994	209,348

5. INTEREST EXPENSE

	2021 KD 000's	2020 KD 000's
Sight and savings accounts	**3,711**	3,483
Time deposits	**39,304**	65,293
Bank borrowings	**5,077**	9,208
Other borrowed funds	**5,589**	6,597
	53,681	84,581

6. NET FEES AND COMMISSIONS

	2021 KD 000's	2020 KD 000's
Total fees and commission income	**38,060**	31,715
Total fees and commission expense	**(10,632)**	(7,579)
	27,428	24,136

Total fees and commission income includes **KD 537 thousand** (2020: KD 366 thousand) from fiduciary activities.

7. SPECIFIC PROVISIONS

	2021 KD 000's	2020 KD 000's
Loans and advances to customers		
– Cash (Note 12)	**52,628**	62,360
– Non-cash (Note 18)	**3,205**	2,116
	55,833	64,476

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 2021.

	2021 KD 000's	2020 KD 000's
Profit for the year	**42,105**	28,799
	Shares	Shares
Weighted average number of shares outstanding during the year, net of treasury shares	**3,008,509,602**	2,927,815,660
	Fils	Fils
Basic and diluted earnings per share	**14**	10

9. CASH AND CASH EQUIVALENTS

	2021 KD 000's	2020 KD 000's
Balances with the Central Bank of Kuwait	**316,277**	303,156
Cash in hand and in current accounts with other banks and other financial institutions	**74,407**	220,517
Deposits with banks and other financial institutions maturing with in 30 days	**551,878**	582,301
	942,562	1,105,974
Less: Provision for ECL	**(67)**	(49)
	942,495	1,105,925

At 31 December 2021, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 124,645 thousand** (2020: KD 3,033 thousand) adjusted by ECL provision amount of **KD 3 thousand** (2020: KD Nil).

At 31 December 2021 and 2020, 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.

	2021 KD 000's	2020 KD 000's
Maturing within one year	**52,000**	34,500
Maturing after one year	**22,000**	74,000
	74,000	108,500

At 31 December 2021 and 2020, 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.

	2021 KD 000's	2020 KD 000's
Central Bank of Kuwait Bonds	**281,197**	280,724

At 31 December 2021 and 2020, 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 2021:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	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

	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
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

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

At 31 December 2020:

A. Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	1,855,043	-	-	-	7,143	1,862,186
Financial	112,607	27,949	-	-	-	140,556
Trade and commerce	399,810	3,033	17,231	-	-	420,074
Crude oil and gas	259,739	22,744	-	-	-	282,483
Construction	225,636	10,561	-	-	-	236,197
Manufacturing	270,195	1,213	-	-	-	271,408
Real estate	694,954	15,981	-	-	-	710,935
Others	212,949	247,284	-	-	-	460,233
Gross loans and advances to customers	4,030,933	328,765	17,231	-	7,143	4,384,072
Less: Provision for impairment						(267,535)
Loans and advances to customers						4,116,537
B. Loans and advances to banks						
Gross loans and advances to banks	30,729	141,971	-	-	20,520	193,220
Less: Provision for impairment						(1,157)
Loans and advances to banks						192,063

Movement in provision for impairment

	2021 KD 000's			2020 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**14,888**	**253,804**	**268,692**	33,292	249,030	282,322
Amounts written-off	**(43,193)**	**-**	**(43,193)**	(80,764)	-	(80,764)
Charge to income statement	**52,628**	**3,651**	**56,279**	62,360	4,774	67,134
At 31 December	**24,323**	**257,455**	**281,778**	14,888	253,804	268,692

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 654 thousand** (2020: KD 5,846 thousand) and recoveries of **KD 12,597 thousand** (2020: KD 11,358 thousand).

	2021 KD 000's			2020 KD 000's		
Movement in provisions for impairment of loans and advances by class is as follows:	**Corporate lending**	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**251,018**	**17,674**	**268,692**	259,905	22,417	282,322
Amounts written-off	**(27,927)**	**(15,266)**	**(43,193)**	(57,483)	(23,281)	(80,764)
Charge to income statement	**31,714**	**24,565**	**56,279**	48,596	18,538	67,134
At 31 December	**254,805**	**26,973**	**281,778**	251,018	17,674	268,692

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

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

Provision for non-cash facilities of **KD 18,563 thousand** (2020: KD 15,406 thousand) is included under other liabilities (Note 18).

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

	2021 KD 000's	2020 KD 000's
Provision on cash facilities	**281,778**	268,692
Provision on non-cash facilities	**18,563**	15,406
Total provisions on credit facilities	**300,341**	284,098
IFRS 9 ECL on credit facilities	**188,631**	171,978
Excess of total provisions over IFRS 9 ECL on credit facilities	**111,710**	112,120
Excess provisions as a percentage of total provisions	**37%**	39%

13. INVESTMENT SECURITIES

	2021 KD 000's			2020 KD 000's		
	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	**71,626**	**-**	**71,626**	81,620	-	81,620
Other bonds	**32,596**	**-**	**32,596**	34,147	-	34,147
Equity securities	**-**	**11,038**	**11,038**	-	12,104	12,104
	104,222	**11,038**	**115,260**	115,767	12,104	127,871
Unquoted investments						
Other bonds	**-**	**3,019**	**3,019**	20,807	201	21,008
Equity securities/others	**-**	**23,832**	**23,832**	-	26,057	26,057
	-	**26,851**	**26,851**	20,807	26,258	47,065
Less: Provision for ECL	**(166)**	**(4)**	**(170)**	(81)	-	(81)
At 31 December	**104,056**	**37,885**	**141,941**	136,493	38,362	174,855

At 31 December 2021 and 2020, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

14. OTHER ASSETS

	2021	2020
	KD 000's	KD 000's
Accrued interest receivable	**16,155**	14,480
Sundry debtors and others (Note 3)	**45,738**	22,920
Less: impairment loss on other receivables	**(620)**	(620)
Repossessed collaterals (refer movement below)	**59,432**	60,238
	120,705	97,018

Movement in repossessed collaterals:

	2021	2020
	KD 000's	KD 000's
At 1 January	**60,238**	72,826
Disposals	**(806)**	(12,216)
Impairment loss	**-**	(372)
At 31 December	**59,432**	60,238

Investment securities amounting to **KD Nil** (2020: KD 806 thousand) are fair valued using quoted market prices (Level 1). The fair values of the real estate properties are not materially different from their carrying values. The fair value was determined by approved valuers based on the market comparable approach (Level 3).

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2021	2020
	KD 000's	KD 000's
Due to banks		
Current accounts and demand deposits	**11,790**	39,207
Time deposits	**583,711**	511,336
	595,501	550,543
Deposits from financial institutions		
Current accounts and demand deposits	**100,966**	80,909
Time deposits	**572,203**	624,428
	673,169	705,337

16. CUSTOMER DEPOSITS

	2021	2020
	KD 000's	KD 000's
Current accounts	**1,404,148**	1,301,226
Savings accounts	**410,168**	390,823
Time deposits	**2,489,679**	2,341,670
	4,303,995	4,033,719

Customer deposits include **KD 12,756 thousand** (2020: KD 12,787 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

17. OTHER BORROWED FUNDS

	Effective interest rate	2021 KD 000's	2020 KD 000's
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	**4.00%**	**25,000**	-
Subordinated Tier 2 bonds- KWD 2031 (Floating tranche capped at 5%)	**CBK+2.25%**	**25,000**	-
Medium term borrowings-Floating	**2.50% to 2.70%**	**165,000**	-
Subordinated Tier 2 bonds- KWD 2026 (Fixed tranche)*	**6.00%**	**-**	50,000
Subordinated Tier 2 bonds- KWD 2026 (Floating tranche capped at 7%)*	**CBK+4.00%**	**-**	50,000
		215,000	100,000

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

18. OTHER LIABILITIES

	2021 KD 000's	2020 KD 000's
Accrued interest payable	**11,899**	13,957
Deferred income	**3,855**	4,118
Provisions for non-cash facilities (refer movement below)	**18,563**	15,406
Staff related provisions	**26,607**	22,969
Lease liabilities	**2,830**	4,170
Others	**37,999**	25,125
	101,753	85,745

Movement in provisions for non-cash facilities:

	2021 KD 000's	2020 KD 000's
At 1 January	**15,406**	13,846
Charge to the income statement	**3,157**	1,560
At 31 December	**18,563**	15,406

19. SHARE CAPITAL

	2021 KD 000's	2020 KD 000's
Authorised, issued and fully paid shares	**304,813**	304,813

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2021 is 3,048,127,898 (2020: 3,048,127,898).

20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2021	2020
Number of treasury shares	**37,000,000**	50,000,000
Percentage of treasury shares	**1.21%**	1.64%
Cost of treasury shares (KD 000's)	**18,157**	24,536
Weighted average market value of treasury shares as at 31 December (KD 000's)	**8,695**	11,450

Movement in treasury shares was as follows:

	No. of shares	
	2021	2020
Balance as at 1 January	**50,000,000**	149,994,610
Sales	**(13,000,000)**	(99,994,610)
Balance as at 31 December	**37,000,000**	50,000,000

An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium and retained earnings through out the holding period of treasury shares.

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **7 fils** per share (2020: 5 fils per share) and bonus shares of **5%** amounting to **KD 15,241 thousand** (2020: Nil) on the outstanding issued share capital as at 31 December 2021 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 27 March 2021 approved a cash dividend of 5 fils per share for the year ended 31 December 2020 (11 fils per share for the year ended 31 December 2019). The cash dividend was recorded and paid subsequently.

Directors' remuneration of **KD 179 thousand** (2020: KD 135 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

23. RELATED PARTY TRANSACTIONS

Certain related parties (major shareholders, Board members and 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*			
	2021	2020	**2021**	2020	**2021**	2020
Board members:					**KD 000's**	KD 000's
Balances						
Loans and advances	**1**	1	**10**	12	**163,558**	152,896
Credit cards	**2**	2	**4**	4	**34**	19
Deposits	**8**	7	**73**	72	**72,124**	30,774
Commitments/derivatives						
Guarantees /letters of credit	-	-	**10**	9	**7,898**	7,454
Transactions						
Interest income	**1**	2	**15**	22	**4,147**	5,783
Interest expense	**4**	5	**13**	20	**374**	412
Net fees and commissions	-	-	**12**	11	**100**	51
Other expenses	-	-	**13**	12	**1,257**	1,654
Purchase of equipment	-	-	**3**	3	**162**	231
Executive management:						
Balances						
Loans and advances	**4**	3	-	-	**207**	83
Credit cards	**14**	10	-	-	**20**	19
Deposits	**15**	14	-	-	**2,631**	1,695
Transactions						
Interest income	**5**	3	-	-	**9**	3
Interest expense	**16**	16	-	-	**22**	21

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **2% to 5.5%** (2020: 2% to 6%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 31 December 2021 was **KD 109,687 thousand** (2020: KD 106,708 thousand).

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

	2021	2020
	KD 000's	KD 000's
Salaries and other short-term benefits	**3,655**	2,708
End of service/termination benefits	**312**	636
	3,967	3,344

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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Independent Credit Departments covering wholesale and consumer risk, reporting to CRO, is responsible for providing centralised management of credit risk. The responsibilities of the teams include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to customers, groups and other risk concentrations; undertaking independent and objective credit reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the 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 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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

The 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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

ECL methodology (continued)

Significant increase in credit risk

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

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

Covid-19 updates: The Bank takes into account their historic experience of losses updated to reflect current conditions as well as forecasts of future economic conditions to assess if there is significant increase in credit risk or objective evidence of impairment in the light of Covid-19 situation. Key areas that the Bank has given focus for ECL computation for the year ended 31 December 2021 to reflect the increased level of risk are as under:

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

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

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.

Staging review

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

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

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

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Probability of default

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

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

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

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

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

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

Loss given default

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

Covid-19 updates: The Bank has undertaken the exercise of updating the PD and LGD models used for ECL calculation with historical experience to derive links between changes in economic conditions and customer behaviour. The Bank has applied the latest macroeconomic overlays to reflect the present economic conditions in the PD and LGD model. The Bank has also applied management overlay in assessing the ECL for the retail segment given that employees of specific industries in the private sector are expected to be most impacted due to Covid-19. These adjustments and management overlays are reflected in the ECL requirements for the year ended 31 December 2021.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Exposure at default

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

Incorporation of forward looking information

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

Covid-19 updates: As the IFRS 9 impairment model is forward-looking, the Bank is required to consider a range of possible future economic scenarios and their probability to calculate ECL. During the year 2020 and 2021, the economies were impacted due to shutdowns and with uncertainties creeping into economic activities, the Bank faced challenges to quantify the impact with the existing forward-looking models in place. Therefore, based on expert credit judgement, adjustments to models as appropriate were carried out.

Collateral and other credit enhancements

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

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

As of 31 December 2021, **27%** (2020: 26%) 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 2021 KD 000's**	Maximum exposure 2020 KD 000's
Cash and cash equivalents (excluding cash in hand)	**883,438**	1,054,570
Kuwait Government treasury bonds	**74,000**	108,500
Central Bank of Kuwait bonds	**281,197**	280,724
Deposits with banks and other financial institutions	**124,642**	3,033
Loans and advances to banks	**278,451**	192,063
Loans and advances to customers:		
- Corporate lending	**2,694,332**	2,449,947
- Consumer lending	**1,863,754**	1,666,590
Debt investment securities (Note 13)	**107,071**	136,694
Other assets	**61,273**	36,780
Total	**6,368,158**	5,928,901
Contingent liabilities and commitments	**2,404,830**	2,361,808
Foreign exchange contracts (including spot contracts)	**35,050**	8,017
Total	**2,439,880**	2,369,825
Total credit risk exposure	**8,808,038**	8,298,726

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 2021 is **12.4%** (2020: 12.2%).

	2021		2020	
	Assets KD 000's	***Off balance sheet items KD 000's***	*Assets KD 000's*	*Off balance sheet items KD 000's*
Geographic region:				
Domestic (Kuwait)	**4,983,925**	**1,922,166**	4,692,855	1,958,911
Other Middle East	**1,161,217**	**202,455**	785,261	78,627
Europe	**131,637**	**105,329**	378,116	99,087
USA and Canada	**49,942**	**24,288**	26,723	24,501
Asia Pacific	**24,345**	**185,642**	18,309	208,699
Rest of world	**17,092**	-	27,637	-
	6,368,158	**2,439,880**	5,928,901	2,369,825

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

	2021		2020	
	Assets *KD 000's*	*Off balance sheet items* *KD 000's*	*Assets* *KD 000's*	*Off balance sheet items* *KD 000's*
Industry sector:				
Personal	**2,042,570**	**46,362**	1,843,041	5,179
Financial	**1,194,003**	**494,106**	1,140,810	501,593
Trade and Commerce	**446,317**	**622,861**	414,557	574,196
Crude Oil and Gas	**125,762**	**97,450**	103,365	92,411
Construction	**187,089**	**621,214**	228,849	586,051
Government	**1,162,555**	**67,858**	1,030,747	122,682
Manufacturing	**311,845**	**116,887**	265,089	134,668
Real Estate	**746,350**	**135,802**	703,384	86,448
Others	**151,667**	**237,340**	199,059	266,597
	6,368,158	**2,439,880**	5,928,901	2,369,825

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.

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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Internal credit quality rating (continued)
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.

2021

	Neither past due nor impaired			Past due but	
	High	Standard	Acceptable	not impaired	Total
	KD 000's	KD 000's	KD 000's	KD 000's	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)	107,241	-	-	-	107,241
Other assets	61,273	-	-	-	61,273
	5,558,283	828,204	78,906	136,970	6,602,363

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

2020

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

91% (2020: 70%) of the past due but not impaired category is below 60 days and **9%** (2020: 30%) is between 60-90 days.

Financial assets by class individually impaired

2021	***Gross exposure***	***Impairment provision***	***Fair value of collateral***
	KD 000's	**KD 000's**	**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**

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

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.

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

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 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 2020:	*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	3,678,518	51,742	-	3,730,260
- Standard	476,707	180,140	-	656,847
- Acceptable	-	30,341	-	30,341
- Past due but not impaired	91,439	15,854	-	107,293
- Impaired	-	-	52,551	52,551
	4,246,664	278,077	52,551	4,577,292

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**

At 31 December 2020:	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Contingent liabilities and commitments				
- High	2,022,812	11,034	-	2,033,846
- Standard	198,411	80,615	-	279,026
- Acceptable	-	30,547	-	30,547
- Impaired	-	-	18,389	18,389
	2,221,223	122,196	18,389	2,361,808

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 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**

At 31 December 2020:	*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 2020	33,692	107,625	48,625	189,942
Impact due to transfer between stages:				
- Transfer to Stage 1	6,108	(1,243)	(4,865)	-
- Transfer to Stage 2	(1,294)	3,719	(2,425)	-
- Transfer to Stage 3	(81)	(36,546)	36,627	-
ECL charge for the year	2,547	1,641	58,612	62,800
ECL release on written off facilities	-	-	(80,764)	(80,764)
ECL balance as at 31 December 2020	40,972	75,196	55,810	171,978

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Given the uncertainties involved and the economic impact of the ongoing pandemic, the Bank on a conservate basis used higher weight for the downside case for the key macroeconomic variables used to estimate the ECL. The weighting is reflected in the measurement of the ECL. Therefore, the Bank is sufficiently covered for any sensitivity analysis if the Bank uses only downward case scenario. Further, the Bank carries an excess of 37% total provisions over ECL on credit facilities (Note 12) for any increase in ECL resulting due to sensitivity.

24. FINANCIAL INSTRUMENTS (continued)

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:

	2021			2020		
Currency	**Change in interest rate in basis points**	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in interest rate in basis points	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
KWD	(+) 25	**2,154**	**(2)**	(+) 25	2,180	-
USD	(+) 25	**797**	-	(+) 25	699	-

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:

	2021			2020		
Currency	**Change in currency rate in %**	**Impact on income statement KD 000's**	**Impact on statement of comprehensive income KD 000's**	Change in currency rate in %	Impact on income statement KD 000's	Impact on statement of comprehensive income KD 000's
USD	+5	**(171)**	**107**	+5	(178)	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 untill 31 December 2021, namely: minimum LCR of 80% (2020: 80%); minimum NSFR of 80% (2020: 80%); maturity ladder mismatch limits for specific time periods: -20% for 7 days or less (2020: -20%); -30% for 1 month or less (2020: -30%); -40% for 3 months or less (2020: -40%); -50% for 6 months or less (2020: -50%); the requirement to hold 15% (2020: 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 100% (2020: 100%).

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

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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

At 31 December 2021:

Assets:	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and cash equivalents	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

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2020:

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

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 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	**2,491,250**	**782,452**	**1,009,715**	**42,478**	**-**	**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	**2,841,547**	**1,181,536**	**1,607,652**	**307,885**	**-**	**5,938,620**

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2020:

Financial liabilities:	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	66,773	5,003	432,713	51,571	-	556,060
Deposits from financial institutions	85,458	202,602	354,670	67,439	-	710,169
Customer deposits	1,742,541	251,169	1,824,113	235,288	-	4,053,111
Other borrowed funds	-	1,479	4,521	102,482	-	108,482
Other liabilities	23,365	23,466	16,833	22,081	-	85,745
Total undiscounted liabilities	1,918,137	483,719	2,632,850	478,861	-	5,513,567

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 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**

	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 2020:						
Contingent liabilities	23,323	13,948	212,903	528,585	601,020	1,379,779
Commitments	6,238	4,131	65,901	298,995	606,764	982,029
	29,561	18,079	278,804	827,580	1,207,784	2,361,808

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 2021:				
Forward foreign exchange	-	-	**6,851**	**6,851**
At 31 December 2020:				
Forward foreign exchange	383	2,874	1,978	5,235

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 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 Risk Management function is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

This is a risk that the value of equity investments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

A portion of the Bank's investments are held in well diversified portfolio of managed funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

The effect on equity (as a result of change in the fair value of equity instruments held as FVOCI) at the yearend due to an assumed 5% change in the market indices (assuming that listed equity investment securities are changing in line with their equity markets), with all other variables held constant, is as follows:

		2021	*2020*
Market indices	*% Change in equity price*	***Impact on statement of comprehensive income KD 000's***	*Impact on statement of comprehensive income KD 000's*
Kuwait Stock Exchange	+5%	**552**	605

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interest bearing financial assets are at floating rates. In addition, majority of the interest bearing financial liabilities where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

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 2021:	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Financial assets at FVOCI:				
Equity securities	**11,038**	**686**	**23,146**	**34,870**
Debt securities	**-**	**3,015**	**-**	**3,015**
	11,038	**3,701**	**23,146**	**37,885**

At 31 December 2020:	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Financial assets at FVOCI:				
Equity securities	12,104	642	25,415	38,161
Debt securities	-	201	-	201
	12,104	843	25,415	38,362

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**
2021	**25,415**	**(1,627)**	**(632)**	**(10)**	**23,146**
2020	17,128	(648)	8,919	16	25,415

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 2021 were **KD 104,056 thousand** (2020: KD 136,493 thousand) and **KD 105,235 thousand** (Level 1) (2020: KD 118,551 thousand) and **KD Nil** (Level 2) (2020: KD 20,800 thousand) respectively.

The fair values of other financial assets and liabilities which are carried at amortised cost are estimated using the valuation models that incorporate a range of input assumptions. These assumptions may include estimates using credit spreads, forward looking discounted cash flow models using the assumptions which the management believes are consistent with those which would be used by market participants in valuing such financial assets and liabilities. The Bank has also performed a sensitivity analysis by varying these assumptions to a reasonable margin and there is no material impact.

The fair values of these financial assets and liabilities are not materially different from their carrying values at the reporting date. The interest rates on these financial assets and liabilities are repriced immediately based on market movements. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

	2021 KD 000's	2020 KD 000's
Guarantees	**1,177,918**	1,135,900
Letters of credit and acceptances	**285,744**	243,879
Undrawn irrevocable commitments	**17,542**	23,947
Undrawn revocable commitments	**923,626**	958,082
	2,404,830	2,361,808

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.

Segmental information for the year ended 31 December is as follows:

	Commercial Banking		**Treasury & Investments**		**Total**	
	2021 KD 000's	2020 KD 000's	**2021 KD 000's**	2020 KD 000's	**2021 KD 000's**	2020 KD 000's
Operating income (loss)	**143,334**	137,109	**12,492**	(239)	**155,826**	136,870
Segment result	**66,744**	52,015	**10,708**	(1,646)	**77,452**	50,369
Unallocated income					**14,232**	21,398
Unallocated expense					**(49,579)**	(42,968)
Profit for the year					**42,105**	28,799
Segment assets	**4,950,610**	4,399,677	**1,509,633**	1,642,198	**6,460,243**	6,041,875
Unallocated assets					**95,667**	70,833
Total Assets					**6,555,910**	6,112,708
Segment liabilities	**3,399,102**	3,133,593	**2,345,760**	2,207,827	**5,744,862**	5,341,420
Unallocated liabilities and equity					**811,048**	771,288
Total Liabilities and Equity					**6,555,910**	6,112,708

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 2021 or 2020.

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 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

At 31 December 2020:

				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	25	(28)	5,235	3,257	1,978

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 2021 and 31 December 2020 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2021 **KD 000's**	2020 KD 000's
Risk weighted assets	**4,827,656**	4,576,070
Capital required: 11.5% (2020: 11.5%) (Note 3)	**555,180**	526,248
Capital available		
Tier 1 capital	**698,151**	679,576
Tier 2 capital	**108,912**	155,537
Total capital	**807,063**	835,113
Tier 1 capital adequacy ratio	**14.46%**	14.85%
Total capital adequacy ratio	**16.72%**	18.25%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2021 and 31 December 2020 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2021 **KD 000's**	2020 KD 000's
Tier 1 capital	**698,151**	679,576
Total Exposure	**7,351,764**	6,848,774
Financial leverage ratio	**9.50%**	9.92%

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 2021 and 31 December 2020 are included under the 'Risk Management' section of the annual report.