

GULF BANK K.S.C.P.
FINANCIAL STATEMENTS
31 DECEMBER 2022



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

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

Deloitte.

**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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 2022, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances

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

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

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

Report on the Audit of Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on loans and advances (continued)

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

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

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

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

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

Other information included in the Bank's 2022 Annual Report

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

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

**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 2022 Annual Report (continued)

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

**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)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

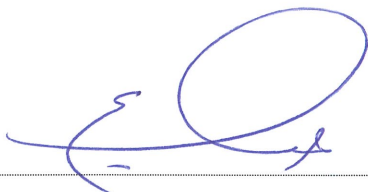
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014, and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, 2/BS/342/2014 dated 21 October 2014 and its amendments respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

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

Report on Other Legal and Regulatory Requirements (continued)

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.



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



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

2 February 2023
Kuwait

GULF BANK K.S.C.P.**Income Statement**

Year Ended 31 December 2022

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

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

GULF BANK K.S.C.P.
Statement of Comprehensive Income
Year Ended 31 December 2022

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

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

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

As at 31 December 2022

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



Jassim Mustafa Boodai
(Chairman)



Antoine Daher
(Chief Executive Officer)

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



GULF BANK K.S.C.P.**Statement of Cash Flows**

Year Ended 31 December 2022

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

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

GULF BANK K.S.C.P.

Statement of Changes in Equity

Year Ended 31 December 2022

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

1. INCORPORATION AND REGISTRATION

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

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

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

Statement of compliance

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

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

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

Presentation of financial statements

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

2.2 Changes in accounting policies and disclosures

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

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

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

2.3 Summary of significant accounting policies

a. Financial instruments

Classification of financial instruments

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

Business model assessment

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

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

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

SPPI Test

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

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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'.

Financial liabilities carried at amortised cost

Due to banks, deposits from financial institutions, customer deposits, Subordinated Tier 2 bonds and medium term borrowings are classified as financial liabilities. These financial liabilities are initially 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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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 categories:

Impairment on credit facilities

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

Impairment on other financial assets (other than credit facilities)

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

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

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

Expected Credit Losses

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

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

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

Stage 1: 12 months ECL

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

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements

31 December 2022

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.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

a. Financial instruments (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the 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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

h. Impairment of non-financial assets

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

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

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

i. Revenue recognition

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

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

j. Interest income and expenses

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest rate method. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses. Once a financial asset categorised as loans and advances is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

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

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

l. Leases

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

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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

n. Foreign currencies

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

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

o. Cash and cash equivalents

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

p. Segment reporting

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

q. Financial guarantees

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

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

r. Government grants

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

2. ACCOUNTING POLICIES (continued)

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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 2023 have not been early adopted in the preparation of the Bank's financial statements. The Bank intends to adopt those standards, if applicable, when they become effective. None of these are expected to have a significant impact on the financial statements of the Bank.

3. IMPACT OF COVID-19

During the year 2020 and 2021, the CBK took series of measures in its efforts to support the local economy and the banking sector in Kuwait by impacting various measures to enhance the ability of banks to play a vital role in the economy, expanding their lending space, strengthening their financing capabilities, encouraging them to lend to productive economic sectors and providing liquidity to the impacted customers. Below are the measures valid up to 31 December 2022:

- Decrease the Liquidity Coverage Ratio from 100% to 80%; effective from 1 January 2022: 90%
- Decrease the Net Stable Financing Ratio from 100% to 80%; effective from 1 January 2022: 90%
- Decrease the regulatory Liquidity Ratio from 18% to 15%; effective from 1 January 2022: 16.5%
- Increase the maximum limits of the negative cumulative gap for liquidity across various time bands
Increase the maximum limits available for finance from 90% to 100% of deposits; effective from 1 January 2022:
- 95%
- Release the Capital Conservation Buffer of 2.5% of risk-weighted assets in the form of CET1; effective from 1 January 2022: 1.5%
- Decrease the risk weights for lending to SMEs from 75% to 25% for the purposes of Capital Adequacy

Above measures are further disclosed in the respective notes to the annual financial statements. Effective from 1 January 2023 all regulatory ratios are restored back to pre-covid period.

During 2021, the CBK issued a circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 regarding the deferral of the financial obligations for a six-month period with cancellation of interest resulting from this deferral. The Bank implemented the scheme by postponing the instalments for a six-month period from the eligible customer request date with the corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Bank arising from the modification of contractual cash-flows amount of KD 26,084 thousand in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from Government of Kuwait as Government Grant and is included in other assets in the statement of financial position in accordance with the Law (Note 14).

4. INTEREST INCOME

	2022 KD 000's	2021 KD 000's
Kuwait Government treasury bonds and CBK Bonds	7,364	5,573
Debt investment securities	2,251	3,339
Placements with banks	14,736	2,333
Loans and advances to banks and customers	220,112	174,749
	<u>244,463</u>	<u>185,994</u>

5. INTEREST EXPENSE

	2022 KD 000's	2021 KD 000's
Sight and savings accounts	3,985	3,711
Time deposits	77,677	39,304
Bank borrowings	10,115	5,077
Other borrowed funds	10,495	5,589
	<u>102,272</u>	<u>53,681</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
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6. NET FEES AND COMMISSIONS

	2022 KD 000's	2021 KD 000's
Total fees and commission income	39,289	38,060
Total fees and commission expense	(12,791)	(10,632)
	<u>26,498</u>	<u>27,428</u>

Total fees and commission income includes **KD 637 thousand** (2021: KD 537 thousand) from fiduciary activities.

7. SPECIFIC PROVISIONS

	2022 KD 000's	2021 KD 000's
Loans and advances to customers		
– Cash (Note 12)	32,305	52,628
– Non-cash (Note 18)	632	3,205
	<u>32,937</u>	<u>55,833</u>

8. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

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

Diluted EPS amounts are calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. The Bank does not have outstanding dilutive potential shares as at 31 December 2022.

	2022 KD 000's	2021 KD 000's
Profit for the year	<u>61,804</u>	<u>42,105</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the year, net of treasury shares	3,177,363,203	3,159,065,997
	<u>Fils</u>	<u>Fils</u>
Basic and diluted earnings per share	<u>19</u>	<u>13</u>

Earnings per share calculations for the year ended 31 December 2021 have been adjusted to account for the bonus shares issued on 14 April 2022 (Note 22). Earnings per share for the year ended 31 December 2021 was 14 fils per share before retroactive adjustment to the number of shares following the bonus issue.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

9. CASH AND CASH EQUIVALENTS

	2022 KD 000's	2021 KD 000's
Balances with the Central Bank of Kuwait	378,319	316,277
Cash in hand and in current accounts with other banks and other financial institutions	88,108	74,407
Deposits with banks and other financial institutions maturing within 30 days	463,466	551,878
	<u>929,893</u>	<u>942,562</u>
Less: Provision for ECL	(5)	(67)
	<u>929,888</u>	<u>942,495</u>

At 31 December 2022, deposits with banks and other financial institutions maturing more than 30 days amounted to **KD 131,259 thousand** (2021: KD 124,645 thousand) adjusted by ECL provision amount of **KD 37 thousand** (2021: KD 3 thousand).

At 31 December 2022 and 2021, cash and equivalents and deposits with banks and other financial institutions are classified as Stage 1. During the year, there were no movement between stages.

10. KUWAIT GOVERNMENT TREASURY BONDS

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

	2022 KD 000's	2021 KD 000's
Maturing within one year	5,500	52,000
Maturing after one year	16,500	22,000
	<u>22,000</u>	<u>74,000</u>

At 31 December 2022 and 2021, Kuwait Government treasury bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

11. CENTRAL BANK OF KUWAIT BONDS

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

	2022 KD 000's	2021 KD 000's
Central Bank of Kuwait Bonds	337,703	281,197

At 31 December 2022 and 2021, Central Bank of Kuwait bonds are considered low risk and classified as Stage 1. During the year, there were no movement between stages.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

12. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

At 31 December 2022:

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	2,259,720	-	-	-	1,812	2,261,532
Financial	113,594	75,645	-	-	30,630	219,869
Trade and commerce	392,568	12,252	15,089	-	-	419,909
Crude oil and gas	296,532	65,855	-	-	-	362,387
Construction	148,706	10,129	-	-	-	158,835
Manufacturing	266,524	11,351	-	-	-	277,875
Real estate	971,021	39,195	-	-	-	1,010,216
Others	207,215	239,907	-	-	-	447,122
Gross loans and advances to customers	<u>4,655,880</u>	<u>454,334</u>	<u>15,089</u>	<u>-</u>	<u>32,442</u>	<u>5,157,745</u>
Less: Provision for impairment						<u>(291,851)</u>
<i>Loans and advances to customers</i>						<u><u>4,865,894</u></u>

B. Loans and advances to banks

Gross loans and advances to banks	<u>57,891</u>	<u>184,112</u>	<u>9,189</u>	<u>4,595</u>	<u>9,189</u>	<u>264,976</u>
Less: Provision for impairment						<u>(2,190)</u>
<i>Loans and advances to banks</i>						<u><u>262,786</u></u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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

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)
<i>Loans and advances to customers</i>						<u>4,558,086</u>
B. Loans and advances to banks						
Gross loans and advances to banks	60,606	190,575	9,075	4,606	15,125	279,987
Less: Provision for impairment						(1,536)
<i>Loans and advances to banks</i>						<u>278,451</u>

Movement in provision for impairment

	2022 KD 000's			2021 KD 000's		
	Specific	General	Total	Specific	General	Total
At 1 January	24,323	257,455	281,778	14,888	253,804	268,692
Amounts written-off	(24,793)	-	(24,793)	(43,193)	-	(43,193)
Charge to income statement	32,305	4,751	37,056	52,628	3,651	56,279
At 31 December	31,835	262,206	294,041	24,323	257,455	281,778

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

Loan recoveries, net of write-off represent the net difference between loans written off during the year of **KD 13,472 thousand** (2021: KD 654 thousand) and recoveries of **KD 21,480 thousand** (2021: KD 12,597 thousand).

	2022 KD 000's			2021 KD 000's		
	Corporate lending	Consumer lending	Total	Corporate lending	Consumer lending	Total
Movement in provisions for impairment of loans and advances by class is as follows:						
At 1 January	254,805	26,973	281,778	251,018	17,674	268,692
Amounts written-off	-	(24,793)	(24,793)	(27,927)	(15,266)	(43,193)
Charge to income statement	6,705	30,351	37,056	31,714	24,565	56,279
At 31 December	261,510	32,531	294,041	254,805	26,973	281,778

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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 19,380 thousand** (2021: KD 18,563 thousand) is included under other liabilities (Note 18).

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

	2022 KD 000's	2021 KD 000's
Provision on cash facilities	294,041	281,778
Provision on non-cash facilities	19,380	18,563
Total provisions on credit facilities	313,421	300,341
IFRS 9 ECL on credit facilities	189,748	188,631
Excess of total provisions over IFRS 9 ECL on credit facilities	123,673	111,710
Excess provisions as a percentage of total provisions	39%	37%

13. INVESTMENT SECURITIES

	2022 KD 000's			2021 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
<i>Quoted investments</i>						
Sovereign bonds/sukuk	85,547	-	85,547	71,626	-	71,626
Other bonds	10,005	-	10,005	32,596	-	32,596
Equity securities	-	10,268	10,268	-	11,038	11,038
	95,552	10,268	105,820	104,222	11,038	115,260
<i>Unquoted investments</i>						
Other bonds	-	203	203	-	3,019	3,019
Equity securities/others	-	23,068	23,068	-	23,832	23,832
	-	23,271	23,271	-	26,851	26,851
Less: Provision for ECL	(156)	-	(156)	(166)	(4)	(170)
At 31 December	95,396	33,539	128,935	104,056	37,885	141,941

At 31 December 2022 and 2021, all the debt investment securities are classified as Stage 1. During the year, there were no movement between stages.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

14. OTHER ASSETS

	2022 KD 000's	2021 KD 000's
Accrued interest receivable	25,989	16,155
Sundry debtors and others	14,406	19,654
Less: impairment loss on other receivables	(751)	(620)
Government Grant receivable (Note 3)	26,084	26,084
Reposessed collaterals (refer movement below)	68,664	59,432
	<u>134,392</u>	<u>120,705</u>

Movement in reposessed collaterals:

	2022 KD 000's	2021 KD 000's
At 1 January	59,432	60,238
Additions	9,232	-
Disposals	-	(806)
At 31 December	<u>68,664</u>	<u>59,432</u>

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

15. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2022 KD 000's	2021 KD 000's
Due to banks		
Current accounts and demand deposits	10,991	11,790
Time deposits	478,660	583,711
	<u>489,651</u>	<u>595,501</u>
Deposits from financial institutions		
Current accounts and demand deposits	86,752	100,966
Time deposits	687,859	572,203
	<u>774,611</u>	<u>673,169</u>

16. CUSTOMER DEPOSITS

	2022 KD 000's	2021 KD 000's
Current accounts	1,298,371	1,404,148
Savings accounts	380,079	410,168
Time deposits	2,568,387	2,489,679
	<u>4,246,837</u>	<u>4,303,995</u>

Customer deposits include **KD 13,589 thousand** (2021: KD 12,756 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees (refer to Note 26).

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

17. OTHER BORROWED FUNDS

	Effective interest rate	2022 KD 000's	2021 KD 000's
Subordinated Tier 2 bonds- KWD 2031 (Fixed tranche)	4.00%	25,000	25,000
Subordinated Tier 2 bonds- KWD 2031 (Floating tranche capped at 5%)	CBK+2.25%	25,000	25,000
Medium term borrowings-Floating- (2024-2026)	4.00% to 5.70%	443,926	165,000
		<u>493,926</u>	<u>215,000</u>

18. OTHER LIABILITIES

	2022 KD 000's	2021 KD 000's
Accrued interest payable	32,060	11,899
Deferred income	4,115	3,855
Provisions for non-cash facilities (refer movement below)	19,380	18,563
Staff related provisions	30,364	26,607
Lease liabilities	4,182	2,830
Others	36,331	37,999
	<u>126,432</u>	<u>101,753</u>

Movement in provisions for non-cash facilities:

	2022 KD 000's	2021 KD 000's
At 1 January	18,563	15,406
Charge to the income statement	817	3,157
	<u>19,380</u>	<u>18,563</u>

19. SHARE CAPITAL

	2022 KD 000's	2021 KD 000's
Authorised, issued and fully paid shares	320,053	304,813

The number of authorised, issued and fully paid shares of KD 100 fils each as at 31 December 2022 is 3,200,534,293 shares (2021: 3,048,127,898 shares).

GULF BANK K.S.C.P.
Notes to the Financial Statements
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20. RESERVES

a) Statutory reserve

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

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

b) Share premium

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

c) Property revaluation reserve

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

21. TREASURY SHARES AND TREASURY SHARES RESERVE

	2022	2021
Number of treasury shares	-	37,000,000
Percentage of treasury shares	0.00%	1.21%
Cost of treasury shares (KD 000's)	-	18,157
Weighted average market value of treasury shares as at 31 December (KD 000's)	-	8,695

Movement in treasury shares was as follows:

	<i>No. of shares</i>	
	2022	2021
Balance as at 1 January	37,000,000	50,000,000
Bonus shares	1,850,000	-
Sales	(38,850,000)	(13,000,000)
Balance as at 31 December	-	37,000,000

22. PROPOSED DIVIDEND AND DIRECTORS' REMUNERATION

The Board of Directors have recommended distribution of a cash dividend of **10 fils** per share (2021: 7 fils per share) and bonus shares of **5%** amounting to **KD 16,003 thousand** (2021: KD 15,240 thousand) on the outstanding issued share capital as at 31 December 2022 which is subject to approval of shareholders at the Annual General Meeting. The cash dividend and proposed bonus shares, if approved by Annual General Meeting, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

During the year, the shareholders at the Annual General Meeting held on 22 March 2022 approved a cash dividend of 7 fils per share (2020: 5 fils per share) and bonus shares of 5% amounting to KD 15,240 thousand (2020: KD Nil) for the year ended 31 December 2021. The cash dividend was recorded and paid subsequently. The bonus shares was distributed on 14 April 2022.

Directors' remuneration of **KD 188 thousand** (2021: KD 179 thousand) is in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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:

	<i>Number of Board Members or executive management</i>		<i>Number of related parties</i>		2022	2021
	2022	2021	2022	2021	KD 000's	KD 000's
Board members:						
Balances						
Loans and advances	1	1	10	10	166,370	163,558
Credit cards	3	2	5	4	18	34
Deposits	8	8	77	73	42,389	72,124
Commitments/derivatives						
Guarantees /letters of credit	-	-	13	10	32,742	7,898
Transactions						
Interest income	1	1	18	15	5,582	4,147
Interest expense	4	4	16	13	564	374
Net fees and commissions	-	-	17	12	138	100
Other expenses	-	-	12	13	1,764	1,257
Purchase of equipment	-	-	2	3	276	162
Executive management:						
Balances						
Loans and advances	7	4	-	-	1,158	207
Credit cards	11	14	-	-	22	20
Deposits	17	15	-	-	4,229	2,631
Transactions						
Interest income	7	5	-	-	41	9
Interest expense	18	16	-	-	74	22

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of **4.5% to 6.25%** (2021: 2% to 5.5%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 31 December 2022 was **KD 66,821 thousand** (2021: KD 109,687 thousand).

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

	2022	2021
	KD 000's	KD 000's
Salaries and other short-term benefits	4,845	3,655
End of service/termination benefits	401	312
	5,246	3,967

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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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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.

GULF BANK K.S.C.P.
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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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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.

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. During the year 2020 and 2021 following the Covid crisis, the Bank had performed a qualitative review of the portfolio to reflect the increased credit risk on clients engaged in severely impacted sectors and stage transitioned those identified with increase in risk.

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

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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.

Collateral and other credit enhancements

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

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

As of 31 December 2022, **28%** (2021: 27%) of the total outstanding loans and advances to customers were partially or fully secured by collaterals.

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
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24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the statement of financial position, including positive fair value of derivatives without taking into account any collateral and other credit enhancements. Maximum concentration of credit risk to a single or group of related counterparties is limited to 15 per cent of the Bank's comprehensive capital as determined by the regulatory guidelines.

BY CLASS OF FINANCIAL ASSETS	Maximum exposure 2022 KD 000's	Maximum exposure 2021 KD 000's
Cash and cash equivalents (excluding cash in hand)	871,496	883,438
Kuwait Government treasury bonds	22,000	74,000
Central Bank of Kuwait bonds	337,703	281,197
Deposits with banks and other financial institutions	131,222	124,642
Loans and advances to banks	262,786	278,451
Loans and advances to customers:		
- Corporate lending	2,735,061	2,694,332
- Consumer lending	2,130,833	1,863,754
Debt investment securities (Note 13)	95,599	107,071
Other assets	65,728	61,273
Total	6,652,428	6,368,158
Contingent liabilities and commitments	2,673,488	2,404,830
Foreign exchange contracts (including spot contracts)	17,098	35,050
Total	2,690,586	2,439,880
Total credit risk exposure	9,343,014	8,808,038

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan exposures outstanding as a percentage of total credit risk exposures as at 31 December 2022 is **12.3%** (2021: 12.4%).

	2022		2021	
	<i>Assets</i> KD 000's	<i>Off balance sheet items</i> KD 000's	<i>Assets</i> KD 000's	<i>Off balance sheet items</i> KD 000's
<i>Geographic region:</i>				
Domestic (Kuwait)	5,623,556	2,192,686	4,983,925	1,922,166
Other Middle East	829,490	140,520	1,161,217	202,455
Europe	74,072	103,873	131,637	105,329
USA and Canada	59,154	24,498	49,942	24,288
Asia Pacific	24,156	229,009	24,345	185,642
Rest of world	42,000	-	17,092	-
	6,652,428	2,690,586	6,368,158	2,439,880

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk (continued)

	2022		2021	
	<i>Assets</i>	<i>Off balance</i>	<i>Assets</i>	<i>Off balance</i>
	<i>KD 000's</i>	<i>sheet items</i>	<i>KD 000's</i>	<i>sheet items</i>
		<i>KD 000's</i>		<i>KD 000's</i>
<i>Industry sector:</i>				
Personal	2,228,055	82,473	2,042,570	46,362
Financial	1,115,694	404,543	1,194,003	494,106
Trade and Commerce	415,268	694,871	446,317	622,861
Crude Oil and Gas	135,037	110,354	125,762	97,450
Construction	156,973	651,437	187,089	621,214
Government	1,197,966	50,001	1,162,555	67,858
Manufacturing	267,104	179,686	311,845	116,887
Real Estate	998,705	204,811	746,350	135,802
Others	137,626	312,410	151,667	237,340
	6,652,428	2,690,586	6,368,158	2,439,880

Internal credit quality rating

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

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

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

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.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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

Portfolio Risk Rating

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

RAROC Model

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

Credit Infrastructure:

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

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

2022

	Neither past due nor impaired			Past due but not impaired	Total
	High	Standard	Acceptable		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	871,047	450	4	-	871,501
Kuwait Government treasury bonds	22,000	-	-	-	22,000
Central Bank of Kuwait bonds	337,703	-	-	-	337,703
Deposits with banks and other financial institutions	108,942	22,317	-	-	131,259
Loans and advances to banks	214,467	50,509	-	-	264,976
Loans and advances to customers:					
- Corporate lending	2,321,870	585,867	53,625	11,923	2,973,285
- Consumer lending	2,043,681	39,816	300	41,202	2,124,999
Debt investment securities (Note 13)	66,135	29,620	-	-	95,755
Other assets	65,728	-	-	-	65,728
	6,051,573	728,579	53,929	53,125	6,887,206

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

A. CREDIT RISK (continued)

2021

	Neither past due nor impaired			Past due but not impaired	Total
	High	Standard	Acceptable		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash and cash equivalents (excluding cash in hand)	848,715	34,790	-	-	883,505
Kuwait Government treasury bonds	74,000	-	-	-	74,000
Central Bank of Kuwait bonds	281,197	-	-	-	281,197
Deposits with banks and other financial institutions	124,645	-	-	-	124,645
Loans and advances to banks	246,742	33,245	-	-	279,987
Loans and advances to customers:					
- Corporate lending	2,130,475	703,523	78,906	5,640	2,918,544
- Consumer lending	1,683,995	56,646	-	131,330	1,871,971
Debt investment securities (Note 13)	85,176	22,065	-	-	107,241
Other assets	61,273	-	-	-	61,273
	<u>5,536,218</u>	<u>850,269</u>	<u>78,906</u>	<u>136,970</u>	<u>6,602,363</u>

80% (2021: 91%) of the past due but not impaired category is below 60 days and **20%** (2021: 9%) is between 60-90 days.

Financial assets by class individually impaired

	<i>Gross exposure</i> KD 000's	<i>Impairment provision</i> KD 000's	<i>Fair value of collateral</i> KD 000's
2022			
Loans and advances to customers:			
- Corporate lending	21,096	11,578	8,197
- Consumer lending	38,365	11,616	6,020
	<u>59,461</u>	<u>23,194</u>	<u>14,217</u>
2021			
Loans and advances to customers:			
- Corporate lending	29,057	4,268	24,089
- Consumer lending	18,756	8,432	339
	<u>47,813</u>	<u>12,700</u>	<u>24,428</u>

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.

GULF BANK K.S.C.P.
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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:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>At 31 December 2022:</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Loans and advances to banks and customers</i>				
- High	4,531,325	47,014	-	4,578,339
- Standard	544,542	131,650	-	676,192
- Acceptable	298	53,627	-	53,925
- Past due but not impaired	9,429	42,065	-	51,494
- Impaired	-	-	62,771	62,771
	<u>5,085,594</u>	<u>274,356</u>	<u>62,771</u>	<u>5,422,721</u>
<i>At 31 December 2021:</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Loans and advances to banks and customers</i>				
- 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
	<u>4,750,997</u>	<u>317,668</u>	<u>49,650</u>	<u>5,118,315</u>
<i>At 31 December 2022:</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Contingent liabilities and commitments</i>				
- High	2,100,153	34,955	-	2,135,108
- Standard	311,712	187,485	-	499,197
- Acceptable	46	19,748	-	19,794
- Impaired	-	-	19,389	19,389
	<u>2,411,911</u>	<u>242,188</u>	<u>19,389</u>	<u>2,673,488</u>
<i>At 31 December 2021:</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<i>Contingent liabilities and commitments</i>				
- 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
	<u>2,187,642</u>	<u>197,847</u>	<u>19,341</u>	<u>2,404,830</u>

GULF BANK K.S.C.P.
Notes to the Financial Statements
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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:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>At 31 December 2022:</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL balance as at 1 January 2022	41,724	96,272	50,635	188,631
Impact due to transfer between stages:				
- Transfer to Stage 1	11,757	(1,641)	(10,116)	-
- Transfer to Stage 2	(1,379)	5,563	(4,184)	-
- Transfer to Stage 3	(176)	(1,787)	1,963	-
ECL (release)/charge for the year	(13,747)	(19,437)	59,094	25,910
ECL release on written off facilities	-	-	(24,793)	(24,793)
ECL balance as at 31 December 2022	<u>38,179</u>	<u>78,970</u>	<u>72,599</u>	<u>189,748</u>
<i>At 31 December 2021:</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
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	<u>41,724</u>	<u>96,272</u>	<u>50,635</u>	<u>188,631</u>

ECL's sensitivity

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process. Further, the Bank carries an excess of 39% total provisions over ECL on credit facilities (Note 12) for any increase in ECL resulting due to sensitivity.

B. INTEREST RATE RISK

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

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

GULF BANK K.S.C.P.
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24. FINANCIAL INSTRUMENTS (continued)

B. INTEREST RATE RISK (continued)

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

Currency	2022			2021		
	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	1,511	-	(+) 25	2,154	(2)
USD	(+) 25	505	-	(+) 25	797	-

CHANGES IN INTERBANK OFFERED RATES (IBOR)

The Bank's exposure to its floating-rate financial assets and liabilities is mainly through USD LIBOR, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Bank's IBOR project team is managing the transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. Transition away from LIBORs to the risk-free or alternative "reference rate" regime will affect the pricing of loans and floating rate debt securities.

Financial assets and liabilities

The Bank is in the process of transitioning to risk-free benchmark reference rates not later than June 2023. The Bank's exposure to financial assets as of 31 December 2022 that are based on USD LIBOR maturing after June 2023 is KD 450,181 thousand. The Bank's exposure to USD IBOR linked financial liabilities is relatively insignificant. The Bank is in discussion with the counterparties/clients and lead/agent banks to effect an orderly transition of remaining USD exposures to the relevant reference rate.

C. CURRENCY RISK

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

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

Currency	2022			2021		
	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	(145)	116	+5	(171)	107

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

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK

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

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

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

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

Liquidity risk is further minimized by adherence to the strict CBK liquidity requirements. In response to the Covid-19, CBK had provided temporary relaxation to the regulatory liquidity ratios until 31 December 2022, namely: minimum LCR of 90% (2021: 80%); minimum NSFR of 90% (2021: 80%); maturity ladder mismatch limits for specific time periods: -15% for 7 days or less (2021: -20%); -25% for 1 month or less (2021: -30%); -35% for 3 months or less (2021: -40%); -45% for 6 months or less (2021: -50%); the requirement to hold 16.5% (2021: 15%) of KD customer deposits in Kuwait Government treasury bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK; and complying with the Loan to Deposit Ratio of 95% (2021: 100%).

The Bank evaluated its liquidity and funding positions by closely monitoring its cash flows and forecasts and strengthening the cash and short-term funds. The Bank also adopted the selective loan disbursements and focused to strengthen the customer deposit base. The Bank continues to monitor its liquidity position and funding risks.

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

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 2022:

	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Assets:							
Cash and cash equivalents	929,888	-	-	-	-	-	929,888
Kuwait Government treasury bonds	-	-	-	5,500	14,000	2,500	22,000
Central Bank of Kuwait bonds	29,975	163,819	141,983	1,926	-	-	337,703
Deposits with banks and other financial institutions	-	35,147	79,787	16,288	-	-	131,222
Loans and advances to banks	-	57	32,070	50,035	165,463	15,161	262,786
Loans and advances to customers	255,913	591,334	274,080	544,651	688,570	2,511,346	4,865,894
Investment securities	1,531	35,048	18,079	15,710	24,010	34,557	128,935
Other assets	28,425	29,381	4,309	1,879	70,012	386	134,392
Premises and equipment	-	-	-	-	-	38,660	38,660
Total assets	1,245,732	854,786	550,308	635,989	962,055	2,602,610	6,851,480
Liabilities:							
Due to banks	201,353	123,426	93,611	71,261	-	-	489,651
Deposits from financial institutions	241,734	227,801	190,394	114,682	-	-	774,611
Customer deposits	2,416,165	885,406	341,848	593,672	9,746	-	4,246,837
Other borrowed funds	-	-	-	-	421,260	72,666	493,926
Other liabilities	52,798	33,568	7,310	8,045	24,711	-	126,432
Total liabilities	2,912,050	1,270,201	633,163	787,660	455,717	72,666	6,131,457

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2021:

	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Assets:							
Cash and cash equivalents	942,495	-	-	-	-	-	942,495
Kuwait Government treasury	11,000	15,000	-	26,000	19,500	2,500	74,000
Central Bank of Kuwait bonds	48,485	123,232	109,480	-	-	-	281,197
Deposits with banks and other financial institutions	-	124,642	-	-	-	-	124,642
Loans and advances to banks	233	5,434	15,001	67,928	189,855	-	278,451
Loans and advances to customers	239,970	597,624	225,010	656,986	603,203	2,235,293	4,558,086
Investment securities	-	13,593	25,684	13,561	50,215	38,888	141,941
Other assets	26,188	935	30,507	2,371	60,319	385	120,705
Premises and equipment	-	-	-	-	-	34,393	34,393
Total assets	1,268,371	880,460	405,682	766,846	923,092	2,311,459	6,555,910
Liabilities:							
Due to banks	59,850	163,934	248,689	123,028	-	-	595,501
Deposits from financial institutions	257,087	201,403	157,335	42,975	14,369	-	673,169
Customer deposits	2,489,572	776,486	498,483	497,863	41,591	-	4,303,995
Other borrowed funds	-	-	-	-	165,000	50,000	215,000
Other liabilities	32,247	30,604	8,934	7,449	22,519	-	101,753
Total liabilities	2,838,756	1,172,427	913,441	671,315	243,479	50,000	5,889,418

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

At 31 December 2022:

	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
Financial liabilities:						
Due to banks	121,039	33,749	329,004	15,550	-	499,342
Deposits from financial institutions	93,456	134,469	493,734	66,742	-	788,401
Customer deposits	1,705,818	377,749	2,161,245	58,441	-	4,303,253
Other borrowed funds	1,851	3,574	16,488	526,553	-	548,466
Other liabilities	52,798	33,568	15,355	24,711	-	126,432
Total undiscounted liabilities	1,974,962	583,109	3,015,826	691,997	-	6,265,894

GULF BANK K.S.C.P.
Notes to the Financial Statements
31 December 2022

24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

At 31 December 2021:

	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
Financial liabilities:						
Due to banks	59,999	164,603	373,818	-	-	598,420
Deposits from financial institutions	257,539	202,886	203,170	14,611	-	678,206
Customer deposits	1,879,422	342,428	1,992,173	111,872	-	4,325,895
Other borrowed funds	512	991	4,566	228,277	-	234,346
Other liabilities	32,247	30,604	16,383	22,519	-	101,753
Total undiscounted liabilities	2,229,719	741,512	2,590,110	377,279	-	5,938,620

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
At 31 December 2022:						
Contingent liabilities	28,640	63,379	331,387	433,080	656,529	1,513,015
Commitments	5,499	24,019	139,364	400,522	591,069	1,160,473
	34,139	87,398	470,751	833,602	1,247,598	2,673,488
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

GULF BANK K.S.C.P.
Notes to the Financial Statements
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24. FINANCIAL INSTRUMENTS (continued)

D. LIQUIDITY RISK (continued)

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

Derivatives	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	Total KD 000's
At 31 December 2022:				
Forward foreign exchange	992	6,842	-	7,834
At 31 December 2021:				
Forward foreign exchange	-	-	6,851	6,851

E. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal controls, human error, systems failure or from external events. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The operational risks are primarily monitored through the Operational & Technology Risk Management Unit in the Risk Management Department. The department has specialized units focusing on Fraud, Policy & Procedures, Business Continuity, Information and Cyber Security. The department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management. The Operational & Technology Risk Management Unit function is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

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

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

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

		2022	2021
		Impact on statement of comprehensive income KD 000's	Impact on statement of comprehensive income KD 000's
Market indices	% Change in equity price		
Kuwait Stock Exchange	+5%	513	552

G. PREPAYMENT RISK

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

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

GULF BANK K.S.C.P.
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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:

	<i>Level 1</i> <i>KD 000's</i>	<i>Level 2</i> <i>KD 000's</i>	<i>Level 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
At 31 December 2022:				
Financial assets at FVOCI:				
Equity securities	10,268	836	22,232	33,336
Debt securities	-	203	-	203
	<u>10,268</u>	<u>1,039</u>	<u>22,232</u>	<u>33,539</u>
<i>At 31 December 2021:</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>Financial assets at FVOCI:</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Equity securities	11,038	686	23,146	34,870
Debt securities	-	3,015	-	3,015
	<u>11,038</u>	<u>3,701</u>	<u>23,146</u>	<u>37,885</u>

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

	At	Change in	Additions/	Exchange	At
	1 January	fair value	disposals	rate	31 December
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Financial assets at FVOCI:					
Equity securities					
2022	23,146	(363)	(555)	4	22,232
2021	25,415	(1,627)	(632)	(10)	23,146

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

The positive and negative fair values of forward foreign exchange contracts are valued using significant inputs of observable market data (Level 2). Refer Note 28.

The amortized cost and fair value of investment securities at amortised cost as at 31 December 2022 were **KD 95,396 thousand** (2021: KD 104,056 thousand) and **KD 94,737 thousand** (Level 1) (2021: KD 105,235 thousand) respectively.

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.

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26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The total outstanding contingent liabilities and commitments are as follows:

	2022 KD 000's	2021 KD 000's
Guarantees	1,146,960	1,177,918
Letters of credit and acceptances	366,055	285,744
Undrawn irrevocable commitments	33,323	17,542
Undrawn revocable commitments	1,127,150	923,626
	<u>2,673,488</u>	<u>2,404,830</u>

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	
	2022 KD 000's	2021 KD 000's	2022 KD 000's	2021 KD 000's	2022 KD 000's	2021 KD 000's
Operating income	147,115	143,334	8,140	12,492	155,255	155,826
Segment result	84,091	66,744	6,086	10,708	90,177	77,452
Unallocated income					25,802	14,232
Unallocated expense					(54,175)	(49,579)
Profit for the year					<u>61,804</u>	<u>42,105</u>
Segment assets	5,236,887	4,950,610	1,510,204	1,509,633	6,747,091	6,460,243
Unallocated assets					104,389	95,667
Total Assets					<u>6,851,480</u>	<u>6,555,910</u>
Segment liabilities	3,196,890	3,399,102	2,757,554	2,345,760	5,954,444	5,744,862
Unallocated liabilities and equity					897,036	811,048
Total Liabilities and Equity					<u>6,851,480</u>	<u>6,555,910</u>

b. Geographic segment information relating to location of assets, liabilities and off balance sheet are given in Note 24A.

Revenue from transactions with a single external customer or counter party did not result in 10% or more of the Bank's total revenue in 2022 or 2021.

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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.

			<i>Notional amounts by term to maturity</i>	
			<i>Within 3 months</i>	<i>3-12 months</i>
At 31 December 2022:				
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Derivatives instruments held as:				
Trading (and non qualifying hedges)				
Forward foreign exchange contracts	<u>52</u>	<u>(46)</u>	<u>7,834</u>	<u>-</u>

			<i>Notional amounts by term to maturity</i>	
			<i>Within 3 months</i>	<i>3-12 months</i>
At 31 December 2021:				
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Derivatives instruments held as:				
Trading (and non qualifying hedges)				
Forward foreign exchange contracts	<u>7</u>	<u>(4)</u>	<u>6,851</u>	<u>-</u>

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.

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29. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

Capital Management

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

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Bank.

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

The Bank's regulatory capital and capital adequacy ratios for the year ended 31 December 2022 and 31 December 2021 are calculated in accordance with CBK circular number 2/RB,RBA/336/2014 dated 24 June 2014 are shown below:

	2022 KD 000's	2021 KD 000's
Risk weighted assets	<u>5,216,454</u>	<u>4,827,656</u>
Capital required: 12.5% (2021: 11.5%)	<u>652,057</u>	<u>555,180</u>
Capital available		
Tier 1 capital	741,129	698,151
Tier 2 capital	<u>114,002</u>	<u>108,912</u>
Total capital	<u>855,131</u>	807,063
Tier 1 capital adequacy ratio	14.21%	14.46%
Total capital adequacy ratio	16.39%	16.72%

Financial leverage ratio

The Bank's financial leverage ratio for the year ended 31 December 2022 and 31 December 2021 calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 are shown below:

	2022 KD 000's	2021 KD 000's
Tier 1 capital	<u>741,129</u>	<u>698,151</u>
Total Exposure	<u>7,659,867</u>	<u>7,351,764</u>
Financial leverage ratio	<u>9.68%</u>	<u>9.50%</u>

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 and disclosures related to financial leverage ratio as stipulated in CBK circular number 2/BS/ 342/2014 dated 21 October 2014 for the year ended 31 December 2022 and 31 December 2021 are included under the 'Risk Management' section of the annual report.

30. FIDUCIARY ASSETS

At 31 December 2022, the aggregate value of assets held or managed in fiduciary capacity by the Bank amounted to **KD 1,101,000 thousand** (2021: KD 907,700 thousand) and the income related to this activity amounted to **KD 637 thousand** (2021: KD 537 thousand) included in net fees and commissions (Note 6).