

GULF BANK K.S.C.P.

**INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)**

31 MARCH 2017



**Building a better
working world**
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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GULF BANK K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C.P. (the "Bank") as at 31 March 2017, and the related interim condensed statement of income and interim condensed statement of comprehensive income, interim condensed statement of cash flows and interim condensed statement of changes in equity for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, and its Executive Regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended and its Executive Regulations, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Bank or on its financial position.

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EY
AL-AIBAN, AL-OSAIMI & PARTNERS

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17 April 2017
Kuwait

GULF BANK K.S.C.P.
Interim Condensed Statement of Income
(Unaudited)

PERIOD ENDED 31 MARCH 2017

	<i>Note</i>	<i>3 months ended 31 March 2017 KD 000's</i>	<i>3 months ended 31 March 2016 KD 000's</i>
Interest income		47,109	43,641
Interest expense		17,122	13,968
Net interest income		<u>29,987</u>	<u>29,673</u>
Net fees and commissions		8,156	8,155
Net gains from dealing in foreign currencies and derivatives		2,070	2,363
Realised gains from disposal of investment securities		2,648	-
Dividend income		464	3,124
Other income		1,099	708
Operating income		<u>44,424</u>	<u>44,023</u>
Staff expenses		9,605	10,320
Occupancy costs		1,022	1,012
Depreciation		730	651
Other expenses		3,180	3,600
Operating expenses		<u>14,537</u>	<u>15,583</u>
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES		<u>29,887</u>	<u>28,440</u>
Charge of provisions:			
- specific		16,633	10,180
- general		2,644	8,463
Loan recoveries, net of write-off		(1,578)	(9,233)
Impairment loss on investment securities		25	3,105
Impairment loss on other assets		2,366	6,750
OPERATING PROFIT		<u>9,797</u>	<u>9,175</u>
Contribution to Kuwait Foundation for the Advancement of Sciences		98	91
National Labour Support Tax		243	227
Zakat		98	91
PROFIT FOR THE PERIOD		<u>9,358</u>	<u>8,766</u>
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	<u>3</u>	<u>3</u>

The attached notes 1 to 12 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Interim Condensed Statement of Comprehensive Income
(Unaudited)
PERIOD ENDED 31 MARCH 2017

	<i>3 months ended 31 March 2017 KD 000's</i>	<i>3 months ended 31 March 2016 KD 000's</i>
Profit for the period	9,358	8,766
Other comprehensive income		
<i>Items that are reclassified or may be reclassified subsequently to interim condensed statement of income :</i>		
Investment securities:		
- Net realised gains on disposal	(174)	-
- Impairment loss	25	3,105
- Net unrealised gains	1,795	80
Other comprehensive income for the period	1,646	3,185
Total comprehensive income for the period	11,004	11,951

The attached notes 1 to 12 form part of the interim condensed financial information.

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

	Notes	(Unaudited) 31 March 2017 KD 000's	(Audited) 31 December 2016 KD 000's	(Unaudited) 31 March 2016 KD 000's
ASSETS				
Cash and cash equivalents		868,907	665,520	790,651
Treasury bills and bonds		417,546	372,919	268,105
Central Bank of Kuwait bonds		375,396	376,240	425,738
Deposits with banks and other financial institutions		72,045	108,013	32,000
Loans and advances to banks		148,740	136,606	89,010
Loans and advances to customers		3,385,793	3,445,997	3,568,851
Investment securities		119,000	146,181	163,387
Other assets	12	169,171	186,642	92,714
Premises and equipment		29,491	28,997	28,810
TOTAL ASSETS		5,586,089	5,467,115	5,459,266
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		353,368	480,364	381,258
Deposits from financial institutions		886,173	824,680	749,671
Customer deposits		3,594,928	3,395,340	3,716,579
Subordinated Tier 2 bonds		100,000	100,000	-
Other liabilities		87,494	93,239	73,262
TOTAL LIABILITIES		5,021,963	4,893,623	4,920,770
EQUITY				
Share capital	4	304,813	304,813	304,813
Statutory reserve		21,433	21,433	16,923
Share premium		153,024	153,024	153,024
Property revaluation reserve		18,610	18,610	19,001
Treasury share reserve		24,246	24,246	24,246
Fair valuation reserve		7,199	5,553	4,315
Retained earnings		105,558	116,570	86,903
Treasury shares	5	634,883 (70,757)	644,249 (70,757)	609,225 (70,729)
TOTAL EQUITY		564,126	573,492	538,496
TOTAL LIABILITIES AND EQUITY		5,586,089	5,467,115	5,459,266



Omar Kutayba Alghanim
(Chairman)



Antoine Daher
(Chief Executive Officer)

The attached notes 1 to 12 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Interim Condensed Statement of Cash Flows
(Unaudited)
PERIOD ENDED 31 MARCH 2017

	Note	3 months ended 31 March 2017 KD 000's	3 months ended 31 March 2016 KD 000's
OPERATING ACTIVITIES			
Profit for the period		9,358	8,766
Adjustments:			
Effective interest rate adjustment		-	(90)
Unrealised fair value gains on credit default swaps		(7)	(254)
Realised gains from disposal of investment securities		(2,648)	-
Dividend income		(464)	(3,124)
Depreciation		730	651
Loan loss provisions		19,277	18,643
Impairment loss on investment securities		25	3,105
Impairment loss on other assets		2,366	6,750
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		28,637	34,447
<i>(Increase)/decrease in operating assets:</i>			
Treasury bills and bonds		(44,627)	(22,496)
Central Bank of Kuwait bonds		844	(64,313)
Deposits with banks and other financial institutions		35,968	2,107
Loans and advances to banks		(12,280)	(8,234)
Loans and advances to customers		40,539	46,250
Other assets		15,775	2,517
<i>(Decrease)/increase in operating liabilities:</i>			
Due to banks		(126,996)	119,874
Deposits from financial institutions		61,493	23,639
Customer deposits		199,588	(120,843)
Other liabilities		(5,204)	(1,087)
NET CASH FLOWS FROM OPERATING ACTIVITIES		193,737	11,861
INVESTING ACTIVITIES			
Purchase of investment securities		(11,363)	(50,482)
Proceeds from sale of investment securities		42,143	1,750
Purchase of premises and equipment		(1,224)	(939)
Dividend income received		464	3,124
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		30,020	(46,547)
FINANCING ACTIVITIES			
Dividend paid	6	(20,370)	(11,640)
Purchase of treasury shares		-	(71)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(20,370)	(11,711)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		203,387	(46,397)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		665,520	837,048
CASH AND CASH EQUIVALENTS AT 31 MARCH		868,907	790,651
<i>Additional cash flows information</i>			
Interest received		48,739	38,973
Interest paid		18,343	15,043

The attached notes 1 to 12 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Interim Condensed Statement of Changes in Equity
(Unaudited)

PERIOD ENDED 31 MARCH 2017

	RESERVES								Total KD,000's	
	Share capital KD,000's	Statutory reserve KD,000's	Share premium KD,000's	Property revaluation reserve KD,000's	Treasury share reserve KD,000's	Fair valuation reserve KD,000's	Retained earnings KD,000's	Subtotal reserves KD,000's		Treasury shares KD,000's
At 1 January 2016	304,813	16,923	153,024	19,001	24,246	1,130	89,777	304,101	(70,658)	538,256
Profit for the period	-	-	-	-	-	-	8,766	8,766	-	8,766
Other comprehensive income for the period	-	-	-	-	-	3,185	-	3,185	-	3,185
Total comprehensive income for the period	-	-	-	-	-	3,185	8,766	11,951	-	11,951
Dividend paid (Note 6)	-	-	-	-	-	-	(11,640)	(11,640)	-	(11,640)
Purchase of treasury shares	-	-	-	-	-	-	-	-	(71)	(71)
At 31 March 2016	304,813	16,923	153,024	19,001	24,246	4,315	86,903	304,412	(70,729)	538,496
At 1 January 2017	304,813	21,433	153,024	18,610	24,246	5,553	116,570	339,436	(70,757)	573,492
Profit for the period	-	-	-	-	-	-	9,358	9,358	-	9,358
Other comprehensive income for the period	-	-	-	-	-	1,646	-	1,646	-	1,646
Total comprehensive income for the period	-	-	-	-	-	1,646	9,358	11,004	-	11,004
Dividend paid (Note 6)	-	-	-	-	-	-	(20,370)	(20,370)	-	(20,370)
At 31 March 2017	304,813	21,433	153,024	18,610	24,246	7,199	105,558	330,070	(70,757)	564,126

The attached notes 1 to 12 form part of the interim condensed financial information.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2017

1. INCORPORATION AND REGISTRATION

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

The interim condensed financial information of the Bank for the three months period ended 31 March 2017 was authorised by the Board of Directors for issue on 17 April 2017.

The principal activities of the Bank are described in Note 7.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 which cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 November 2012. The new executive regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the executive regulations of Law No 25 of 2012.

2. BASIS OF PRESENTATION

This interim condensed financial information of the Bank has been prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting” except as noted below:

The annual financial statements for the year ended 31 December 2016 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). These regulations require adoption of all IFRS except for the IAS 39, Financial Instruments: Recognition and Measurement, requirement for a collective provision, which has been replaced by the CBK’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The accounting policies used in the preparation of the interim condensed financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Bank.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Bank’s annual financial statements for the year ended 31 December 2016. Further, operating results for the three months period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

This interim condensed financial information has been presented in Kuwaiti Dinars (“KD”) which is the Bank’s functional currency, rounded off to the nearest thousand (KD 000’s), except when otherwise indicated.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2017

3. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are based on the weighted average number of shares outstanding during the period, which is as follows:

	<i>3 months ended 31 March 2017 KD 000's</i>	<i>3 months ended 31 March 2016 KD 000's</i>
Profit for the period	<u>9,358</u>	<u>8,766</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	<u>2,909,979,052</u>	<u>2,910,238,766</u>
Basic and diluted earnings per share (Fils)	<u>3</u>	<u>3</u>

4. SHARE CAPITAL

	<i>(Unaudited) 31 March 2017 KD 000's</i>	<i>(Audited) 31 December 2016 KD 000's</i>	<i>(Unaudited) 31 March 2016 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2016: 3,048,127,898 and 31 March 2016: 3,048,127,898) shares of 100 fils	<u>304,813</u>	<u>304,813</u>	<u>304,813</u>

5. TREASURY SHARES

	<i>(Unaudited) 31 March 2017</i>	<i>(Audited) 31 December 2016</i>	<i>(Unaudited) 31 March 2016</i>
Number of treasury shares	<u>138,148,846</u>	<u>138,148,846</u>	<u>138,025,846</u>
Percentage of treasury shares	<u>4.53%</u>	<u>4.53%</u>	<u>4.53%</u>
Cost of treasury shares (KD 000's)	<u>70,757</u>	<u>70,757</u>	<u>70,729</u>
Weighted average market value of treasury shares (KD 000's)	<u>34,675</u>	<u>31,498</u>	<u>29,676</u>

This includes 13,641,280 treasury shares costing KD 5,488 thousand, which represent collaterals repossessed in settlement of debts from customers. The balance in the treasury share reserve of **KD 24,246 thousand** (31 December 2016: KD 24,246 thousand and 31 March 2016: KD 24,246 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings through out the holding period of treasury shares.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2017

6. DIVIDEND

The shareholders at the Annual General Meeting (AGM) held on 8 March 2017 approved a cash dividend of 7 fils per share (2015: 4 fils) for the year ended 31 December 2016. The cash dividend was paid subsequently.

7. SEGMENTAL ANALYSIS

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 of corporate and institutional customers.

Treasury & Investments Providing money market, trading and treasury services, as well as management of the Bank's funding operations by use of treasury bills, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the investments unit.

Segmental information for the three months period ended 31 March is as follows:

	<u>Commercial Banking</u>		<u>Treasury & Investments</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>	<u>KD 000's</u>
Operating income (excluding unallocated income provided below)	<u>36,572</u>	<u>34,055</u>	<u>2,038</u>	<u>2,165</u>	<u>38,610</u>	<u>36,220</u>
Segment result	<u>13,909</u>	<u>17,480</u>	<u>1,760</u>	<u>1,769</u>	<u>15,669</u>	<u>19,249</u>
Unallocated income					<u>5,814</u>	<u>7,803</u>
Unallocated expense					<u>(12,125)</u>	<u>(18,286)</u>
Profit for the period					<u><u>9,358</u></u>	<u><u>8,766</u></u>
Segment assets	<u>3,621,883</u>	<u>3,760,761</u>	<u>1,765,544</u>	<u>1,579,581</u>	<u>5,387,427</u>	<u>5,340,342</u>
Unallocated assets					<u>198,662</u>	<u>118,924</u>
Total Assets					<u><u>5,586,089</u></u>	<u><u>5,459,266</u></u>
Segment liabilities	<u>3,079,236</u>	<u>3,123,701</u>	<u>1,809,589</u>	<u>1,667,887</u>	<u>4,888,825</u>	<u>4,791,588</u>
Unallocated liabilities and equity					<u>697,264</u>	<u>667,678</u>
Total Liabilities and Equity					<u><u>5,586,089</u></u>	<u><u>5,459,266</u></u>

During the period, the Bank has revised the allocation method for centrally managed shared costs. In the prior periods, shared costs were allocated to Business Units, however, from the current period they are included within the unallocated expense. This change does not have any impact on the profit and equity of the Bank. Such change has been made to improve the segment analysis and amounts for comparative periods have been restated to conform to the current period presentation.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)

31 March 2017

8. RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholder, Board members and executive management of the Bank, their families and companies of which they are 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 interim condensed financial information are as follows:

	<i>Number of Board Members or executive management members</i>		<i>Number of related parties</i>		<i>KD 000's</i>		<i>KD 000's</i>	
	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>31 March 2017</i>	<i>31 March 2016</i>
Board members:								
Balances								
Loans and advances	1	1	11	11	8	124,912	111,649	70,114
Deposits	8	8	38	35	23	522,311	424,712	418,386
Commitments/derivatives								
Guarantees /letter of credit	1	1	8	8	8	25,294	25,086	3,468
Forward foreign exchange contracts	-	-	2	2	-	22,907	24,852	-
Transactions								
Interest income	1	1	13	14	9	1,065	2,799	488
Interest expense	3	3	10	9	6	1,779	5,293	1,189
Net fees and commissions	1	1	8	9	8	60	209	10
Other expenses	-	-	4	7	4	156	486	63
Executive management:								
Balances								
Loans and advances	2	2	-	-	-	51	53	61
Deposits	12	11	-	-	-	1,077	889	1,190
Commitments								
Guarantees /letter of credit	-	-	-	-	-	-	-	1
Transactions								
Interest income	2	2	-	-	-	1	3	1
Interest expense	12	13	-	-	-	5	14	3

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2017

8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to directors and executive management are repayable within CBK regulatory limits and have interest rates of 2.5% to 5% (2016: 2% to 5.5%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 31 March 2017 was KD 81,425 thousand (31 December 2016: KD 73,705 thousand and 31 March 2016: KD 50,234 thousand).

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

	<i>3 months ended 31 March 2017 KD 000's</i>	<i>3 months ended 31 March 2016 KD 000's</i>
Salaries and other short-term benefits	1,011	935
End of service/termination benefits	45	37
	1,056	972

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 31 March 2017 KD 000's</i>	<i>(Audited) 31 December 2016 KD 000's</i>	<i>(Unaudited) 31 March 2016 KD 000's</i>
Guarantees	1,323,707	1,320,869	1,283,570
Letters of credit and acceptances	189,583	192,496	212,768
	1,513,290	1,513,365	1,496,338

As at reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to KD 258,437 thousand (31 December 2016: KD 188,662 thousand and 31 March 2016: KD 174,031 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

10. 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 value 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 period end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 31 March 2017:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>	<i>Over 1 year KD 000's</i>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	714	(547)	221,374	164,760	56,614	-
Credit default swaps	14	(25)	28,951	4,571	24,380	-
	728	(572)	250,325	169,331	80,994	-

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2017

10. DERIVATIVES (continued)

At 31 December 2016:

	<i>Notional amounts by term to maturity</i>					
	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Within</i>	<i>3-12</i>	<i>Over</i>
	<i>fair value</i>	<i>fair value</i>	<i>amount</i>	<i>3 months</i>	<i>months</i>	<i>1 year</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>total</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	707	(887)	119,283	83,990	15,468	19,825
Credit default swaps	35	(53)	59,680	30,605	29,075	-
	742	(940)	178,963	114,595	44,543	19,825

At 31 March 2016:

	<i>Notional amounts by term to maturity</i>					
	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>	<i>Within</i>	<i>3-12</i>	<i>Over</i>
	<i>fair value</i>	<i>fair value</i>	<i>amount</i>	<i>3 months</i>	<i>months</i>	<i>1 year</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>total</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	207	(185)	61,508	58,505	3,003	-
Credit default swaps	-	(259)	89,046	-	60,370	28,676
	207	(444)	150,554	58,505	63,373	28,676

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value 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 approximate to their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

At 31 March 2017

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 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>Financial assets available for sale:</i>				
Equity securities	16,217	6,141	-	22,358
Debt securities	915	17,065	-	17,980
	17,132	23,206	-	40,338

The amortized cost and fair value of investment securities held to maturity as at 31 March 2017 were **KD 61,207 thousand** (31 December 2016: KD 67,061 thousand; 31 March 2016: KD 42,928 thousand) and **KD 61,414 thousand** (Level 1) (31 December 2016: KD 66,730 thousand; 31 March 2016: KD 43,052 thousand) respectively.

There are certain unquoted equity investments carried at cost net of impairment with a carrying amount of **KD 17,455 thousand** (31 December 2016: KD 20,609 thousand; 31 March 2016: KD 20,652 thousand) since fair value cannot be reliably estimated.

Investment securities include **KD Nil** (Level 1), which represent collaterals repossessed in settlement of debts from customers. (31 December 2016: KD Nil and 31 March 2016: KD 36,227 thousand).

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2017

11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2016

	<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>
<i>Financial assets available for sale:</i>				
Equity securities	16,452	6,142	-	22,594
Debt securities	18,593	17,324	-	35,917
	35,045	23,466	-	58,511

At 31 March 2016

	<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>
<i>Financial assets available for sale:</i>				
Equity securities	53,765	6,600	-	60,365
Debt securities	23,032	16,410	-	39,442
	76,797	23,010	-	99,807

During the period, there were no transfers between any of the fair value hierarchy levels.

The positive and negative fair values of forward foreign exchange contracts and credit default swaps are valued using significant inputs of observable market data (Level 2). Refer Note 10.

Other financial assets and liabilities are carried at amortized cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

12. OTHER ASSETS

	<i>(Unaudited)</i> <i>31 March</i> <i>2017</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>31 March</i> <i>2016</i> <i>KD 000's</i>
Accrued interest receivable	20,805	22,435	29,501
Sundry debtors and others	18,592	19,426	13,788
Repossessed collaterals (refer movement below)	129,774	144,781	49,425
	169,171	186,642	92,714

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

31 March 2017

12. OTHER ASSETS (continued)

Movement in repossessed collaterals:

	<i>(Unaudited)</i> 31 March 2017 KD 000's	<i>(Audited)</i> 31 December 2016 KD 000's	<i>(Unaudited)</i> 31 March 2016 KD 000's
Beginning balance	144,781	54,590	54,590
Additions			
- Real estate properties	-	121,000	8,639
Disposals	(12,641)	(19,413)	(7,054)
Impairment loss	(2,366)	(11,396)	(6,750)
Closing balance	<u>129,774</u>	<u>144,781</u>	<u>49,425</u>

Investment securities amounting to **KD Nil** (31 December 2016: KD Nil and 31 March 2016: KD 804 thousand) are accounted for as investments available for sale and are consequently fair valued using quoted market prices (Level 1) and the balance amounting to **KD Nil** (31 December 2016: KD 3,457 thousand and 31 March 2016: KD 4,602 thousand) is fair valued using observable market data (Level 2). The fair values of the real estate properties are not materially different from their carrying values.

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on investment securities amounting to **KD Nil** (31 December 2016: KD 3,457 thousand and 31 March 2016: KD 1,100 thousand) and real estate properties amounting to **KD Nil** (31 December 2016: KD 2,500 thousand and 31 March 2016: KD Nil).