

GULF BANK K.S.C.
INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)
30 JUNE 2013



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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GULF BANK K.S.C.

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C. (the "Bank") as at 30 June 2013 and the related interim condensed statement of income and the interim condensed statement of comprehensive income for the three months and six months periods then ended, and the related interim condensed statement of cash flows and the interim condensed statement of changes in equity for the six 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 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 25 of 2012 as amended, or of the Bank's Articles of Association and Memorandum of Incorporation during the six months period ended 30 June 2013 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, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the six months period ended 30 June 2013.

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8 July 2013
Kuwait

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

| | <i>3 months ended</i> <i>30 June</i> <i>2013</i> <i>KD 000's</i> | <i>3 months ended</i> <i>30 June</i> <i>2012</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2013</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2012</i> <i>KD 000's</i> |
|---|---|---|---|---|
| Interest income | 44,077 | 44,576 | 83,235 | 88,607 |
| Interest expense | 11,315 | 14,863 | 23,205 | 30,167 |
| Net interest income | 32,762 | 29,713 | 60,030 | 58,440 |
| Net fees and commissions | 6,652 | 6,445 | 14,108 | 14,401 |
| Net gains from dealing in foreign currencies and derivatives | 4,659 | 2,263 | 8,030 | 9,436 |
| Realised gains from disposal of investments available-for-sale | 449 | 2,389 | 874 | 2,552 |
| Dividend income | - | 221 | 310 | 221 |
| Other income | 727 | 257 | 1,104 | 577 |
| OPERATING INCOME | 45,249 | 41,288 | 84,456 | 85,627 |
| Staff expenses | 9,759 | 7,978 | 20,593 | 16,928 |
| Occupancy costs | 806 | 857 | 1,693 | 1,637 |
| Depreciation | 754 | 718 | 1,524 | 1,418 |
| Other expenses | 3,403 | 2,894 | 7,123 | 6,979 |
| Operating expenses | 14,722 | 12,447 | 30,933 | 26,962 |
| OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES | 30,527 | 28,841 | 53,523 | 58,665 |
| Charge / (release) of provisions: | | | | |
| - specific | 28,804 | 1,396 | 33,516 | 9,315 |
| - general | (3,982) | 20,742 | 6,873 | 34,566 |
| Loans recoveries net off write-off | (1,080) | (1,674) | (2,046) | (5,108) |
| Impairment loss on investments available-for-sale | 150 | 2,697 | 238 | 6,496 |
| OPERATING PROFIT | 6,635 | 5,680 | 14,942 | 13,396 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | 67 | 58 | 150 | 135 |
| National Labour Support Tax | 165 | 140 | 371 | 332 |
| Zakat | 67 | 58 | 150 | 135 |
| PROFIT FOR THE PERIOD | 6,336 | 5,424 | 14,271 | 12,794 |
| BASIC AND DILUTED EARNINGS PER SHARE (Fils) | 3 | 2 | 5 | 5 |

The attached notes 1 to 13 form part of the interim condensed financial information.

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

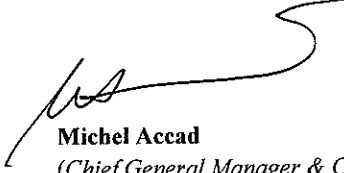
| | <i>3 months ended 30 June 2013 KD 000's</i> | <i>3 months ended 30 June 2012 KD 000's</i> | <i>6 months ended 30 June 2013 KD 000's</i> | <i>6 months ended 30 June 2012 KD 000's</i> |
|---|---|---|---|---|
| Profit for the period | <u>6,336</u> | <u>5,424</u> | <u>14,271</u> | <u>12,794</u> |
| Other comprehensive income/(expense) | | | | |
| Net unrealised gains / (losses) on investments available-for-sale | 4,292 | (2,646) | 7,993 | (5,492) |
| Net realised (gains) / impairment losses on disposal of investments available-for-sale transferred to statement of income | <u>131</u> | <u>1,629</u> | <u>(157)</u> | <u>5,300</u> |
| Other comprehensive income/(expense) for the period | <u>4,423</u> | <u>(1,017)</u> | <u>7,836</u> | <u>(192)</u> |
| Total comprehensive income for the period | <u><u>10,759</u></u> | <u><u>4,407</u></u> | <u><u>22,107</u></u> | <u><u>12,602</u></u> |

The attached notes 1 to 13 form part of the interim condensed financial information.

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

| | <i>(Unaudited)</i> 30 June 2013 KD 000's | <i>(Audited)</i> 31 December 2012 KD 000's | <i>(Unaudited)</i> 30 June 2012 KD 000's |
|--|---|---|---|
| ASSETS | | | |
| Cash and short term funds | 705,262 | 483,230 | 343,986 |
| Treasury bills and bonds | 168,675 | 290,232 | 456,102 |
| Central Bank of Kuwait bonds | 352,600 | 424,375 | 413,546 |
| Deposits with banks and other financial institutions | 30,770 | 32,688 | 32,057 |
| Loans and advances to banks | 102,311 | 92,605 | 61,259 |
| Loans and advances to customers | 3,436,760 | 3,322,494 | 3,366,968 |
| Investments available-for-sale | 145,926 | 122,352 | 132,013 |
| Other assets | 42,713 | 53,079 | 44,012 |
| Premises and equipment | 25,312 | 25,603 | 25,896 |
| TOTAL ASSETS | 5,010,329 | 4,846,658 | 4,875,839 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Due to banks | 285,590 | 127,354 | 190,789 |
| Deposits from financial institutions | 842,561 | 846,603 | 811,300 |
| Customer deposits | 3,236,283 | 3,247,629 | 3,251,676 |
| Subordinated loans | 85,635 | 84,375 | 84,045 |
| Other liabilities | 94,674 | 91,456 | 97,798 |
| TOTAL LIABILITIES | 4,544,743 | 4,397,417 | 4,435,608 |
| EQUITY | | | |
| Share capital | 4 276,474 | 263,309 | 263,309 |
| Proposed bonus shares | - | 13,165 | - |
| Statutory reserve | 5,716 | 5,716 | 2,469 |
| Share premium | 153,024 | 153,024 | 153,024 |
| Property revaluation reserve | 16,698 | 16,698 | 16,698 |
| Treasury share reserve | 24,258 | 24,258 | 24,258 |
| Fair valuation reserve | 14,540 | 6,704 | 7,017 |
| Retained earnings | 36,972 | 22,701 | 21,020 |
| Treasury shares | 5 (62,096) | (56,334) | (47,564) |
| TOTAL LIABILITIES AND EQUITY | 5,010,329 | 4,846,658 | 4,875,839 |


Ali Morad Yusuf Al-Behani
(Deputy Chairman)


Michel Accad
(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 13 form part of the interim condensed financial information.

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

| | <i>6 months ended</i> <i>30 June</i> <i>2013</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2012</i> <i>KD 000's</i> |
|--|---|---|
| OPERATING ACTIVITIES | | |
| Profit for the period | 14,271 | 12,794 |
| Adjustments: | | |
| Unrealised fair value gains on credit default swaps | (1,677) | (2,963) |
| Realised gains from disposal of investments available-for-sale | (874) | (2,552) |
| Dividend income | (310) | (221) |
| Depreciation | 1,524 | 1,418 |
| Loan loss provisions | 40,389 | 43,881 |
| Impairment loss on investments available-for-sale | 238 | 6,496 |
| Foreign exchange movement on subordinated loans | 1,260 | 480 |
| OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES | 54,821 | 59,333 |
| <i>(Increase)/decrease in operating assets:</i> | | |
| Treasury bills and bonds | 121,557 | (37,881) |
| Central Bank of Kuwait bonds | 71,775 | 15,936 |
| Deposits with banks and other financial institutions | 1,918 | (12,057) |
| Loans and advances to banks | (9,706) | (27,119) |
| Loans and advances to customers | (155,092) | (76,813) |
| Other assets | 10,366 | 3,501 |
| <i>(Decrease)/increase in operating liabilities:</i> | | |
| Due to banks | 158,236 | 114,610 |
| Deposits from financial institutions | (4,042) | 34,481 |
| Customer deposits | (11,346) | (78,768) |
| Other liabilities | 5,332 | 12,183 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 243,819 | 7,406 |
| INVESTING ACTIVITIES | | |
| Purchase of investments available-for-sale | (18,725) | (37,026) |
| Proceeds from sale of investments available-for-sale | 3,623 | 6,886 |
| Purchase of premises and equipment | (1,233) | (1,390) |
| Dividends received | 310 | 221 |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (16,025) | (31,309) |
| FINANCING ACTIVITIES | | |
| Purchase of treasury shares | (5,762) | (2,667) |
| Proceeds from sale of treasury shares | - | 37 |
| NET CASH FLOWS USED IN FINANCING ACTIVITIES | (5,762) | (2,630) |
| NET INCREASE/(DECREASE) IN CASH AND SHORT TERM FUNDS | 222,032 | (26,533) |
| CASH AND SHORT TERM FUNDS AT 1 JANUARY | 483,230 | 370,519 |
| CASH AND SHORT TERM FUNDS AT 30 JUNE | 705,262 | 343,986 |
| Additional cash flow information | | |
| Interest received | 91,438 | 96,968 |
| Interest paid | 23,560 | 29,524 |

The attached notes 1 to 13 form part of the interim condensed financial information.

GULF BANK K.S.C.
Interim Condensed Statement of Changes in Equity (Unaudited)
SIX MONTHS PERIOD ENDED

| | RESERVES | | | | | | | | | | 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 | Treasury share reserve KD 000's | Fair valuation reserve KD 000's | Retained earnings KD 000's | Sub-total reserves KD 000's | Treasury shares KD 000's | | |
| At 1 January 2012 | 250,770 | 12,539 | 2,469 | 153,024 | 16,698 | 24,289 | 7,209 | 8,226 | 211,915 | (44,965) | 430,259 | |
| Profit for the period | - | - | - | - | - | - | - | 12,794 | 12,794 | - | 12,794 | |
| Other comprehensive expense for the period | - | - | - | - | - | - | (192) | - | (192) | - | (192) | |
| Total comprehensive (expense)/income for the period | - | - | - | - | - | - | (192) | 12,794 | 12,602 | - | 12,602 | |
| Issue of bonus shares (Note 6) | 12,539 | (12,539) | - | - | - | - | - | - | - | - | - | |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | - | (2,667) | (2,667) | |
| Sale of treasury shares | - | - | - | - | - | - | - | - | - | 68 | 68 | |
| Loss on sale of treasury shares | - | - | - | - | - | (31) | - | - | (31) | - | (31) | |
| At 30 June 2012 | 263,309 | - | 2,469 | 153,024 | 16,698 | 24,258 | 7,017 | 21,020 | 224,486 | (47,564) | 440,231 | |
| At 1 January 2013 | 263,309 | 13,165 | 5,716 | 153,024 | 16,698 | 24,258 | 6,704 | 22,701 | 229,101 | (56,334) | 449,241 | |
| Profit for the period | - | - | - | - | - | - | - | 14,271 | 14,271 | - | 14,271 | |
| Other comprehensive income for the period | - | - | - | - | - | - | 7,836 | - | 7,836 | - | 7,836 | |
| Total comprehensive income for the period | - | - | - | - | - | - | 7,836 | 14,271 | 22,107 | - | 22,107 | |
| Issue of bonus shares (Note 6) | 13,165 | (13,165) | - | - | - | - | - | - | - | - | - | |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | - | (5,762) | (5,762) | |
| At 30 June 2013 | 276,474 | - | 5,716 | 153,024 | 16,698 | 24,258 | 14,540 | 36,972 | 251,208 | (62,096) | 465,586 | |

The attached notes 1 to 13 form part of the interim condensed financial information.

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2013

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. (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. Its registered office is at Mubarak Al Kabir Street, P.O. Box 3200, 13032 Safat, Kuwait.

The interim condensed financial information of the Bank for the six months period ended 30 June 2013 was authorised by the Board of Directors for issue on 8 July 2013.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no 97 of 2013 (the Decree).

According to article 2 and 3 of the Decree, Executive Regulations which shall be issued by the Ministry of Industry and Commerce by 26 September 2013 will determine the basis and rules which the Bank shall adopt to regularise its affairs with the Companies Law as amended.

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 2012 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait'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 2012.

The Bank has adopted the following new standard which is effective from 1 January 2013:

IFRS 13 – Fair Value measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Bank.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 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 International Financial Reporting Standards, and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2012. Further, operating results for the six months period ended 30 June 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

This interim condensed financial information has been presented in Kuwaiti Dinars rounded off to the nearest thousand.

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2013

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 30 June 2013 KD 000's</i> | <i>3 months ended 30 June 2012 KD 000's</i> | <i>6 months ended 30 June 2013 KD 000's</i> | <i>6 months ended 30 June 2012 KD 000's</i> |
|--|---|---|---|---|
| Profit for the period | 6,336 | 5,424 | 14,271 | 12,794 |
| | <u>Shares</u> | <u>Shares</u> | <u>Shares</u> | <u>Shares</u> |
| Weighted average number of issued shares | 2,764,741,858 | 2,764,741,858 | 2,764,741,858 | 2,764,741,858 |
| Less: Weighted average number of treasury shares | (86,484,350) | (60,325,643) | (85,202,867) | (58,578,210) |
| | <u>2,678,257,508</u> | <u>2,704,416,215</u> | <u>2,679,538,991</u> | <u>2,706,163,648</u> |
| Basic and diluted earnings per share (Fils) | <u>2</u> | <u>2</u> | <u>5</u> | <u>5</u> |

Earning per share calculations for the period ended 30 June 2012 have been adjusted to take account of the bonus shares issued in 2013.

4. SHARE CAPITAL

| | <i>(Unaudited) 30 June 2013 KD 000's</i> | <i>(Audited) 31 December 2012 KD 000's</i> | <i>(Unaudited) 30 June 2012 KD 000's</i> |
|---|--|--|--|
| Authorised, issued and fully paid up 2,764,741,858 (2012: 2,633,087,484) shares of 100 fils | <u>276,474</u> | <u>263,309</u> | <u>263,309</u> |

5. TREASURY SHARES

| | <i>(Unaudited) 30 June 2013</i> | <i>(Audited) 31 December 2012</i> | <i>(Unaudited) 30 June 2012</i> |
|--|---|---|---|
| Number of treasury shares | 97,978,982 | 79,665,829 | 58,566,138 |
| Percentage of treasury shares | 3.54% | 3.03% | 2.22% |
| Cost of treasury shares (KD 000's) | 62,096 | 56,334 | 47,564 |
| Market value of treasury shares (KD 000's) | 38,212 | 33,460 | 25,476 |

6. BONUS SHARES

The shareholders at the Annual General Meeting held on 16 March 2013 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2012 amounting to KD 13,165 thousand (31 December 2011: KD 12,539 thousand) representing 131,654,374 shares of 100 fils each.

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2013

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 six months period ended 30 June is as follows:

| | <u>Commercial Banking</u> | | <u>Treasury & Investments</u> | | <u>Total</u> | |
|--|---------------------------|------------------|-----------------------------------|------------------|-------------------------|-------------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</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>72,511</u> | <u>66,355</u> | <u>2,488</u> | <u>8,475</u> | <u>74,999</u> | <u>74,830</u> |
| Segment result | <u>32,232</u> | <u>34,044</u> | <u>477</u> | <u>5,013</u> | <u>32,709</u> | <u>39,057</u> |
| Unallocated income | | | | | <u>9,457</u> | <u>10,797</u> |
| Unallocated expense | | | | | <u>(27,895)</u> | <u>(37,060)</u> |
| Profit for the period | | | | | <u><u>14,271</u></u> | <u><u>12,794</u></u> |
| Segment assets | <u>3,591,082</u> | <u>3,466,149</u> | <u>1,351,222</u> | <u>1,339,781</u> | <u>4,942,304</u> | <u>4,805,930</u> |
| Unallocated assets | | | | | <u>68,025</u> | <u>69,909</u> |
| Total Assets | | | | | <u><u>5,010,329</u></u> | <u><u>4,875,839</u></u> |
| Segment liabilities | <u>3,038,542</u> | <u>2,873,834</u> | <u>1,346,241</u> | <u>1,416,479</u> | <u>4,384,783</u> | <u>4,290,313</u> |
| Unallocated liabilities and equity | | | | | <u>625,546</u> | <u>585,526</u> |
| Total Liabilities and Equity | | | | | <u><u>5,010,329</u></u> | <u><u>4,875,839</u></u> |

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2013

8. RELATED PARTY TRANSACTIONS

Certain related parties (Board members and officers 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 are approved as per the Bank's policies.

The balances included in the financial position are as follows:

| | Directors and Key Management Personnel | | |
|---------------------------------|--|--------------------|--------------------|
| | <i>(Unaudited)</i> | <i>(Audited)</i> | <i>(Unaudited)</i> |
| | <i>30 June</i> | <i>31 December</i> | <i>30 June</i> |
| | <i>2013</i> | <i>2012</i> | <i>2012</i> |
| | <i>KD 000's</i> | <i>KD 000's</i> | <i>KD 000's</i> |
| Board members: | | | |
| Loans, receivables and advances | 58,812 | 52,450 | 54,059 |
| Investments available-for-sale | 40 | 770 | 762 |
| Deposits | 152,887 | 217,583 | 226,548 |
| Guarantees issued | 6,290 | 4,907 | 5,851 |
| Executive management: | | | |
| Loans | 57 | 541 | 551 |
| Deposits | 892 | 1,218 | 1,699 |
| Guarantees issued | 1 | 1 | 1 |

The loans granted to directors and key management personnel are repayable within 3 years and have interest rates of 2% to 7 % (2012: 3% to 7%) per annum. Some of the loans advanced to Board members and their related parties are collateralised. The fair value of these collaterals as of 30 June 2013 was **KD 50,005 thousand** (31 December 2012: KD 51,334 thousand and 30 June 2012: KD 54,082 thousand).

The transactions included in the interim condensed financial information are as follows:

| | <i>6 months ended</i> | <i>6 months ended</i> |
|---|-----------------------|-----------------------|
| | <i>30 June 2013</i> | <i>30 June 2012</i> |
| | <i>KD 000's</i> | <i>KD 000's</i> |
| Board members, directors and key management personnel: | | |
| Interest income earned | 910 | 1,070 |
| Interest expense on deposits | 749 | 1,712 |
| Key management compensation: | | |
| Salaries and other short-term benefits | 1,414 | 1,469 |
| End of service/termination benefits | 45 | 47 |

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2013

9. CONTINGENT LIABILITIES AND COMMITMENTS

| | <i>(Unaudited)</i> 30 June 2013 KD 000's | <i>(Audited)</i> 31 December 2012 KD 000's | <i>(Unaudited)</i> 30 June 2012 KD 000's |
|-------------------|---|---|---|
| Guarantees | 945,865 | 1,032,466 | 968,004 |
| Letters of credit | 176,365 | 206,023 | 257,240 |
| | <u>1,122,230</u> | <u>1,238,489</u> | <u>1,225,244</u> |

As at 30 June 2013 the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 106,377 thousand** (31 December 2012: KD 105,201 thousand and 30 June 2012: KD 93,304 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 notional amounts of derivative financial instruments 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.

At 30 June 2013:

| | <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 | 410 | (411) | 28,334 | 25,221 | 3,113 | - |
| Credit default swaps | 42 | (1,780) | 140,079 | 22,188 | 22,265 | 95,626 |
| | <u>452</u> | <u>(2,191)</u> | <u>168,413</u> | <u>47,409</u> | <u>25,378</u> | <u>95,626</u> |

At 31 December 2012:

| | <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 | 388 | (370) | 65,937 | 25,663 | 40,274 | - |
| Credit default swaps | 47 | (3,462) | 153,568 | - | 21,854 | 131,714 |
| | <u>435</u> | <u>(3,832)</u> | <u>219,505</u> | <u>25,663</u> | <u>62,128</u> | <u>131,714</u> |

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10. DERIVATIVES (continued)

At 30 June 2012:

| | Positive fair value KD 000's | Negative fair value KD 000's | Notional amount total KD 000's | Notional amounts by term to maturity | | |
|-------------------------------------|------------------------------------|------------------------------------|---|--------------------------------------|----------------------------|----------------------------|
| | | | | Within 3 months KD 000's | 3-12 months KD 000's | Over 1 year KD 000's |
| Derivatives instruments held as: | | | | | | |
| Trading (and non qualifying hedges) | | | | | | |
| Forward foreign exchange contracts | 648 | (710) | 106,112 | 61,301 | 44,811 | - |
| Credit default swaps | - | (7,881) | 241,268 | 19,611 | 68,637 | 153,020 |
| Structured products | 5,121 | - | 11,206 | - | 11,206 | - |
| | <u>5,769</u> | <u>(8,591)</u> | <u>358,586</u> | <u>80,912</u> | <u>124,654</u> | <u>153,020</u> |

Derivatives are fair valued using observable market data (Level 2 hierarchy as defined in Note 11).

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied 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 30 June 2013

| | Level 1 KD '000 | Level 2 KD '000 | Level 3 KD '000 | Total KD '000 |
|--|--------------------|--------------------|--------------------|------------------|
| Financial assets | | | | |
| <i>Financial assets available for sale :</i> | | | | |
| Equity securities | 66,701 | 6,090 | - | 72,791 |
| Debt securities | 31,391 | - | - | 31,391 |
| | <u>98,092</u> | <u>6,090</u> | <u>-</u> | <u>104,182</u> |

Investments with a carrying amount of KD 41,744 thousand are carried at cost net of impairment.

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12. REPOSSESSED COLLATERAL

During the period, the Bank obtained possession of investment securities valued at KD 16,964 thousand and treasury shares valued at KD 5,488 thousand in settlement of debts due from customers (31 December 2012: other assets valued at KD 2,500 thousand, 30 June 2012 : KD Nil). These repossessed collaterals will be disposed of within the stipulated time limit prescribed by the CBK.

13. FAMILY SUPPORT FUND

During the period, CBK issued its Circular No. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. Ministry of Finance has established a Fund to purchase outstanding balance of instalment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. The Bank is currently in the process of identifying such loans and submitting its report.