

**GULF BANK K.S.C.P.**  
**INTERIM CONDENSED FINANCIAL INFORMATION**  
**(UNAUDITED)**  
**30 September 2015**



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 30 September 2015, and the related interim condensed statement of income and interim condensed statement of comprehensive income for the three months and nine months period then ended and the related interim condensed statement of cash flows and interim condensed statement of changes in equity for the nine 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 and its executive regulation, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the nine months period ended 30 September 2015 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 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 nine months period ended 30 September 2015 that might have had a material effect on the business of the Bank or on its financial position.

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21 October 2015  
Kuwait

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

PERIOD ENDED 30 SEPTEMBER 2015

	<i>Notes</i>	<i>3 months ended 30 September 2015 KD 000's</i>	<i>3 months ended 30 September 2014 KD 000's</i>	<i>9 months ended 30 September 2015 KD 000's</i>	<i>9 months ended 30 September 2014 KD 000's</i>
Interest income		40,415	42,065	125,597	122,892
Interest expense		11,977	12,539	35,842	36,211
<b>Net interest income</b>		<u>28,438</u>	<u>29,526</u>	<u>89,755</u>	<u>86,681</u>
Net fees and commissions		6,993	8,208	21,802	21,005
Net gains from dealing in foreign currencies and derivatives		2,574	2,167	6,726	6,559
Realised gains from disposal of investment securities		5,242	163	6,909	4,049
Dividend income		99	136	1,424	953
Other income		930	287	1,636	864
<b>Operating income</b>		<u>44,276</u>	<u>40,487</u>	<u>128,252</u>	<u>120,111</u>
Staff expenses		9,722	9,923	29,932	30,805
Occupancy costs		1,024	846	2,813	2,638
Depreciation		576	641	1,676	1,989
Other expenses	13	3,483	2,891	8,539	4,843
<b>Operating expenses</b>		<u>14,805</u>	<u>14,301</u>	<u>42,960</u>	<u>40,275</u>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>		<u>29,471</u>	<u>26,186</u>	<u>85,292</u>	<u>79,836</u>
Charge of provisions:					
- specific		1,403	707	29,717	32,904
- general		13,412	28,590	26,448	46,911
Loan recoveries net of write-off		2,633	(15,314)	(3,667)	(31,349)
Impairment loss on investment securities		538	793	1,769	3,596
<b>OPERATING PROFIT</b>		<u>11,485</u>	<u>11,410</u>	<u>31,025</u>	<u>27,774</u>
Contribution to Kuwait Foundation for the Advancement of Sciences		118	115	315	281
National Labour Support Tax		285	280	771	687
Zakat		118	115	315	281
<b>PROFIT FOR THE PERIOD</b>		<u>10,964</u>	<u>10,900</u>	<u>29,624</u>	<u>26,525</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	3	<u>4</u>	<u>4</u>	<u>10</u>	<u>9</u>

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

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

PERIOD ENDED 30 SEPTEMBER 2015

	<i>3 months 30 September 2015 KD 000's</i>	<i>3 months ended 30 September 2014 KD 000's</i>	<i>9 months ended 30 September 2015 KD 000's</i>	<i>9 months ended 30 September 2014 KD 000's</i>
<b>Profit for the period</b>	<b>10,964</b>	10,900	<b>29,624</b>	26,525
<b>Other comprehensive income</b>				
<i>Other comprehensive income reclassified to interim condensed statement of income:</i>				
Investment securities:				
- Net realised gain on disposal	(5,326)	(171)	(6,995)	(3,178)
- Impairment loss	538	793	1,769	3,596
<i>Other comprehensive income to be reclassified to interim condensed statement of income in subsequent periods:</i>				
Net unrealised losses on investment securities	(758)	2,264	(2,282)	(1,035)
<b>Other comprehensive income for the period</b>	<b>(5,546)</b>	2,886	<b>(7,508)</b>	(617)
<b>Total comprehensive income for the period</b>	<b>5,418</b>	13,786	<b>22,116</b>	25,908

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

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

	<i>(Unaudited)</i> 30 September 2015	<i>(Audited)</i> 31 December 2014	<i>(Unaudited)</i> 30 September 2014
<i>Notes</i>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>
<b>ASSETS</b>			
Cash and cash equivalents	627,749	607,367	555,859
Treasury bills and bonds	245,040	188,086	192,300
Central Bank of Kuwait bonds	548,635	588,216	512,170
Deposits with banks and other financial institutions	-	22,000	22,283
Loans and advances to banks	84,881	127,596	111,251
Loans and advances to customers	3,629,077	3,583,103	3,582,542
Investment securities	138,636	82,339	90,538
Other assets	106,573	104,444	98,705
Premises and equipment	28,434	27,727	26,130
	<b>5,409,025</b>	<b>5,330,878</b>	<b>5,191,778</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	360,406	354,677	360,096
Deposits from financial institutions	742,543	678,669	670,394
Customer deposits	3,706,019	3,661,724	3,523,602
Subordinated loans	-	43,920	43,208
Other liabilities	70,683	80,527	85,977
	<b>4,879,651</b>	<b>4,819,517</b>	<b>4,683,277</b>
<b>EQUITY</b>			
Share capital	304,813	290,298	290,298
Proposed bonus shares	-	14,515	-
Statutory reserve	12,824	12,824	9,097
Share premium	153,024	153,024	153,024
Property revaluation reserve	18,874	18,874	17,635
Treasury share reserve	24,246	24,246	24,246
Fair valuation reserve	1,666	9,174	13,496
Retained earnings	84,498	54,874	64,181
	<b>599,945</b>	<b>577,829</b>	<b>571,977</b>
Treasury shares	(70,571)	(66,468)	(63,476)
	<b>529,374</b>	<b>511,361</b>	<b>508,501</b>
	<b>5,409,025</b>	<b>5,330,878</b>	<b>5,191,778</b>



**Omar Kutayba Alghanim**  
*(Chairman)*



**César González-Bueno**  
*(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.P.**  
**Interim Condensed Statement of Cash Flows**  
**(Unaudited)**  
**PERIOD ENDED 30 SEPTEMBER 2015**

	<i>9 months ended 30 September 2015 KD 000's</i>	<i>9 months ended 30 September 2014 KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	29,624	26,525
Adjustments:		
Effective interest rate adjustment	(1,420)	(308)
Unrealised fair value gains on credit default swaps	51	(378)
Realised gains from disposal of investment securities	(6,909)	(4,049)
Dividend income	(1,424)	(953)
Depreciation	1,676	1,989
Loan loss provisions	56,165	79,815
Impairment loss on investment securities	1,769	3,596
Foreign exchange movement on subordinated loans	120	976
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>79,652</b>	<b>107,213</b>
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(56,954)	(15,158)
Central Bank of Kuwait bonds	39,581	27,351
Deposits with banks and other financial institutions	22,000	(8,181)
Loans and advances to banks	42,715	14,164
Loans and advances to customers	(102,016)	(299,199)
Other assets	(2,129)	65,398
<i>Increase/(decrease) in operating liabilities:</i>		
Due to banks	5,729	52,256
Deposits from financial institutions	63,874	(89,409)
Customer deposits	44,295	197,351
Other liabilities	(8,598)	(18,377)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>128,149</b>	<b>33,409</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities	(88,199)	(117)
Proceeds from sale of investment securities	29,534	33,397
Purchase of premises and equipment	(2,383)	(2,280)
Dividends income received	1,424	953
<b>NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES</b>	<b>(59,624)</b>	<b>31,953</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of subordinated loans	(44,040)	(42,383)
Purchase of treasury shares	(4,103)	(541)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(48,143)</b>	<b>(42,924)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>20,382</b>	<b>22,438</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>607,367</b>	<b>533,421</b>
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>627,749</b>	<b>555,859</b>
<b>Additional cash flow information</b>		
Interest received	134,710	131,460
Interest paid	38,097	33,703

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

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

PERIOD ENDED 30 SEPTEMBER 2015

	<b>R E S E R V E S</b>										
	<i>Share capital KD 000's</i>	<i>Proposed bonus shares KD 000's</i>	<i>Statutory reserve KD 000's</i>	<i>Share premium KD 000's</i>	<i>Property revaluation reserve KD 000's</i>	<i>Treasury share reserve KD 000's</i>	<i>Fair valuation reserve KD 000's</i>	<i>Retained earnings KD 000's</i>	<i>Sub-total reserves KD 000's</i>	<i>Treasury shares KD 000's</i>	<i>Total KD 000's</i>
At 1 January 2014	276,474	13,824	9,097	153,024	17,635	24,246	14,113	37,656	255,771	(62,935)	483,134
Profit for the period	-	-	-	-	-	-	-	26,525	26,525	-	26,525
Other comprehensive income for the period	-	-	-	-	-	-	(617)	-	(617)	-	(617)
Total comprehensive Income for the period	-	-	-	-	-	-	(617)	26,525	25,908	-	25,908
Issue of bonus shares (Note 6)	13,824	(13,824)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(541)	(541)
At 30 September 2014	290,298	-	9,097	153,024	17,635	24,246	13,496	64,181	281,679	(63,476)	508,501
At 1 January 2015	290,298	14,515	12,824	153,024	18,874	24,246	9,174	54,874	273,016	(66,468)	511,361
Profit for the period	-	-	-	-	-	-	-	29,624	29,624	-	29,624
Other comprehensive income for the period	-	-	-	-	-	-	(7,508)	-	(7,508)	-	(7,508)
Total comprehensive Income for the period	-	-	-	-	-	-	(7,508)	29,624	22,116	-	22,116
Issue of bonus shares (Note 6)	14,515	(14,515)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(4,103)	(4,103)
At 30 September 2015	304,813	-	12,824	153,024	18,874	24,246	1,666	84,498	295,132	(70,571)	529,374

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



**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
30 September 2015

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**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.

The interim condensed financial information of the Bank for the nine months period ended 30 September 2015 was authorised by the Board of Directors for issue on 21 October 2015.

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

**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 2014 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 impairment 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 statement for the year ended 31 December 2014 except for the adoption of the new accounting policy for held to maturity investments.

Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the statement of income. The interest income from debt securities classified as held to maturity is recorded in interest income.

Amendments to IFRSs and annual improvement 2010 – 2012 cycle which are effective for annual accounting period starting from 1 January 2015 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 2014. Further, operating results for the nine months period ended 30 September 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

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).



**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
30 September 2015

**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 September 2015 KD 000's</i>	<i>3 months ended 30 September 2014 KD 000's</i>	<i>9 months ended 30 September 2015 KD 000's</i>	<i>9 months ended 30 September 2014 KD 000's</i>
Profit for the period	10,964	10,900	29,624	26,525
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	2,913,374,302	2,935,293,104	2,917,898,778	2,935,641,529
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>4</u>	<u>10</u>	<u>9</u>

Earning per share calculations for the period ended 30 September 2014 have been adjusted to take account of the bonus shares issued in 2015.

**4. SHARE CAPITAL**

	<i>(Unaudited) 30 September 2015 KD 000's</i>	<i>(Audited) 31 December 2014 KD 000's</i>	<i>(Unaudited) 30 September 2014 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2014: 2,902,978,951 and 30 September 2014: 2,902,978,951) shares of 100 fils each	<u>304,813</u>	<u>290,298</u>	<u>290,298</u>

**5. TREASURY SHARES**

	<i>(Unaudited) 30 September 2015</i>	<i>(Audited) 31 December 2014</i>	<i>(Unaudited) 30 September 2014</i>
Number of treasury shares	137,375,563	116,816,493	106,748,848
Percentage of treasury shares	<u>4.51%</u>	<u>4.02%</u>	<u>3.68%</u>
Cost of treasury shares (KD 000's)	<u>70,571</u>	<u>66,468</u>	<u>63,476</u>
Weighted average market value of treasury shares (KD 000's)	<u>38,465</u>	<u>40,652</u>	<u>38,109</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 2014: KD 24,246 thousand and 30 September 2014: KD 24,246 thousand) is not available for distribution. An amount equivalent to the cost of purchase of the treasury shares has 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)**  
30 September 2015

**6. BONUS SHARES**

The shareholders at the Annual General Meeting held on 9 March 2015 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2014 amounting to KD 14,515 thousand (31 December 2013: 13,824 thousand) representing 145,148,947 shares of 100 fils each.

**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 nine months period ended 30 September is as follows:

	<b>Commercial Banking</b>		<b>Treasury &amp; Investments</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>	<b>KD 000's</b>
Operating income (excluding unallocated income provided below)	<b>103,166</b>	103,169	<b>11,762</b>	4,570	<b>114,928</b>	107,739
Segment result	<b>39,870</b>	55,911	<b>8,342</b>	1,087	<b>48,212</b>	56,998
Unallocated income					<b>13,324</b>	12,372
Unallocated expense					<b>(31,912)</b>	(42,845)
<b>Profit for the period</b>					<b>29,624</b>	26,525
Segment assets	<b>3,861,893</b>	3,769,190	<b>1,412,126</b>	1,297,753	<b>5,274,019</b>	5,066,943
Unallocated assets					<b>135,006</b>	124,835
<b>Total Assets</b>					<b>5,409,025</b>	5,191,778
Segment liabilities	<b>3,153,012</b>	2,966,734	<b>1,600,519</b>	1,574,244	<b>4,753,531</b>	4,540,978
Unallocated liabilities and equity					<b>655,494</b>	650,800
<b>Total Liabilities and Equity</b>					<b>5,409,025</b>	5,191,778

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

30 September 2015

**8. RELATED PARTY TRANSACTIONS**

Certain related parties (Major shareholders, 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 were approved as per the Bank's policies.

The transactions and balances included in the interim condensed statement of financial position are as follows:

	<i>Number of Board Members or executive management members</i>			<i>Number of related parties</i>			<i>(Audited)</i>	<i>(Audited)</i>	
	<i>30 September 2015</i>	<i>31 December 2014</i>	<i>30 September 2014</i>	<i>30 September 2015</i>	<i>31 December 2014</i>	<i>30 September 2014</i>			
							<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Board members:</b>									
<b>Balances</b>									
Loans and advances	-	-	-	6	4	4	51,381	60,209	59,585
Investment securities	-	-	-	-	1	1	-	31	38
Deposits	6	6	6	18	20	19	353,686	375,326	338,599
<b>Commitments</b>									
Guarantees / letters of credit	1	-	-	6	7	7	2,855	7,593	14,007
<b>Transactions</b>									
Interest income	-	-	-	9	10	10	1,196	1,959	1,531
Interest expense	1	2	2	6	7	7	2,261	2,677	1,925
<b>Executive management:</b>									
<b>Balances</b>									
Loans and advances	2	2	1	-	-	-	66	98	52
Deposits	13	10	10	-	-	-	863	1,279	1,259
<b>Commitments</b>									
Guarantees /letter of credit	1	1	1	-	-	-	1	1	1
<b>Transactions</b>									
Interest income	2	2	2	-	-	-	3	3	2
Interest expense	13	11	11	-	-	-	13	15	11

# GULF BANK K.S.C.P.

## Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2015

### 8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to directors and key management personnel are repayable within CBK regulatory limits and have interest rates of 2% to 5% (2014: 2% to 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 30 September 2015 was KD 50,692 thousand (31 December 2014: KD 56,528 thousand and 30 September 2014: KD 63,588 thousand).

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

	<i>9 months ended 30 September 2015</i>	<i>9 months ended 30 September 2014</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Salaries and other short-term benefits	2,675	2,579
End of service/termination benefits	106	83
	2,781	2,662

### 9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 30 September 2015</i>	<i>(Audited) 31 December 2014</i>	<i>(Unaudited) 30 September 2014</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Guarantees	1,255,642	1,211,756	1,250,938
Letters of credit	175,208	199,445	194,576
	1,430,850	1,411,201	1,445,514

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to KD 156,509 thousand (31 December 2014: KD 166,405 thousand and 30 September 2014: KD 149,145 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 30 September 2015:

	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months</i>	<i>3-12 months</i>	<i>Over 1 year</i>
				<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Derivatives instruments held as:</b>						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	115	(286)	34,737	2,258	32,479	-
Credit default swaps	24	(218)	89,120	-	-	89,120
	139	(504)	123,857	2,258	32,479	89,120

# GULF BANK K.S.C.P.

## Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2015

### 10. DERIVATIVES (continued)

At 31 December 2014:

	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	82	(56)	5,948	5,948	-	-
Credit default swaps	202	(346)	86,376	-	-	86,376
	<u>284</u>	<u>(402)</u>	<u>92,324</u>	<u>5,948</u>	<u>-</u>	<u>86,376</u>

At 30 September 2014:

	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	117	(103)	14,433	10,703	3,730	-
Credit default swaps	268	(310)	84,975	-	-	84,975
	<u>385</u>	<u>(413)</u>	<u>99,408</u>	<u>10,703</u>	<u>3,730</u>	<u>84,975</u>

### 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 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 30 September 2015

	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
<i>Financial assets available for sale :</i>				
Equity securities	19,839	6,676	-	26,515
Debt securities	34,920	-	-	34,920
	<u>54,759</u>	<u>6,676</u>	<u>-</u>	<u>61,435</u>

The amortized cost and fair value of investment securities held to maturity as at 30 September 2015 were **KD 55,294 thousand** (31 December 2014: KD Nil; 30 September 2014: KD Nil) and **KD 55,426 thousand** (Level: 1) (31 December 2014: KD Nil; 30 September 2014: KD Nil) respectively.

There are certain unquoted equity investments carried at cost net of impairment with a carrying amount of **KD 21,907 thousand** (31 December 2014: KD 21,820 thousand; 30 September 2014: KD 22,683 thousand).

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## Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2015

### 11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2014

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets available for sale :</i>				
Equity securities	28,034	7,046	-	35,080
Debt securities	25,439	-	-	25,439
	53,473	7,046	-	60,519

At 30 September 2014

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial assets available for sale :</i>				
Equity securities	30,885	11,862	-	42,747
Debt securities	25,108	-	-	25,108
	55,993	11,862	-	67,855

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

This includes investment securities and real estate collaterals repossessed in settlement of debts from customers, amounting to **KD 47,940 thousand** (31 December 2014: KD 63,683 thousand and 30 September 2014: KD 52,382 thousand).

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on investment securities amounting to **KD 10,356 thousand** (31 December 2014: KD Nil and 30 September 2014: KD Nil).

During the period, the Bank obtained possession of investment securities valued at **KD Nil** (31 December 2014: KD 11,889 thousand and 30 September 2014: KD Nil), real estate properties valued at **KD Nil** (31 December 2014: KD 12,293 thousand and 30 September 2014: KD 12,293 thousand). Investment securities amounting to **KD 2,831 thousand** (31 December 2014: KD 16,706 thousand and 30 September 2014: KD 14,107 thousand) are fair valued using quoted market prices (Level 1) and the balance amounting to **KD 16,898 thousand** (31 December 2014: KD 18,766 thousand and 30 September 2014: KD 10,064 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.

### 13. OTHER EXPENSES

Other expenses for the period ended 30 September 2014 included KD 7,352 thousand relating to reversal of a legal provision which was no longer required.