

**GULF BANK K.S.C.P.**  
**INTERIM CONDENSED FINANCIAL INFORMATION**  
**(UNAUDITED)**  
**30 SEPTEMBER 2014**



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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 2014 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, or of the Bank’s Memorandum of Incorporation and Articles of Association during the nine months period ended 30 September 2014 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 2014 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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13 October 2014  
Kuwait

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

	<i>Note</i>	<b>3 months ended 30 September 2014 KD 000's</b>	<b>3 months ended 30 September 2013 KD 000's</b>	<b>9 months ended 30 September 2014 KD 000's</b>	<b>9 months ended 30 September 2013 KD 000's</b>
Interest income		42,065	40,234	122,892	123,469
Interest expense		12,539	11,089	36,211	34,294
<b>Net interest income</b>		<b>29,526</b>	<b>29,145</b>	<b>86,681</b>	<b>89,175</b>
Net fees and commissions		8,208	6,278	21,005	20,386
Net gains from dealing in foreign currencies and derivatives		2,167	3,402	6,559	11,432
Realised gains from disposal of investments available-for-sale		163	324	4,049	1,198
Dividend income		136	35	953	345
Other income		287	256	864	1,360
<b>Operating income</b>		<b>40,487</b>	<b>39,440</b>	<b>120,111</b>	<b>123,896</b>
Staff expenses		9,923	9,048	30,805	29,641
Occupancy costs		846	871	2,638	2,564
Depreciation		641	724	1,989	2,248
Other expenses		2,891	1,683	4,843	8,806
<b>Operating expenses</b>		<b>14,301</b>	<b>12,326</b>	<b>40,275</b>	<b>43,259</b>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>		<b>26,186</b>	<b>27,114</b>	<b>79,836</b>	<b>80,637</b>
Charge / (release) of provisions:					
- specific		707	23,023	32,904	56,539
- general		28,590	(3,217)	46,911	3,656
Loans recoveries net of write-off		(15,314)	(3,182)	(31,349)	(5,228)
Impairment loss on investments available-for-sale		793	242	3,596	480
<b>OPERATING PROFIT</b>		<b>11,410</b>	<b>10,248</b>	<b>27,774</b>	<b>25,190</b>
Contribution to Kuwait Foundation for the Advancement of Sciences		115	103	281	253
National Labour Support Tax		280	253	687	624
Zakat		115	103	281	253
<b>PROFIT FOR THE PERIOD</b>		<b>10,900</b>	<b>9,789</b>	<b>26,525</b>	<b>24,060</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>9</b>	<b>9</b>

The attached notes 1 to 14 form part of the interim condensed financial information.

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

	<i>3 months ended</i> <i>30 September</i> <i>2014</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 September</i> <i>2013</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2014</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2013</i> <i>KD 000's</i>
<b>Profit for the period</b>	<b>10,900</b>	9,789	<b>26,525</b>	24,060
<b>Other comprehensive income</b>				
<i>Other comprehensive income reclassified to interim condensed statement of income :</i>				
Investments available- for-sale :				
- Net realised gain on disposal	(171)	(6)	<b>(3,178)</b>	(401)
- Impairment loss	793	242	<b>3,596</b>	480
<i>Other comprehensive income to be reclassified to interim condensed statement of income in subsequent periods:</i>				
Net unrealised gains / (losses) on investments available-for-sale	<u>2,264</u>	<u>(358)</u>	<u>(1,035)</u>	<u>7,635</u>
<b>Other comprehensive income for the period</b>	<b>2,886</b>	(122)	<b>(617)</b>	7,714
<b>Total comprehensive income for the period</b>	<u><b>13,786</b></u>	<u>9,667</u>	<u><b>25,908</b></u>	<u>31,774</u>

The attached notes 1 to 14 form part of the interim condensed financial information.

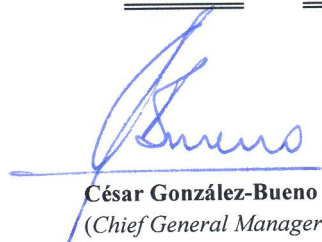


**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Financial Position**

	<i>(Unaudited)</i> 30 September 2014 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2013 <i>KD 000's</i>	<i>(Unaudited)</i> 30 September 2013 <i>KD 000's</i>
<b>ASSETS</b>			
Cash and short term funds	555,859	533,421	582,224
Treasury bills and bonds	192,300	177,142	175,739
Central Bank of Kuwait bonds	512,170	539,521	504,742
Deposits with banks and other financial institutions	22,283	14,102	-
Loans and advances to banks	111,251	125,415	130,947
Loans and advances to customers	3,582,542	3,361,234	3,444,360
Investments available-for-sale	90,538	123,982	129,026
Other assets	98,705	164,103	71,230
Premises and equipment	26,130	25,839	25,137
<b>TOTAL ASSETS</b>	<b>5,191,778</b>	<b>5,064,759</b>	<b>5,063,405</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	360,096	307,840	220,580
Deposits from financial institutions	670,394	759,803	865,449
Customer deposits	3,523,602	3,326,251	3,319,530
Subordinated loans	43,208	84,615	84,840
Other liabilities	85,977	103,116	97,930
<b>TOTAL LIABILITIES</b>	<b>4,683,277</b>	<b>4,581,625</b>	<b>4,588,329</b>
<b>EQUITY</b>			
Share capital	4 290,298	276,474	276,474
Proposed bonus shares	-	13,824	-
Statutory reserve	9,097	9,097	5,716
Share premium	153,024	153,024	153,024
Property revaluation reserve	17,635	17,635	16,698
Treasury share reserve	24,246	24,246	24,258
Fair valuation reserve	13,496	14,113	14,418
Retained earnings	64,181	37,656	46,761
	<b>571,977</b>	<b>546,069</b>	<b>537,349</b>
Treasury shares	5 (63,476)	(62,935)	(62,273)
	<b>508,501</b>	<b>483,134</b>	<b>475,076</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,191,778</b>	<b>5,064,759</b>	<b>5,063,405</b>



**Omar Kutayba Alghanim**  
(Chairman)



**César González-Bueno**  
(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 14 form part of the interim condensed financial information.

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

	<i>9 months ended 30 September 2014 KD 000's</i>	<i>9 months ended 30 September 2013 KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	26,525	24,060
Adjustments:		
Effective interest rate adjustment	(308)	(1,078)
Unrealised fair value gains on credit default swaps	(378)	(2,734)
Realised gains from disposal of investments available-for-sale	(4,049)	(1,198)
Dividend income	(953)	(345)
Depreciation	1,989	2,248
Loan loss provisions	79,815	60,195
Impairment loss on investments available-for-sale	3,596	480
Foreign exchange movement on subordinated loans	976	465
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>107,213</b>	<b>82,093</b>
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(15,158)	114,493
Central Bank of Kuwait bonds	27,351	(80,367)
Deposits with banks and other financial institutions	(8,181)	32,688
Loans and advances to banks	14,164	(38,342)
Loans and advances to customers	(299,199)	(181,474)
Other assets	65,398	(18,151)
<i>Increase/(decrease) in operating liabilities:</i>		
Due to banks	52,256	93,226
Deposits from financial institutions	(89,409)	18,846
Customer deposits	197,351	71,901
Other liabilities	(18,377)	9,699
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>33,409</b>	<b>104,612</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments available-for-sale	(117)	(2,207)
Proceeds from sale of investments available-for-sale	33,397	3,965
Purchase of premises and equipment	(2,280)	(1,782)
Dividends received	953	345
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>31,953</b>	<b>321</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of subordinated loans	(42,383)	-
Purchase of treasury shares	(541)	(5,939)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(42,924)</b>	<b>(5,939)</b>
<b>NET INCREASE IN CASH AND SHORT TERM FUNDS</b>	<b>22,438</b>	<b>98,994</b>
<b>CASH AND SHORT TERM FUNDS AT 1 JANUARY</b>	<b>533,421</b>	<b>483,230</b>
<b>CASH AND SHORT TERM FUNDS AT 30 SEPTEMBER</b>	<b>555,859</b>	<b>582,224</b>
<b>Additional cash flow information</b>		
Interest received	131,460	128,924
Interest paid	33,703	34,861

The attached notes 1 to 14 form part of the interim condensed financial information.

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

	<b>RESERVES</b>										
	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	Total KD.000's
<b>At 1 January 2013</b>	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	-	-	-	-	-	-	-	24,060	24,060	-	24,060
Other comprehensive income for the period	-	-	-	-	-	-	7,714	-	7,714	-	7,714
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	7,714	24,060	31,774	-	31,774
Issue of bonus shares (Note 6)	13,165	(13,165)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(5,939)	(5,939)
<b>At 30 September 2013</b>	276,474	-	5,716	153,024	16,698	24,258	14,418	46,761	260,875	(62,273)	475,076
<b>At 1 January 2014</b>	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)
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	(617)	26,525	25,908	-	25,908
Issue of bonus shares (Note 6)	13,824	(13,824)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(541)	(541)
<b>At 30 September 2014</b>	290,298	-	9,097	153,024	17,635	24,246	13,496	64,181	281,679	(63,476)	508,501

The attached notes 1 to 14 form part of the interim condensed financial information.



**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
30 September 2014

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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. 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 2014 was authorised by the Board of Directors for issue on 13 October 2014.

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

The New Companies Law issued on 26 November 2012 by Decree Law No. 25 of 2012 (the “Companies Law”), 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.

**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 2013 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 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 adopted in the preparation of the interim condensed financial information are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2013.

The Bank has adopted the following new standard which is effective from 1 January 2014:

*IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)*

These amendments are effective for annual periods beginning on or after 1 January 2014 and clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment has not resulted in any 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 2014 did not have any significant 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 2013. Further, operating results for the nine months period ended 30 September 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

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 2014

**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 2014 KD 000's</i>	<i>3 months ended 30 September 2013 KD 000's</i>	<i>9 months ended 30 September 2014 KD 000's</i>	<i>9 months ended 30 September 2013 KD 000's</i>
Profit for the period	10,900	9,789	26,525	24,060
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted average number of Bank's issued shares and paid up shares	2,902,978,951	2,902,978,951	2,902,978,951	2,902,978,951
Less: Weighted average number of treasury shares	(106,748,848)	(103,168,193)	(106,400,423)	(94,618,476)
	<u>2,796,230,103</u>	<u>2,799,810,758</u>	<u>2,796,578,528</u>	<u>2,808,360,475</u>
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>3</u>	<u>9</u>	<u>9</u>

Earning per share calculations for the period ended 30 September 2013 have been adjusted to take account of the bonus shares issued in 2014.

**4. SHARE CAPITAL**

	<i>(Unaudited) 30 September 2014 KD 000's</i>	<i>(Audited) 31 December 2013 KD 000's</i>	<i>(Unaudited) 30 September 2013 KD 000's</i>
Authorised, issued and fully paid up 2,902,978,951 (2013: 2,764,741,858) shares of 100 fils	<u>290,298</u>	<u>276,474</u>	<u>276,474</u>

**5. TREASURY SHARES**

	<i>(Unaudited) 30 September 2014</i>	<i>(Audited) 31 December 2013</i>	<i>(Unaudited) 30 September 2013</i>
Number of treasury shares	106,748,848	100,194,952	98,423,982
Percentage of treasury shares	<u>3.68%</u>	<u>3.62%</u>	<u>3.56%</u>
Cost of treasury shares (KD 000's)	<u>63,476</u>	<u>62,935</u>	<u>62,273</u>
Market value of treasury shares (KD 000's)	<u>37,362</u>	<u>37,573</u>	<u>39,370</u>

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
30 September 2014

**6. BONUS SHARES**

The shareholders at the Annual General Meeting held on 23 March 2014 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2013 amounting to **KD 13,824 thousand** (31 December 2012: KD 13,165 thousand) representing 138,237,093 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>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</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>103,169</b>	103,273	<b>4,570</b>	3,763	<b>107,739</b>	107,036
Segment result	<b>55,911</b>	36,637	<b>1,087</b>	709	<b>56,998</b>	37,346
Unallocated income					<b>12,372</b>	16,860
Unallocated expense					<b>(42,845)</b>	(30,146)
<b>Profit for the period</b>					<b>26,525</b>	24,060
Segment assets	<b>3,769,190</b>	3,654,483	<b>1,297,753</b>	1,312,555	<b>5,066,943</b>	4,967,038
Unallocated assets					<b>124,835</b>	96,367
<b>Total Assets</b>					<b>5,191,778</b>	5,063,405
Segment liabilities	<b>2,966,734</b>	3,026,007	<b>1,574,244</b>	1,411,908	<b>4,540,978</b>	4,437,915
Unallocated liabilities and equity					<b>650,800</b>	625,490
<b>Total Liabilities and Equity</b>					<b>5,191,778</b>	5,063,405

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

30 September 2014

**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 transaction and balances included in the interim condensed statement of financial position are as follows:

	Number of Board Members or executive management members		Number of related parties		KD 000's		KD 000's	
	30 September 2014	31 December 2013	30 September 2014	31 December 2013	30 September 2014	30 September 2013	31 December 2013	30 September 2013
<b>Board members:</b>								
<b>Balances</b>								
Loans, receivable and advances	-	-	4	4	3		59,115	59,171
Investments available-for-sale	-	-	1	1	1		40	40
Deposits	6	7	19	14	15		205,481	155,287
<b>Commitments</b>								
Guarantees / letters of credit	-	-	7	3	3		6,292	5,873
<b>Transactions</b>								
Interest income	-	-	10	4	3		1,809	1,363
Interest expense	2	2	7	6	6		1,350	1,021
<b>Executive management:</b>								
<b>Balances</b>								
Loans, receivable and advances	1	1	-	-	-		52	56
Deposits	10	10	-	-	-		1,259	544
<b>Commitments</b>								
Guarantees / letters of credit	1	1	-	-	-		1	1
<b>Transactions</b>								
Interest income	2	1	-	-	-		3	3
Interest expense	11	11	-	-	-		11	13

# GULF BANK K.S.C.P.

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

30 September 2014

### 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 % (2013: 2% to 6.75%) 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 2014 was **KD 63,588 thousand** (31 December 2013: KD 48,060 thousand and 30 September 2013: KD 50,627 thousand).

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

	<i>9 months ended 30 September 2014 KD 000's</i>	<i>9 months ended 30 September 2013 KD 000's</i>
Salaries and other short-term benefits	2,579	2,080
End of service/termination benefits	83	62
	<b>2,662</b>	<b>2,142</b>

### 9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 30 September 2014 KD 000's</i>	<i>(Audited) 31 December 2013 KD 000's</i>	<i>(Unaudited) 30 September 2013 KD 000's</i>
Guarantees	1,250,938	959,961	952,252
Letters of credit	194,576	163,153	142,185
	<b>1,445,514</b>	<b>1,123,114</b>	<b>1,094,437</b>

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD149,145 thousand** (31 December 2013: KD 137,720 thousand and 30 September 2013: KD 113,484 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 amount 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 2014:

	<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>
<b>Derivatives instruments held as:</b>						
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
	<b>385</b>	<b>(413)</b>	<b>99,408</b>	<b>10,703</b>	<b>3,730</b>	<b>84,975</b>



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**10. DERIVATIVES (continued)**

At 31 December 2013:

	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	30	(24)	6,815	1,150	5,665	-
Credit default swaps	20	(440)	116,487	-	33,282	83,205
	<u>50</u>	<u>(464)</u>	<u>123,302</u>	<u>1,150</u>	<u>38,947</u>	<u>83,205</u>

At 30 September 2013:

	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	226	(236)	3,119	3,119	-	-
Credit default swaps	3	(683)	116,796	-	33,370	83,426
	<u>229</u>	<u>(919)</u>	<u>119,915</u>	<u>3,119</u>	<u>33,370</u>	<u>83,426</u>

**11. 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 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 30 September 2014**

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

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

At 31 December 2013

	<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>
Financial assets				
<i>Financial assets available for sale :</i>				
Equity securities	30,362	21,834	-	52,196
Debt securities	30,774	-	-	30,774
	61,136	21,834	-	82,970

At 30 September 2013

	<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>
Financial assets				
<i>Financial assets available for sale :</i>				
Equity securities	50,533	5,901	-	56,434
Debt securities	30,965	-	-	30,965
	81,498	5,901	-	87,399

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. REPOSSESSED COLLATERAL

During the period, the Bank obtained possession of investment securities valued at **KD Nil** (31 December 2013: KD 24,943 thousand and 30 September 2013: KD 26,063 thousand), real estate properties valued at **KD 12,293 thousand** (31 December 2013: KD 15,918 thousand and 30 September 2013: KD Nil) and treasury shares valued at **KD Nil** (31 December 2013: KD 5,488 thousand and 30 September 2013: 5,488 thousand) held as collaterals in settlement of debts from customers. These repossessed collaterals will be disposed within the stipulated time limit prescribed by the CBK. Investment securities amounting to **KD 14,107 thousand** (31 December 2013: KD 14,879 thousand and 30 September 2013: KD 15,999 thousand) are fair valued using quoted market prices (Level 1) and the balance amounting to **KD 10,064 thousand** (31 December 2013: KD 10,064 thousand and 30 September 2013: 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.

## **GULF BANK K.S.C.P.**

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

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#### **13. FAMILY SUPPORT FUND**

During the previous year, 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. Other assets include **KD 4,356 thousand** (31 December 2013: KD 71,000 thousand and 30 September 2013: KD Nil ) related to eligible loans under the Fund.

#### **14. OTHER EXPENSES**

Other expenses includes **KD 7,352 thousand** (30 September 2013: Nil) relating to reversal of a legal provision which is no longer required.