

GULF BANK K.S.C.P.
INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)
30 SEPTEMBER 2016



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 2016, 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. 1 of 2016, and its executive regulations, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the nine months period ended 30 September 2016 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 2016 that might have had a material effect on the business of the Bank or on its financial position.

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EY
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27 October 2016
Kuwait

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

PERIOD ENDED 30 SEPTEMBER 2016

	<i>3 months ended</i> <i>30 September</i> <i>2016</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 September</i> <i>2015</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2016</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2015</i> <i>KD 000's</i>
Interest income	45,886	40,415	134,343	125,597
Interest expense	16,791	11,977	46,201	35,842
Net interest income	29,095	28,438	88,142	89,755
Net fees and commissions	7,837	6,993	23,955	21,802
Net gains from dealing in foreign currencies and derivatives	2,532	2,574	7,371	6,726
Realised (losses) gains from disposal of investment securities	(57)	5,242	125	6,909
Dividend income	-	99	4,128	1,424
Other income	263	930	1,503	1,636
Operating income	39,670	44,276	125,224	128,252
Staff expenses	9,919	9,722	30,226	29,932
Occupancy costs	1,015	1,024	3,102	2,813
Depreciation	737	576	2,068	1,676
Other expenses	3,332	3,483	9,274	8,539
Operating expenses	15,003	14,805	44,670	42,960
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES	24,667	29,471	80,554	85,292
Charge (release) of provisions:				
- specific	4,983	1,403	(6,233)	29,717
- general	6,950	13,412	27,210	26,448
Loan recoveries net of write-off	(51)	2,633	14,392	(3,667)
Impairment loss on investment securities	112	538	4,096	1,769
Impairment loss on other assets	-	-	6,750	-
OPERATING PROFIT	12,673	11,485	34,339	31,025
Contribution to Kuwait Foundation for the Advancement of Sciences	127	118	344	315
National Labour Support Tax	313	285	850	771
Zakat	127	118	344	315
PROFIT FOR THE PERIOD	12,106	10,964	32,801	29,624
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	4	11	10

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 2016

	<i>3 months 30 September 2016 KD 000's</i>	<i>3 months ended 30 September 2015 KD 000's</i>	<i>9 months ended 30 September 2016 KD 000's</i>	<i>9 months ended 30 September 2015 KD 000's</i>
Profit for the period	12,106	10,964	32,801	29,624
Other comprehensive income				
<i>Items that are reclassified or may be reclassified subsequently to the interim condensed statement of income:</i>				
Investment securities:				
- Net realised gain (losses) on disposal	286	(5,326)	144	(6,995)
- Impairment loss	112	538	4,096	1,769
- Net unrealised losses on investment securities	<u>(172)</u>	<u>(758)</u>	<u>(2,501)</u>	<u>(2,282)</u>
Other comprehensive income (loss) for the period	226	(5,546)	1,739	(7,508)
Total comprehensive income for the period	<u><u>12,332</u></u>	<u><u>5,418</u></u>	<u><u>34,540</u></u>	<u><u>22,116</u></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 Financial Position

		<i>(Unaudited)</i> 30 September 2016 KD 000's	<i>(Audited)</i> 31 December 2015 KD 000's	<i>(Unaudited)</i> 30 September 2015 KD 000's
ASSETS				
Cash and cash equivalents		732,108	837,048	627,749
Treasury bills and bonds		337,562	245,609	245,040
Central Bank of Kuwait bonds		368,224	361,425	548,635
Deposits with banks and other financial institutions		98,880	34,107	-
Loans and advances to banks		133,613	80,858	84,881
Loans and advances to customers		3,685,044	3,633,591	3,629,077
Investment securities		155,026	115,117	138,636
Other assets	12	81,441	101,439	106,573
Premises and equipment		29,144	28,522	28,434
TOTAL ASSETS		5,621,042	5,437,716	5,409,025
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		488,707	261,384	360,406
Deposits from financial institutions		728,081	726,032	742,543
Customer deposits		3,663,104	3,837,422	3,706,019
Subordinated Tier 2 bonds	13	100,000	-	-
Other liabilities		80,093	74,622	70,683
TOTAL LIABILITIES		5,059,985	4,899,460	4,879,651
EQUITY				
Share capital	4	304,813	304,813	304,813
Statutory reserve		16,923	16,923	12,824
Share premium		153,024	153,024	153,024
Property revaluation reserve		19,001	19,001	18,874
Treasury share reserve		24,246	24,246	24,246
Fair valuation reserve		2,869	1,130	1,666
Retained earnings		110,938	89,777	84,498
Treasury shares	5	(70,757)	(70,658)	(70,571)
TOTAL LIABILITIES AND EQUITY		5,621,042	5,437,716	5,409,025



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 2016

	Notes	<i>9 months ended 30 September 2016 KD 000's</i>	<i>9 months ended 30 September 2015 KD 000's</i>
OPERATING ACTIVITIES			
Profit for the period		32,801	29,624
Adjustments:			
Effective interest rate adjustment		(155)	(1,420)
Unrealised fair value (gains) losses on credit default swaps		(506)	51
Realised gains from disposal of investment securities		(125)	(6,909)
Dividend income		(4,128)	(1,424)
Depreciation		2,068	1,676
Loan loss provisions		20,977	56,165
Impairment loss on investment securities		4,096	1,769
Impairment loss on other assets		6,750	-
Foreign exchange movement on subordinated loan		-	120
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		61,778	79,652
<i>(Increase)/decrease in operating assets:</i>			
Treasury bills and bonds		(91,953)	(56,954)
Central Bank of Kuwait bonds		(6,799)	39,581
Deposits with banks and other financial institutions		(64,773)	22,000
Loans and advances to banks		(53,288)	42,715
Loans and advances to customers		(72,260)	(102,016)
Other assets		13,248	(2,129)
<i>Increase/(decrease) in operating liabilities:</i>			
Due to banks		227,323	5,729
Deposits from financial institutions		2,049	63,874
Customer deposits		(174,318)	44,295
Other liabilities		6,495	(8,598)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		(152,498)	128,149
INVESTING ACTIVITIES			
Purchase of investment securities		(66,632)	(88,199)
Proceeds from sale of investment securities		24,491	29,534
Purchase of premises and equipment		(2,690)	(2,383)
Dividends income received		4,128	1,424
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(40,703)	(59,624)
FINANCING ACTIVITIES			
Net proceeds from issue of Subordinated Tier 2 bonds	13	100,000	-
Dividend paid	6	(11,640)	-
Purchase of treasury shares		(99)	(4,103)
Repayment of subordinated loan		-	(44,040)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		88,261	(48,143)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(104,940)	20,382
CASH AND CASH EQUIVALENTS AT 1 JANUARY		837,048	607,367
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		732,108	627,749
<i>Additional cash flow information</i>			
Interest received		133,757	134,710
Interest paid		39,422	38,097

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 2016

	R E S E R V E S								Treasury shares KD 000's	Total KD 000's	
	Share capital KD 000's	Proposed bonus shares KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury share reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's			Sub-total reserves KD 000's
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
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	-	-	-	-	-	-	-	32,801	32,801	-	32,801
Other comprehensive income for the period	-	-	-	-	-	-	1,739	-	1,739	-	1,739
Total comprehensive income for the period	-	-	-	-	-	-	1,739	32,801	34,540	-	34,540
Dividend paid (Note 6)	-	-	-	-	-	-	-	(11,640)	(11,640)	-	(11,640)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(99)	(99)
At 30 September 2016	304,813	-	16,923	153,024	19,001	24,246	2,869	110,938	327,001	(70,757)	561,057

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 2016

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 nine months period ended 30 September 2016 was authorised by the Board of Directors for issue on 27 October 2016.

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 2015 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 2015.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 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 2015. Further, operating results for the nine months period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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 2016

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 2016 KD 000's</i>	<i>3 months ended 30 September 2015 KD 000's</i>	<i>9 months ended 30 September 2016 KD 000's</i>	<i>9 months ended 30 September 2015 KD 000's</i>
Profit for the period	12,106	10,964	32,801	29,624
	<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	<u>2,909,979,052</u>	<u>2,913,374,302</u>	<u>2,910,090,862</u>	<u>2,917,898,778</u>
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>4</u>	<u>11</u>	<u>10</u>

4. SHARE CAPITAL

	<i>(Unaudited) 30 September 2016 KD 000's</i>	<i>(Audited) 31 December 2015 KD 000's</i>	<i>(Unaudited) 30 September 2015 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2015: 3,048,127,898 and 30 September 2015: 3,048,127,898) shares of 100 fils each	<u>304,813</u>	<u>304,813</u>	<u>304,813</u>

5. TREASURY SHARES

	<i>(Unaudited) 30 September 2016</i>	<i>(Audited) 31 December 2015</i>	<i>(Unaudited) 30 September 2015</i>
Number of treasury shares	<u>138,148,846</u>	<u>137,687,846</u>	<u>137,375,563</u>
Percentage of treasury shares	<u>4.53%</u>	<u>4.52%</u>	<u>4.51%</u>
Cost of treasury shares (KD 000's)	<u>70,757</u>	<u>70,658</u>	<u>70,571</u>
Weighted average market value of treasury shares (KD 000's)	<u>31,083</u>	<u>38,277</u>	<u>38,465</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 2015: KD 24,246 thousand and 30 September 2015: KD 24,246 thousand) is not available for distribution. An amount equivalent to the cost of the treasury shares has been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings throughout the holding period of treasury shares.

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information

(Unaudited)

30 September 2016

6. DIVIDEND AND BONUS SHARES

The shareholders at the Annual General Meeting (AGM) held on 9 March 2016 approved a cash dividend of 4 fils per share (2014: Nil) for the year ended 31 December 2015. The cash dividend was paid subsequently.

During the previous year, the shareholders at the AGM 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 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:

	<u>Commercial Banking</u>		<u>Treasury & Investments</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</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>104,737</u>	103,166	<u>4,017</u>	11,762	<u>108,754</u>	114,928
Segment result	47,656	39,870	1,080	8,342	48,736	48,212
Unallocated income					16,470	13,324
Unallocated expense					(32,405)	(31,912)
Profit for the period					<u>32,801</u>	<u>29,624</u>
Segment assets	3,926,678	3,861,893	1,583,778	1,412,126	5,510,456	5,274,019
Unallocated assets					110,586	135,006
Total Assets					<u>5,621,042</u>	<u>5,409,025</u>
Segment liabilities	2,788,887	3,153,012	2,138,110	1,600,519	4,926,997	4,753,531
Unallocated liabilities and equity					694,045	655,494
Total Liabilities and Equity					<u>5,621,042</u>	<u>5,409,025</u>

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

30 September 2016

8. RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholder, 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>(Audited)</i>		<i>(Audited)</i>			
	30 September 2016	31 December 2015	30 September 2016	30 September 2015	30 September 2016	31 December 2015	30 September 2015	31 December 2015	30 September 2016	30 September 2015
Board members:										
Balances										
Loans and advances	1	-	11	5	6	94,373	65,155	51,381		
Deposits	8	6	35	22	18	475,919	435,458	353,686		
Commitments										
Guarantees / letters of credit	1	1	8	7	6	25,907	4,423	2,855		
Transactions										
Interest income	1	-	13	10	9	2,023	1,642	1,196		
Interest expense	2	1	8	7	6	3,719	3,310	2,261		
Other expenses	-	-	7	7	7	389	479	359		
Executive management:										
Balances										
Loans and advances	2	2	-	-	-	56	64	66		
Deposits	12	13	-	-	-	882	764	863		
Commitments										
Guarantees / letter of credit	1	1	-	-	-	1	1	1		
Transactions										
Interest income	2	2	-	-	-	2	4	3		
Interest expense	13	13	-	-	-	11	16	13		

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2016

8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to Board members and executive management are repayable within CBK regulatory limits and have interest rates of 2% to 5.5% (2015: 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 2016 was **KD 58,252 thousand** (31 December 2015: KD 48,264 thousand and 30 September 2015: KD 50,692 thousand).

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

	<i>9 months ended</i> <i>30 September 2016</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September 2015</i> <i>KD 000's</i>
Salaries and other short-term benefits	2,857	2,675
End of service/termination benefits	88	106
	2,945	2,781

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited)</i> <i>30 September</i> <i>2016</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2015</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 September</i> <i>2015</i> <i>KD 000's</i>
Guarantees	1,316,507	1,299,019	1,255,642
Letters of credit	198,577	192,271	175,208
	1,515,084	1,491,290	1,430,850

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 160,671 thousand** (31 December 2015: KD 157,170 thousand and 30 September 2015: KD 156,509 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 2016:

	<i>Positive</i> <i>fair value</i> <i>KD 000's</i>	<i>Negative</i> <i>fair value</i> <i>KD 000's</i>	<i>Notional</i> <i>amount</i> <i>total</i> <i>KD 000's</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within</i> <i>3 months</i> <i>KD 000's</i>	<i>3-12</i> <i>months</i> <i>KD 000's</i>	<i>Over</i> <i>1 year</i> <i>KD 000's</i>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	38	(25)	28,705	28,705	-	-
Credit default swaps	72	(79)	88,898	30,135	58,763	-
	110	(104)	117,603	58,840	58,763	-

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10. DERIVATIVES (continued)

At 31 December 2015:

	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	264	(427)	49,626	24,514	25,112	-
Credit default swaps	-	(513)	89,532	-	30,350	59,182
	<u>264</u>	<u>(940)</u>	<u>139,158</u>	<u>24,514</u>	<u>55,462</u>	<u>59,182</u>

At 30 September 2015:

	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	115	(286)	34,737	2,258	32,479	-
Credit default swaps	24	(218)	89,120	-	-	89,120
	<u>139</u>	<u>(504)</u>	<u>123,857</u>	<u>2,258</u>	<u>32,479</u>	<u>89,120</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 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 2016

	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
<i>Financial assets available for sale :</i>				
Equity securities	35,259	5,994	-	41,253
Debt securities	18,263	16,912	-	35,175
	<u>53,522</u>	<u>22,906</u>	<u>-</u>	<u>76,428</u>

The amortized cost and fair value of investment securities held to maturity as at 30 September 2016 were **KD 58,003 thousand** (31 December 2015: KD 43,529 thousand; 30 September 2015: KD 55,294 thousand) and **KD 58,055 thousand** (Level 1) (31 December 2015: KD 43,388 thousand; 30 September 2015: KD 55,426 thousand) respectively.

There are certain unquoted equity investments carried at cost, net of impairment, with a carrying amount of **KD 20,595 thousand** (31 December 2015: KD 20,684 thousand; 30 September 2015: KD 21,907 thousand).

Investment securities include **KD 19,731 thousand** (Level 1), which represent collaterals repossessed in settlement of debts from customers. (31 December 2015: KD Nil and 30 September 2015: KD Nil).

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2015

	<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	19,527	6,622	-	26,149
Debt securities	23,251	1,504	-	24,755
	42,778	8,126	-	50,904

At 30 September 2015

	<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	19,839	6,676	-	26,515
Debt securities	34,920	-	-	34,920
	54,759	6,676	-	61,435

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 40,853 thousand** (31 December 2015: KD 54,590 thousand and 30 September 2015: KD 47,940 thousand).

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on investment securities amounting to **KD 1,100 thousand** (31 December 2015: KD 10,064 thousand and 30 September 2015: KD 10,356 thousand).

During the period, the Bank obtained possession of investment securities valued at **KD 34,157 thousand** (31 December 2015: KD Nil and 30 September 2015: KD Nil), real estate properties valued at **KD 8,639 thousand** (31 December 2015: KD 10,895 thousand and 30 September 2015: KD Nil) held as collaterals in settlement of debts from customers. The legal formalities to transfer the ownership of the certain real estate properties repossessed are currently in progress. These repossessed collaterals will be disposed within the stipulated time limit prescribed by the CBK. Investment securities amounting to **KD 114 thousand** (31 December 2015: KD 1,918 thousand and 30 September 2015: KD 2,831 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 4,343 thousand** (31 December 2015: KD 13,566 thousand and 30 September 2015: KD 16,898 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.

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13. SUBORDINATED TIER 2 BONDS

During the period, the Bank issued Kuwaiti Dinar denominated subordinated Tier 2 bonds amounting to KD 100,000 thousand with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 6.50% per annum, payable quarterly in arrears, for the first five years and will be reset for the subsequent period at the rate of 4.25% over the CBK Discount Rate (on the fifth year anniversary of date of issuance). Floating rate bonds carry an interest rate of 4.00% per annum over the Central Bank of Kuwait discount rate, reset quarterly, subject to a maximum of 1% over the prevailing rate for the fixed rate bonds and payable quarterly in arrears. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions being satisfied and prior written approval of the CBK.