

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



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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 June 2016, and the related interim condensed statement of income and interim condensed statement of comprehensive income for the three months and six months period then ended and the related interim condensed statement of cash flows and 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. 1 of 2016 and the executive regulation of Law No.25 of 2012, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the six months period ended 30 June 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 six months period ended 30 June 2016 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
EY  
AL-AIBAN, AL-OSAIMI & PARTNERS

21 July 2016  
Kuwait

TALAL YOUSEF AL-MUZAINI  
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**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Income**  
**(Unaudited)**

PERIOD ENDED 30 JUNE 2016

	<i>3 months ended</i> <i>30 June</i> <i>2016</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 June</i> <i>2015</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2016</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2015</i> <i>KD 000's</i>
Interest income	44,816	41,878	88,457	85,182
Interest expense	15,442	11,802	29,410	23,865
<b>Net interest income</b>	<b>29,374</b>	<b>30,076</b>	<b>59,047</b>	<b>61,317</b>
Net fees and commissions	7,963	7,546	16,118	14,809
Net gains from dealing in foreign currencies and derivatives	2,476	2,324	4,839	4,152
Realised gains from disposal of investment securities	182	1,667	182	1,667
Dividend income	1,004	549	4,128	1,325
Other income	532	305	1,240	706
<b>Operating income</b>	<b>41,531</b>	<b>42,467</b>	<b>85,554</b>	<b>83,976</b>
Staff expenses	9,987	10,006	20,307	20,210
Occupancy costs	1,075	905	2,087	1,789
Depreciation	680	568	1,331	1,100
Other expenses	2,342	2,358	5,942	5,056
<b>Operating expenses</b>	<b>14,084</b>	<b>13,837</b>	<b>29,667</b>	<b>28,155</b>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>	<b>27,447</b>	<b>28,630</b>	<b>55,887</b>	<b>55,821</b>
(Release) charge of provisions:				
- specific	(21,396)	15,065	(11,216)	28,314
- general	11,797	12,962	20,260	13,036
Loan recoveries net of write-off	23,676	(9,467)	14,443	(6,300)
Impairment loss on investment securities	879	773	3,984	1,231
Impairment loss on other assets	-	-	6,750	-
<b>OPERATING PROFIT</b>	<b>12,491</b>	<b>9,297</b>	<b>21,666</b>	<b>19,540</b>
Contribution to Kuwait Foundation for the Advancement of Sciences	126	94	217	197
National Labour Support Tax	310	232	537	486
Zakat	126	94	217	197
<b>PROFIT FOR THE PERIOD</b>	<b>11,929</b>	<b>8,877</b>	<b>20,695</b>	<b>18,660</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	3	4	3	7
	<u>4</u>	<u>3</u>	<u>7</u>	<u>6</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 JUNE 2016


	<i>3 months 30 June 2016 KD 000's</i>	<i>3 months ended 30 June 2015 KD 000's</i>	<i>6 months ended 30 June 2016 KD 000's</i>	<i>6 months ended 30 June 2015 KD 000's</i>
<b>Profit for the period</b>	<b>11,929</b>	<b>8,877</b>	<b>20,695</b>	<b>18,660</b>
<b>Other comprehensive income</b>				
<i>Items that are reclassified or may be reclassified subsequently to the interim condensed statement of income:</i>				
Investment securities:				
- Net realised gain on disposal	(142)	(1,669)	(142)	(1,669)
- Impairment loss	879	773	3,984	1,231
- Net unrealised losses on investment securities	<u>(2,409)</u>	<u>(929)</u>	<u>(2,329)</u>	<u>(1,524)</u>
<b>Other comprehensive (loss) income for the period</b>	<b>(1,672)</b>	<b>(1,825)</b>	<b>1,513</b>	<b>(1,962)</b>
<b>Total comprehensive income for the period</b>	<u><u>10,257</u></u>	<u><u>7,052</u></u>	<u><u>22,208</u></u>	<u><u>16,698</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> <b>30 June</b> <i>2016</i> <b>KD 000's</b>	<i>(Audited)</i> <b>31 December</b> <i>2015</i> <b>KD 000's</b>	<i>(Unaudited)</i> <b>30 June</b> <i>2015</i> <b>KD 000's</b>
<b>ASSETS</b>			
Cash and cash equivalents	776,066	837,048	508,675
Treasury bills and bonds	297,084	245,609	210,422
Central Bank of Kuwait bonds	358,337	361,425	560,694
Deposits with banks and other financial institutions	45,087	34,107	-
Loans and advances to banks	111,681	80,858	86,389
Loans and advances to customers	3,624,059	3,633,591	3,586,478
Investment securities	152,531	115,117	135,382
Other assets	78,334	101,439	86,393
Premises and equipment	28,996	28,522	28,283
<b>TOTAL ASSETS</b>	<b>5,472,175</b>	<b>5,437,716</b>	<b>5,202,716</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	316,726	261,384	438,997
Deposits from financial institutions	725,327	726,032	669,777
Customer deposits	3,707,300	3,837,422	3,500,823
Subordinated Tier 2 bonds	100,000	-	-
Other liabilities	74,097	74,622	67,993
<b>TOTAL LIABILITIES</b>	<b>4,923,450</b>	<b>4,899,460</b>	<b>4,677,590</b>
<b>EQUITY</b>			
Share capital	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	2,643	1,130	7,212
Retained earnings	98,832	89,777	73,534
Treasury shares	619,482 (70,757)	608,914 (70,658)	594,527 (69,401)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,472,175</b>	<b>5,437,716</b>	<b>5,202,716</b>

  
**Ali Morad Behbehani**  
*(Deputy 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 JUNE 2016**

	Notes	<i>6 months ended 30 June 2016 KD 000's</i>	<i>6 months ended 30 June 2015 KD 000's</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the period		20,695	18,660
Adjustments:			
Effective interest rate adjustment		(120)	(1,394)
Unrealised fair value (gains) losses on credit default swaps		(448)	58
Realised gains from disposal of investment securities		(182)	(1,667)
Dividend income		(4,128)	(1,325)
Depreciation		1,331	1,100
Loan loss provisions		9,044	41,350
Impairment loss on investment securities		3,984	1,231
Impairment loss on other assets		6,750	-
Foreign exchange movement on subordinated loan		-	120
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>		<b>36,926</b>	<b>58,133</b>
<i>(Increase)/decrease in operating assets:</i>			
Treasury bills and bonds		(51,475)	(22,336)
Central Bank of Kuwait bonds		3,088	27,522
Deposits with banks and other financial institutions		(10,980)	22,000
Loans and advances to banks		(31,131)	41,207
Loans and advances to customers		642	(44,567)
Other assets		16,355	18,051
<i>Increase/(decrease) in operating liabilities:</i>			
Due to banks		55,342	84,320
Deposits from financial institutions		(705)	(8,892)
Customer deposits		(130,122)	(160,901)
Other liabilities		197	(11,356)
<b>NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES</b>		<b>(111,863)</b>	<b>3,181</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities		(50,952)	(77,521)
Proceeds from sale of investment securities		11,249	22,952
Purchase of premises and equipment		(1,805)	(1,656)
Dividends income received		4,128	1,325
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(37,380)</b>	<b>(54,900)</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds from issue of Subordinated Tier 2 bonds	13	100,000	-
Dividends paid	6	(11,640)	-
Purchase of treasury shares		(99)	(2,933)
Repayment of subordinated loan		-	(44,040)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>88,261</b>	<b>(46,973)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(60,982)</b>	<b>(98,692)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>837,048</b>	<b>607,367</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>		<b>776,066</b>	<b>508,675</b>
<b>Additional cash flow information</b>			
Interest received		96,903	101,634
Interest paid		24,968	28,684

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 JUNE 2016

	<b>RESERVES</b>										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 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	-	-	-	-	-	-	-	18,660	18,660	-	18,660
Other comprehensive income for the period	-	-	-	-	-	-	(1,962)	-	(1,962)	-	(1,962)
Total comprehensive Income for the period	-	-	-	-	-	-	(1,962)	18,660	16,698	-	16,698
Issue of bonus shares (Note 6)	14,515	(14,515)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,933)	(2,933)
At 30 June 2015	304,813	-	12,824	153,024	18,874	24,246	7,212	73,534	289,714	(69,401)	525,126
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	-	-	-	-	-	-	-	20,695	20,695	-	20,695
Other comprehensive income for the period	-	-	-	-	-	-	1,513	-	1,513	-	1,513
Total comprehensive Income for the period	-	-	-	-	-	-	1,513	20,695	22,208	-	22,208
Dividends paid (Note 6)	-	-	-	-	-	-	-	(11,640)	(11,640)	-	(11,640)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(99)	(99)
At 30 June 2016	304,813	-	16,923	153,024	19,001	24,246	2,643	98,832	314,669	(70,757)	548,725

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 June 2016

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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 City.

The interim condensed financial information of the Bank for the six months period ended 30 June 2016 was authorised by the Board of Directors for issue on 21 July 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 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 of November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

**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 six months period ended 30 June 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 June 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 June 2016 KD 000's</i>	<i>3 months ended 30 June 2015 KD 000's</i>	<i>6 months ended 30 June 2016 KD 000's</i>	<i>6 months ended 30 June 2015 KD 000's</i>
Profit for the period	11,929	8,877	20,695	18,660
	<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>2,910,055,997</u>	<u>2,917,751,730</u>	<u>2,910,147,382</u>	<u>2,920,198,511</u>
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>3</u>	<u>7</u>	<u>6</u>

**4. SHARE CAPITAL**

	<i>(Unaudited) 30 June 2016 KD 000's</i>	<i>(Audited) 31 December 2015 KD 000's</i>	<i>(Unaudited) 30 June 2015 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2015: 3,048,127,898 and 30 June 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 June 2016</i>	<i>(Audited) 31 December 2015</i>	<i>(Unaudited) 30 June 2015</i>
Number of treasury shares	<u>138,148,846</u>	<u>137,687,846</u>	<u>133,035,171</u>
Percentage of treasury shares	<u>4.53%</u>	<u>4.52%</u>	<u>4.36%</u>
Cost of treasury shares (KD 000's)	<u>70,757</u>	<u>70,658</u>	<u>69,401</u>
Weighted average market value of treasury shares (KD 000's)	<u>30,807</u>	<u>38,277</u>	<u>37,898</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 June 2015: 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 throughout the holding period of treasury shares.

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
30 June 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 six months period ended 30 June is as follows:

	<b>Commercial Banking</b>		<b>Treasury &amp; Investments</b>		<b>Total</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</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>70,234</b>	70,643	<b>3,494</b>	4,524	<b>73,728</b>	75,167
Segment result	<b>31,054</b>	24,684	<b>1,565</b>	2,281	<b>32,619</b>	26,965
Unallocated income					<b>11,826</b>	8,809
Unallocated expense					<b>(23,750)</b>	(17,114)
<b>Profit for the period</b>					<b>20,695</b>	18,660
Segment assets	<b>3,860,957</b>	3,722,774	<b>1,505,688</b>	1,365,265	<b>5,366,645</b>	5,088,039
Unallocated assets					<b>105,530</b>	114,677
<b>Total Assets</b>					<b>5,472,175</b>	5,202,716
Segment liabilities	<b>3,167,510</b>	2,941,162	<b>1,609,134</b>	1,604,707	<b>4,776,644</b>	4,545,869
Unallocated liabilities and equity					<b>695,531</b>	656,847
<b>Total Liabilities and Equity</b>					<b>5,472,175</b>	5,202,716

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

30 June 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>KD 000's</i>		
	<i>30 June 2016</i>	<i>31 December 2015</i>	<i>30 June 2015</i>	<i>30 June 2016</i>	<i>31 December 2015</i>	<i>30 June 2015</i>	<i>30 June 2016</i>	<i>31 December 2015</i>	<i>30 June 2015</i>
<b>Board members:</b>									
<b>Balances</b>									
Loans and advances	-	-	-	8	5	5	74,525	65,155	58,523
Investment securities	-	-	-	-	-	1	-	-	29
Deposits	6	6	6	24	22	19	375,288	435,458	332,335
<b>Commitments</b>									
Guarantees / letters of credit	1	1	1	8	7	6	7,129	4,423	2,809
<b>Transactions</b>									
Interest income	-	-	-	10	10	8	937	1,642	816
Interest expense	1	1	1	7	7	6	2,336	3,310	1,452
Other expenses	-	-	-	7	7	7	189	479	206
<b>Executive management:</b>									
<b>Balances</b>									
Loans and advances	2	2	2	-	-	-	59	64	69
Deposits	11	13	12	-	-	-	925	764	1,756
<b>Commitments</b>									
Guarantees / letter of credit	1	1	1	-	-	-	1	1	1
<b>Transactions</b>									
Interest income	2	2	2	-	-	-	2	4	2
Interest expense	12	13	9	-	-	-	7	16	9

# GULF BANK K.S.C.P.

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

30 June 2016

### 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 5.5%** (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 June 2016 was **KD 54,350 thousand** (31 December 2015: KD 48,264 thousand and 30 June 2015: KD 58,093 thousand).

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

	<i>6 months ended 30 June 2016 KD 000's</i>	<i>6 months ended 30 June 2015 KD 000's</i>
Salaries and other short-term benefits	1,897	1,723
End of service/termination benefits	62	66
	1,959	1,789

### 9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 30 June 2016 KD 000's</i>	<i>(Audited) 31 December 2015 KD 000's</i>	<i>(Unaudited) 30 June 2015 KD 000's</i>
Guarantees	1,260,623	1,299,019	1,264,514
Letters of credit	196,661	192,271	198,215
	1,457,284	1,491,290	1,462,729

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 147,879 thousand** (31 December 2015: KD 157,170 thousand and 30 June 2015: KD 157,585 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 June 2016:

	<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	151	(119)	38,725	33,410	5,315	-
Credit default swaps	-	(65)	89,016	-	64,876	24,140
	151	(184)	127,741	33,410	70,191	24,140

# GULF BANK K.S.C.P.

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

30 June 2016

### 10. DERIVATIVES (continued)

At 31 December 2015:

	<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	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 June 2015:

	<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	146	(321)	41,172	7,551	30,641	2,980
Credit default swaps	30	(231)	89,090	-	-	89,090
	<u>176</u>	<u>(552)</u>	<u>130,262</u>	<u>7,551</u>	<u>30,641</u>	<u>92,070</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 June 2016

	<i>Level 1 KD '000</i>	<i>Level 2 KD '000</i>	<i>Level 3 KD '000</i>	<i>Total KD '000</i>
<i>Financial assets available for sale:</i>				
Equity securities	47,915	6,317	-	54,232
Debt securities	18,475	16,658	-	35,133
	<u>66,390</u>	<u>22,975</u>	<u>-</u>	<u>89,365</u>

The amortized cost and fair value of investment securities held to maturity as at 30 June 2016 were **KD 42,549 thousand** (31 December 2015: KD 43,529 thousand; 30 June 2015: KD 45,113 thousand) and **KD 42,612 thousand** (Level 1) (31 December 2015: KD 43,388 thousand; 30 June 2015: KD 45,057 thousand) respectively.

There are certain unquoted equity investments carried at cost, net of impairment, with a carrying amount of **KD 20,617 thousand** (31 December 2015: KD 20,684 thousand; 30 June 2015: KD 21,925 thousand).

Investment securities include **KD 31,579 thousand** (Level 1), which represent collaterals repossessed in settlement of debts from customers. (31 December 2015: KD Nil and 30 June 2015: KD Nil).

# GULF BANK K.S.C.P.

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

30 June 2016

### 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 June 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	26,599	6,718	-	33,317
Debt securities	35,027	-	-	35,027
	61,626	6,718	-	68,344

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 47,139 thousand** (31 December 2015: KD 54,590 thousand and 30 June 2015: KD 58,562 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 June 2015: KD 8,897 thousand).

During the period, the Bank obtained possession of investment securities valued at **KD 34,157 thousand** (31 December 2015: KD Nil and 30 June 2015: KD Nil), real estate properties valued at **KD 8,639 thousand** (31 December 2015: KD 10,895 thousand and 30 June 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 732 thousand** (31 December 2015: KD 1,918 thousand and 30 June 2015: KD 11,955 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 4,504 thousand** (31 December 2015: KD 13,566 thousand and 30 June 2015: KD 18,396 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)**

30 June 2016

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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.