

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

**INTERIM CONDENSED FINANCIAL INFORMATION**

**(UNAUDITED)**

**30 JUNE 2014**



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 June 2014 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. 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association during the six months period ended 30 June 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 six months period ended 30 June 2014 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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9 July 2014  
Kuwait



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

	<i>3 months ended</i>	<i>3 months ended</i>	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
<i>Notes</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Interest income	40,989	44,077	80,827	83,235
Interest expense	12,536	11,315	23,672	23,205
<b>Net interest income</b>	<b>28,453</b>	<b>32,762</b>	<b>57,155</b>	<b>60,030</b>
Net fees and commissions	6,742	6,652	12,797	14,108
Net gains from dealing in foreign currencies and derivatives	2,321	4,659	4,392	8,030
Realised gains from disposal of investments available-for-sale	29	449	3,886	874
Dividend income	354	-	817	310
Other income	217	727	577	1,104
<b>OPERATING INCOME</b>	<b>38,116</b>	<b>45,249</b>	<b>79,624</b>	<b>84,456</b>
Staff expenses	9,747	9,759	20,882	20,593
Occupancy costs	933	806	1,792	1,693
Depreciation	673	754	1,348	1,524
Other expenses	14 (3,271)	3,403	1,952	7,123
<b>Operating expenses</b>	<b>8,082</b>	<b>14,722</b>	<b>25,974</b>	<b>30,933</b>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>	<b>30,034</b>	<b>30,527</b>	<b>53,650</b>	<b>53,523</b>
Charge / (release) of provisions:				
- specific	13,449	33,454	32,197	37,750
- general	12,622	(8,632)	18,321	2,639
Loans recoveries net of write-off	(5,965)	(1,080)	(16,035)	(2,046)
Impairment loss on investments available-for-sale	2,707	150	2,803	238
<b>OPERATING PROFIT</b>	<b>7,221</b>	<b>6,635</b>	<b>16,364</b>	<b>14,942</b>
Contribution to Kuwait Foundation for the Advancement of Sciences	73	67	166	150
National Labour Support Tax	179	165	407	371
Zakat	73	67	166	150
<b>PROFIT FOR THE PERIOD</b>	<b>6,896</b>	<b>6,336</b>	<b>15,625</b>	<b>14,271</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	<b>3 2</b>	<b>2</b>	<b>6</b>	<b>5</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 June</i> <i>2014</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 June</i> <i>2013</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2014</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2013</i> <i>KD 000's</i>
<b>Profit for the period</b>	<b>6,896</b>	<b>6,336</b>	<b>15,625</b>	<b>14,271</b>
<b>Other comprehensive income</b>				
<i>Other comprehensive income reclassified to interim condensed statement of income :</i>				
Net realised gains on disposal of investments available-for-sale transferred to statement of income	(29)	(19)	(3,007)	(395)
Net impairment losses on investments available-for-sale transferred to statement of income	2,707	150	2,803	238
<i>Other comprehensive income to be reclassified to interim condensed statement of income in subsequent periods:</i>				
Net unrealised (losses) / gains on investments available-for-sale	(2,964)	4,292	(3,299)	7,993
<b>Other comprehensive income for the period</b>	<b>(286)</b>	<b>4,423</b>	<b>(3,503)</b>	<b>7,836</b>
<b>Total comprehensive income for the period</b>	<b>6,610</b>	<b>10,759</b>	<b>12,122</b>	<b>22,107</b>

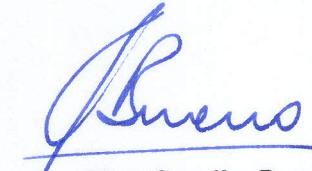
The attached notes 1 to 14 form part of the interim condensed financial information.



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

	<i>(Unaudited)</i> 30 June 2014 KD 000's	<i>(Audited)</i> 31 December 2013 KD 000's	<i>(Unaudited)</i> 30 June 2013 KD 000's
<b>ASSETS</b>			
Cash and short term funds	679,177	533,421	705,262
Treasury bills and bonds	197,053	177,142	168,675
Central Bank of Kuwait bonds	484,403	539,521	352,600
Deposits with banks and other financial institutions	11,272	14,102	30,770
Loans and advances to banks	136,051	125,415	102,311
Loans and advances to customers	3,575,139	3,361,234	3,436,760
Investments available-for-sale	88,678	123,982	145,926
Other assets	98,630	164,103	42,713
Premises and equipment	25,607	25,839	25,312
<b>TOTAL ASSETS</b>	<b>5,296,010</b>	<b>5,064,759</b>	<b>5,010,329</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	321,465	307,840	285,590
Deposits from financial institutions	692,095	759,803	842,561
Customer deposits	3,648,184	3,326,251	3,236,283
Subordinated loans	42,270	84,615	85,635
Other liabilities	97,281	103,116	94,674
<b>TOTAL LIABILITIES</b>	<b>4,801,295</b>	<b>4,581,625</b>	<b>4,544,743</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	10,610	14,113	14,540
Retained earnings	53,281	37,656	36,972
Treasury shares	5 (63,476)	(62,935)	(62,096)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,296,010</b>	<b>5,064,759</b>	<b>5,010,329</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>6 months ended</i> <i>30 June</i> <i>2014</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2013</i> <i>KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	15,625	14,271
Adjustments:		
Effective interest rate adjustment	(251)	(519)
Unrealised fair value gains on credit default swaps	(340)	(1,677)
Realised gains from disposal of investments available-for-sale	(3,886)	(874)
Dividend income	(817)	(310)
Depreciation	1,348	1,524
Loan loss provisions	50,518	40,389
Impairment loss on investments available-for-sale	2,803	238
Foreign exchange movement on subordinated loans	38	1,260
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>65,038</b>	<b>54,302</b>
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(19,911)	121,557
Central Bank of Kuwait bonds	55,118	71,775
Deposits with banks and other financial institutions	2,830	1,918
Loans and advances to banks	(10,636)	(9,706)
Loans and advances to customers	(262,733)	(154,573)
Other assets	65,473	10,366
<i>(Decrease)/increase in operating liabilities:</i>		
Due to banks	13,625	158,236
Deposits from financial institutions	(67,708)	(4,042)
Customer deposits	321,933	(11,346)
Other liabilities	(6,934)	5,332
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>156,095</b>	<b>243,819</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments available-for-sale	(117)	(18,725)
Proceeds from sale of investments available-for-sale	33,001	3,623
Purchase of premises and equipment	(1,116)	(1,233)
Dividends received	817	310
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>32,585</b>	<b>(16,025)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of subordinated loans	(42,383)	-
Purchase of treasury shares	(541)	(5,762)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(42,924)</b>	<b>(5,762)</b>
<b>NET INCREASE IN CASH AND SHORT TERM FUNDS</b>	<b>145,756</b>	<b>222,032</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 JUNE</b>	<b>679,177</b>	<b>705,262</b>
<b>Additional cash flow information</b>		
Interest received	97,123	91,438
Interest paid	21,190	23,560

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>										<b>Treasury shares</b> KD 000's	<b>Total</b> KD 000's
	<b>Share capital</b> KD 000's	<b>Proposed bonus shares</b> KD 000's	<b>Statutory reserve</b> KD 000's	<b>Share premium</b> KD 000's	<b>Property revaluation reserve</b> KD 000's	<b>Treasury share reserve</b> KD 000's	<b>Fair valuation reserve</b> KD 000's	<b>Retained earnings</b> KD 000's	<b>Sub-total reserves</b> KD 000's	<b>Treasury shares</b> KD 000's		
At 1 January 2013	263,309	13,165	5,716	153,024	16,698	24,258	6,704	22,701	229,101	(56,334)	449,241	
Profit for the period	-	-	-	-	-	-	-	14,271	14,271	-	14,271	
Other comprehensive income for the period	-	-	-	-	-	-	7,836	-	7,836	-	7,836	
Total comprehensive Income for the period	-	-	-	-	-	-	7,836	14,271	22,107	-	22,107	
Issue of bonus shares (Note 6)	13,165	(13,165)	-	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(5,762)	(5,762)	
At 30 June 2013	276,474	-	5,716	153,024	16,698	24,258	14,540	36,972	251,208	(62,096)	465,586	
At 1 January 2014	276,474	13,824	9,097	153,024	17,635	24,246	14,113	37,656	255,771	(62,935)	483,134	
Profit for the period	-	-	-	-	-	-	-	15,625	15,625	-	15,625	
Other comprehensive income for the period	-	-	-	-	-	-	(3,503)	-	(3,503)	-	(3,503)	
Total comprehensive Income for the period	-	-	-	-	-	-	(3,503)	15,625	12,122	-	12,122	
Issue of bonus shares (Note 6)	13,824	(13,824)	-	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(541)	(541)	
At 30 June 2014	290,298	-	9,097	153,024	17,635	24,246	10,610	53,281	267,893	(63,476)	494,715	

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 June 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 six months period ended 30 June 2014 was authorised by the Board of Directors for issue on 9 July 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.

The Executive Regulations of the new amended law was issued on 29 September 2013 and published in the official Gazette on 6 October 2013. As per article three of the executive regulations, the Bank has one year from the date of publishing the executive regulations to comply with the new amended law.

**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 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 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 six months period ended 30 June 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 June 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 June 2014 KD 000's</i>	<i>3 months ended 30 June 2013 KD 000's</i>	<i>6 months ended 30 June 2014 KD 000's</i>	<i>6 months ended 30 June 2013 KD 000's</i>
Profit for the period	6,896	6,336	15,625	14,271
	<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	(106,637,694)	(91,554,246)	(106,223,323)	(90,272,763)
	<u>2,796,341,257</u>	<u>2,811,424,705</u>	<u>2,796,755,628</u>	<u>2,812,706,188</u>
Basic and diluted earnings per share (Fils)	<u>2</u>	<u>2</u>	<u>6</u>	<u>5</u>

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

**4. SHARE CAPITAL**

	<i>(Unaudited) 30 June 2014 KD 000's</i>	<i>(Audited) 31 December 2013 KD 000's</i>	<i>(Unaudited) 30 June 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 June 2014</i>	<i>(Audited) 31 December 2013</i>	<i>(Unaudited) 30 June 2013</i>
Number of treasury shares	106,748,848	100,194,952	97,978,982
Percentage of treasury shares	3.68%	3.62%	3.54%
Cost of treasury shares (KD 000's)	<u>63,476</u>	<u>62,935</u>	<u>62,096</u>
Market value of treasury shares (KD 000's)	<u>35,761</u>	<u>37,573</u>	<u>38,212</u>

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
30 June 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: 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 six months period ended 30 June 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>68,132</b>	70,194	<b>3,309</b>	2,488	<b>71,441</b>	72,682
Segment result	<b>17,988</b>	29,892	<b>1,218</b>	477	<b>19,206</b>	30,369
Unallocated income					<b>8,183</b>	11,774
Unallocated expense					<b>(11,764)</b>	(27,872)
<b>Profit for the period</b>					<b>15,625</b>	14,271
Segment assets	<b>3,786,210</b>	3,591,082	<b>1,385,563</b>	1,351,222	<b>5,171,773</b>	4,942,304
Unallocated assets					<b>124,237</b>	68,025
<b>Total Assets</b>					<b>5,296,010</b>	5,010,329
Segment liabilities	<b>3,199,355</b>	3,038,542	<b>1,456,406</b>	1,346,241	<b>4,655,761</b>	4,384,783
Unallocated liabilities and equity					<b>640,249</b>	625,546
<b>Total Liabilities and Equity</b>					<b>5,296,010</b>	5,010,329



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

30 June 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. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties, and did not involve more than a normal amount of risk.

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>KD 000's</i>		<i>KD 000's</i>	
	<i>30 June 2014</i>	<i>31 December 2013</i>	<i>30 June 2013</i>	<i>30 June 2014</i>	<i>31 December 2013</i>	<i>30 June 2013</i>	<i>30 June 2014</i>	<i>31 December 2013</i>	<i>30 June 2013</i>	<i>30 June 2014</i>
<b>Board members:</b>										
<b>Balances</b>										
Loans, receivable and advances	-	-	-	1	4	2	58,601	59,115	58,812	
Investment available-for-sale	-	-	-	-	1	1	36	40	40	
Deposits	7	7	10	13	14	11	296,087	205,481	152,887	
<b>Commitments</b>										
Guarantees / letters of credit	-	-	1	3	3	2	10,423	6,292	6,290	
<b>Transactions</b>										
Interest income	-	-	2	5	4	4	805	1,809	908	
Interest expense	2	2	7	4	6	6	1,125	1,350	738	
<b>Executive management:</b>										
<b>Balances</b>										
Loans, receivable and advances	1	1	1	-	-	-	53	55	57	
Deposits	11	10	10	-	-	-	1,241	659	892	
<b>Commitments</b>										
Guarantees	1	1	1	-	-	-	1	1	1	
<b>Transactions</b>										
Interest income	2	1	2	-	-	-	2	3	2	
Interest expense	11	11	21	-	-	-	8	15	11	

# GULF BANK K.S.C.P.

## Notes to the Interim Condensed Financial Information (Unaudited) 30 June 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 6%** (2013: 2% to 7%) 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 2014 was **KD 45,092 thousand** (31 December 2013: KD 48,060 thousand and 30 June 2013: KD 50,005 thousand).

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

	<i>6 months ended 30 June 2014 KD 000's</i>	<i>6 months ended 30 June 2013 KD 000's</i>
Salaries and other short-term benefits	1,688	1,414
End of service/termination benefits	58	45
	1,746	1,459

### 9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 30 June 2014 KD 000's</i>	<i>(Audited) 31 December 2013 KD 000's</i>	<i>(Unaudited) 30 June 2013 KD 000's</i>
Guarantees	1,171,987	959,961	945,865
Letters of credit	223,272	163,153	176,365
	1,395,259	1,123,114	1,122,230

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 136,052 thousand** (31 December 2013: KD 137,720 thousand and 30 June 2013: KD 106,377 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 June 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	8	(2)	13,580	13,580	-	-
Credit default swaps	303	(384)	94,403	11,272	-	83,131
	311	(386)	107,983	24,852	-	83,131



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**Notes to the Interim Condensed Financial Information  
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**10. DERIVATIVES (continued)**

At 31 December 2013:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>	<i>Over 1 year KD 000's</i>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	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 June 2013:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>	<i>Over 1 year KD 000's</i>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	410	(411)	28,334	25,221	3,113	-
Credit default swaps	42	(1,780)	140,079	22,188	22,265	95,626
	<u>452</u>	<u>(2,191)</u>	<u>168,413</u>	<u>47,409</u>	<u>25,378</u>	<u>95,626</u>

**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 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 2014

	<i>Level 1 KD '000</i>	<i>Level 2 KD '000</i>	<i>Level 3 KD '000</i>	<i>Total KD '000</i>
<b>Financial assets</b>				
<i>Financial assets available for sale :</i>				
Equity securities	28,636	11,975	-	40,611
Debt securities	24,941	-	-	24,941
	<u>53,577</u>	<u>11,975</u>	<u>-</u>	<u>65,552</u>

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

At 31 December 2013

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

At 30 June 2013

	<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>
Financial assets				
<i>Financial assets available for sale :</i>				
Equity securities	66,701	6,090	-	72,791
Debt securities	31,391	-	-	31,391
	<u>98,092</u>	<u>6,090</u>	<u>-</u>	<u>104,182</u>

During the period, there were no transfers between level 1 and level 2 fair value measurements and there is no movement in level 3 financial instruments.

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 June 2013: KD 16,964 thousand), real estate properties valued at **KD 12,293 thousand** (31 December 2013: KD 15,918 thousand and 30 June 2013: KD Nil) and treasury shares valued at **KD Nil** (31 December 2013: KD 5,488 thousand and 30 June 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 June 2013: KD 16,964 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 June 2013: KD Nil) 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. 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 15,000 thousand** (31 December 2013: KD 71,000 thousand and 30 June 2013: KD Nil ) related to eligible loans under the Fund.

#### 14. OTHER EXPENSES

Other expenses includes **KD 7,201 thousand** (30 June 2013 : Nil ) relating to reversal of a legal provision which is no longer required.