

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

**INTERIM CONDENSED FINANCIAL INFORMATION  
(UNAUDITED)**

**31 March 2015**



Building a better  
working world

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## **REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF GULF BANK K.S.C.P.**

### *Introduction*

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C.P. (the "Bank") as at 31 March 2015, and the interim condensed statement of income and interim condensed statement of comprehensive income, interim condensed statement of cash flows and interim condensed statement of changes in equity for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

### **Report on other Legal and Regulatory Requirements**

Furthermore, based on our review, the interim condensed financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 25 of 2012, as amended and its executive regulation, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2015 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the three months period ended 31 March 2015 that might have had a material effect on the business of the Bank or on its financial position.

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13 April 2015  
Kuwait

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Income**  
**(Unaudited)**  
**PERIOD ENDED 31 MARCH 2015**

	<i>Note</i>	<i>3 months ended 31 March 2015 KD 000's</i>	<i>3 months ended 31 March 2014 KD 000's</i>
Interest income		43,304	39,838
Interest expense		12,063	11,136
<b>Net interest income</b>		<b>31,241</b>	<b>28,702</b>
Net fees and commissions		7,263	6,055
Net gains from dealing in foreign currencies and derivatives		1,828	2,071
Realised gains from disposal of investment securities		-	3,857
Dividend income		776	463
Other income		401	360
<b>Operating income</b>		<b>41,509</b>	<b>41,508</b>
Staff expenses		10,204	11,135
Occupancy costs		884	859
Depreciation		532	675
Other expenses		2,698	5,223
<b>Operating expenses</b>		<b>14,318</b>	<b>17,892</b>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>		<b>27,191</b>	<b>23,616</b>
Charge of provisions:			
- specific		13,249	18,748
- general		74	5,699
Net loan write-off/ (recoveries)		3,167	(10,070)
Impairment loss on investment securities		458	96
<b>OPERATING PROFIT</b>		<b>10,243</b>	<b>9,143</b>
Contribution to Kuwait Foundation for the Advancement of Sciences		103	93
National Labour Support Tax		254	228
Zakat		103	93
<b>PROFIT FOR THE PERIOD</b>		<b>9,783</b>	<b>8,729</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	<b>3</b>	<b>3</b>	<b>3</b>

The attached notes 1 to 12 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Comprehensive Income**  
**(Unaudited)**  
**PERIOD ENDED 31 MARCH 2015**

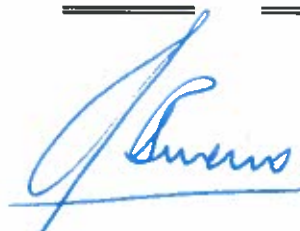
	<i>3 months ended 31 March 2015 KD 000's</i>	<i>3 months ended 31 March 2014 KD 000's</i>
<b>Profit for the period</b>	<u>9,783</u>	<u>8,729</u>
<b>Other comprehensive income</b>		
<i>Other comprehensive income reclassified to interim condensed statement of income :</i>		
Investment securities:		
- Net realised gains on disposal	-	(2,978)
- Impairment loss	458	96
<i>Other comprehensive income to be reclassified to interim condensed statement of income in subsequent periods:</i>		
Net unrealised losses on investment securities	<u>(595)</u>	<u>(335)</u>
<b>Other comprehensive income for the period</b>	<u>(137)</u>	<u>(3,217)</u>
<b>Total comprehensive income for the period</b>	<u><u>9,646</u></u>	<u><u>5,512</u></u>

The attached notes 1 to 12 form part of the interim condensed financial information.

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

	<i>(Unaudited)</i> 31 March 2015 KD 000's	<i>(Audited)</i> 31 December 2014 KD 000's	<i>(Unaudited)</i> 31 March 2014 KD 000's
<b>ASSETS</b>			
Cash and cash equivalents	654,342	607,367	809,922
Treasury bills and bonds	201,232	188,086	179,096
Central Bank of Kuwait bonds	574,062	588,216	451,355
Deposits with banks and other financial institutions	10,000	22,000	2,816
Loans and advances to banks	122,575	127,596	116,540
Loans and advances to customers	3,608,065	3,583,103	3,452,268
Investment securities	87,891	82,339	111,720
Other assets	108,623	104,444	155,959
Premises and equipment	27,962	27,727	25,815
<b>TOTAL ASSETS</b>	<b>5,394,752</b>	<b>5,330,878</b>	<b>5,305,491</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	465,670	354,677	320,141
Deposits from financial institutions	685,028	678,669	747,448
Customer deposits	3,654,451	3,661,724	3,562,787
Subordinated loans	-	43,920	84,495
Other liabilities	70,075	80,527	102,409
<b>TOTAL LIABILITIES</b>	<b>4,875,224</b>	<b>4,819,517</b>	<b>4,817,280</b>
<b>EQUITY</b>			
Share capital	4 304,813	290,298	276,474
Proposed bonus shares	-	14,515	13,824
Statutory reserve	12,824	12,824	9,097
Share premium	153,024	153,024	153,024
Property revaluation reserve	18,874	18,874	17,635
Treasury share reserve	24,246	24,246	24,246
Fair valuation reserve	9,037	9,174	10,896
Retained earnings	64,657	54,874	46,385
Treasury shares	5 587,475 (67,947)	577,829 (66,468)	551,581 (63,370)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,394,752</b>	<b>5,330,878</b>	<b>5,305,491</b>

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

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

The attached notes 1 to 12 form part of the interim condensed financial information.

**GULF BANK K.S.C.P.**  
**Interim Condensed Statement of Cash Flows**  
**(Unaudited)**  
**PERIOD ENDED 31 MARCH 2015**

	<i>3 months ended 31 March 2015 KD 000's</i>	<i>3 months ended 31 March 2014 KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	9,783	8,729
Adjustments:		
Effective interest rate adjustment	(1,335)	(92)
Unrealised fair value loss/(gains) on credit default swaps	217	(200)
Realised gains from disposal of investment securities	-	(3,857)
Dividend income	(776)	(463)
Depreciation	532	675
Loan loss provisions	13,323	24,447
Impairment loss on investment securities	458	96
Foreign exchange movement on subordinated loans	120	(120)
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>22,322</b>	<b>29,215</b>
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(13,146)	(1,954)
Central Bank of Kuwait bonds	14,154	88,166
Deposits with banks and other financial institutions	12,000	11,286
Loans and advances to banks	5,030	8,875
Loans and advances to customers	(38,263)	(114,534)
Other assets	(4,179)	8,308
<i>Increase/(decrease) in operating liabilities:</i>		
Due to banks	110,993	12,301
Deposits from financial institutions	6,359	(12,355)
Customer deposits	(7,273)	236,536
Other liabilities	(9,365)	(1,362)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>98,632</b>	<b>264,482</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities	(26,723)	(110)
Proceeds from sale of investment securities	20,576	12,752
Purchase of premises and equipment	(767)	(651)
Dividend income received	776	463
<b>NET CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(6,138)</b>	<b>12,454</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of subordinated loans	(44,040)	-
Purchase of treasury shares	(1,479)	(435)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(45,519)</b>	<b>(435)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>46,975</b>	<b>276,501</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>607,367</b>	<b>533,421</b>
<b>CASH AND CASH EQUIVALENTS AT 31 MARCH</b>	<b>654,342</b>	<b>809,922</b>
<i>Additional cash flows information</i>		
Interest received	35,982	33,324
Interest paid	14,830	10,477

The attached notes 1 to 12 form part of the interim condensed financial information.

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

PERIOD ENDED 31 MARCH 2015

	RESERVES										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	Subtotal reserves KD,000's	Treasury shares KD,000's	
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	-	-	-	-	-	-	-	8,729	8,729	-	8,729
Other comprehensive income for the period	-	-	-	-	-	-	(3,217)	-	(3,217)	-	(3,217)
Total comprehensive income for the period	-	-	-	-	-	-	(3,217)	8,729	5,512	-	5,512
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(435)	(435)
At 31 March 2014	276,474	13,824	9,097	153,024	17,635	24,246	10,896	46,385	261,283	(63,370)	488,211
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	-	-	-	-	-	-	-	9,783	9,783	-	9,783
Other comprehensive income for the period	-	-	-	-	-	-	(137)	-	(137)	-	(137)
Total comprehensive income for the period	-	-	-	-	-	-	(137)	9,783	9,646	-	9,646
Issue of bonus shares (Note 6)	14,515	(14,515)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(1,479)	(1,479)
At 31 March 2015	304,813	-	12,824	153,024	18,874	24,246	9,037	64,657	282,662	(67,947)	519,528

The attached notes 1 to 12 form part of the interim condensed financial information.

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

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**1. INCORPORATION AND REGISTRATION**

Gulf Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. The Bank's shares are listed on Kuwait Stock Exchange. Its registered office is at Mubarak Al Kabir Street, P.O. Box 3200, 13032 Safat, Kuwait.

The interim condensed financial information of the Bank for the three months period ended 31 March 2015 was authorised by the Board of Directors for issue on 13 April 2015.

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

**2. BASIS OF PRESENTATION**

This interim condensed financial information of the Bank has been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" except as noted below:

The annual financial statements for the year ended 31 December 2014 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). These regulations require adoption of all IFRS except for the IAS 39, Financial Instruments: Recognition and Measurement, requirement for a collective impairment provision, which has been replaced by the CBK's requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The accounting policies used in the preparation of the interim condensed financial information are consistent with those used in the preparation of the annual financial statement for the year ended 31 December 2014 except for the adoption of the new accounting policy on Held to Maturity investments.

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

Amendments to IFRSs and annual improvement 2010 – 2012 cycle which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Bank.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2014. Further, operating results for the three months period ended 31 March 2015 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

This interim condensed financial information has been presented in Kuwaiti Dinars ("KD") which is the Bank's functional currency, rounded off to the nearest thousand (KD 000's).



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

**3. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share are based on the weighted average number of shares outstanding during the period, which is as follows:

	<i>3 months ended 31 March 2015 KD 000's</i>	<i>3 months ended 31 March 2014 KD 000's</i>
Profit for the period	<u>9,783</u>	<u>8,729</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the period, net of treasury shares	<u>2,922,672,478</u>	<u>2,936,237,604</u>
Basic and diluted earnings per share (Fils)	<u>3</u>	<u>3</u>

Earnings per share calculations for the period ended 31 March 2014 have been adjusted to the account of the bonus shares issued in 2015.

**4. SHARE CAPITAL**

	<i>(Unaudited) 31 March 2015 KD 000's</i>	<i>(Audited) 31 December 2014 KD 000's</i>	<i>(Unaudited) 31 March 2014 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2014: 2,902,978,951 and 31 March 2014: 2,764,741,858) shares of 100 fils	<u>304,813</u>	<u>290,298</u>	<u>276,474</u>

**5. TREASURY SHARES**

	<i>(Unaudited) 31 March 2015</i>	<i>(Audited) 31 December 2014</i>	<i>(Unaudited) 31 March 2014</i>
Number of treasury shares	<u>127,804,905</u>	<u>116,816,493</u>	<u>101,397,952</u>
Percentage of treasury shares	<u>4.19%</u>	<u>4.02%</u>	<u>3.67%</u>
Cost of treasury shares (KD 000's)	<u>67,947</u>	<u>66,468</u>	<u>63,370</u>
Weighted average market value of treasury shares (KD 000's)	<u>37,702</u>	<u>40,652</u>	<u>36,605</u>

The balance in the treasury share reserve of **KD 24,246 thousand** (31 December 2014: KD 24,246 thousand and 31 March 2014: KD 24,246 thousand) is not available for distribution. An amount equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from statutory reserve, share premium, treasury shares reserve and retained earnings through out the holding period of treasury shares.

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

**6. BONUS SHARES**

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

**7. SEGMENTAL ANALYSIS**

**By Business Unit**

**Commercial Banking**

Acceptance of deposits from individuals, corporate and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and other credit facilities of corporate and institutional customers.

**Treasury & Investments**

Providing money market, trading and treasury services, as well as management of the Bank's funding operations by use of treasury bills, government securities, placements and acceptances with other banks. The proprietary investments of the Bank are managed by the investments unit.

Segmental information for the three months period ended 31 March is as follows:

	<u>Commercial Banking</u>		<u>Treasury &amp; Investments</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</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>35,515</u>	<u>33,395</u>	<u>1,025</u>	<u>4,176</u>	<u>36,540</u>	<u>37,571</u>
Segment result	<u>7,257</u>	<u>8,233</u>	<u>57</u>	<u>3,198</u>	<u>7,314</u>	<u>11,431</u>
Unallocated income					<u>4,969</u>	<u>3,937</u>
Unallocated expense					<u>(2,500)</u>	<u>(6,639)</u>
<b>Profit for the period</b>					<u><u>9,783</u></u>	<u><u>8,729</u></u>
Segment assets	<u>3,854,768</u>	<u>3,674,787</u>	<u>1,403,399</u>	<u>1,448,930</u>	<u>5,258,167</u>	<u>5,123,717</u>
Unallocated assets					<u>136,585</u>	<u>181,774</u>
<b>Total Assets</b>					<u><u>5,394,752</u></u>	<u><u>5,305,491</u></u>
Segment liabilities	<u>3,058,205</u>	<u>3,074,681</u>	<u>1,684,457</u>	<u>1,568,058</u>	<u>4,742,662</u>	<u>4,642,739</u>
Unallocated liabilities and equity					<u>652,090</u>	<u>662,752</u>
<b>Total Liabilities and Equity</b>					<u><u>5,394,752</u></u>	<u><u>5,305,491</u></u>

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

31 March 2015

**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 transaction and balances included in the interim condensed financial information are as follows:

	<i>Number of Board Members or executive management members (Audited)</i>			<i>Number of related parties (Audited)</i>			<i>KD 000's</i>		
	<i>31 March 2015</i>	<i>31 December 2014</i>	<i>31 March 2014</i>	<i>31 March 2015</i>	<i>31 December 2014</i>	<i>31 March 2014</i>	<i>31 March 2015</i>	<i>31 December 2014</i>	<i>31 March 2014</i>
<b>Board members:</b>									
Balances									
Loans and advances	-	-	-	4	4	3	61,596	60,209	53,531
Investment securities	-	-	-	1	1	1	34	31	39
Deposits	6	6	7	18	20	14	349,024	375,326	227,466
Commitments									
Guarantees /letter of credit	1	-	-	6	7	3	3,913	7,593	6,434
Transactions									
Interest income	-	-	-	6	10	7	404	1,959	399
Interest expense	1	2	2	6	7	3	736	2,677	462
<b>Executive management:</b>									
Balances									
Loans and advances	2	2	1	-	-	-	96	98	54
Deposits	12	10	11	-	-	-	2,434	1,279	1,251
Commitments									
Guarantees /letter of credit	1	1	1	-	-	-	1	1	1
Transactions									
Interest income	2	2	1	-	-	-	1	3	1
Interest expense	9	11	10	-	-	-	4	15	3

# GULF BANK K.S.C.P.

## Notes to the Interim Condensed Financial Information

(Unaudited)

31 March 2015

### 8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to directors and key management personnel are repayable within CBK regulatory limits and have interest rates of 2% to 5% (2014: 2% to 5%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 31 March 2015 was **KD 57,426 thousand** (31 December 2014: KD 56,528 thousand and 31 March 2014: KD 47,442 thousand).

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

	<i>3 months ended 31 March 2015 KD 000's</i>	<i>3 months ended 31 March 2014 KD 000's</i>
Salaries and other short-term benefits	807	780
End of service/termination benefits	29	27
	<b>836</b>	<b>807</b>

### 9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 31 March 2015 KD 000's</i>	<i>(Audited) 31 December 2014 KD 000's</i>	<i>(Unaudited) 31 March 2014 KD 000's</i>
Guarantees	1,234,541	1,211,756	1,068,468
Letters of credit	200,541	199,445	205,794
	<b>1,435,082</b>	<b>1,411,201</b>	<b>1,274,262</b>

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD182,916 thousand** (31 December 2014: KD 166,405 thousand and 31 March 2014: KD 151,071 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 31 March 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	1	(134)	12,637	3,701	8,936	-
Credit default swaps	-	(361)	88,574	-	-	88,574
	<b>1</b>	<b>(495)</b>	<b>101,211</b>	<b>3,701</b>	<b>8,936</b>	<b>88,574</b>

# GULF BANK K.S.C.P.

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

31 March 2015

### 10. DERIVATIVES (continued)

At 31 December 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>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	82	(56)	5,948	5,948	-	-
Credit default swaps	202	(346)	86,376	-	-	86,376
	<u>284</u>	<u>(402)</u>	<u>92,324</u>	<u>5,948</u>	<u>-</u>	<u>86,376</u>

At 31 March 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>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	25	(21)	5,799	5,799	-	-
Credit default swaps	200	-	116,321	21,969	11,266	83,086
	<u>225</u>	<u>(21)</u>	<u>122,120</u>	<u>27,768</u>	<u>11,266</u>	<u>83,086</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 31 March 2015

	<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 classes available for sale:</i>				
Equity securities	27,566	6,893	-	34,459
Debt securities	4,698	-	-	4,698
	<u>32,264</u>	<u>6,893</u>	<u>-</u>	<u>39,157</u>

The amortized cost and fair value of investment securities held to maturity as at 31 March 2015 were **KD 26,863 thousand** (31 December 2014 – KD Nil; 31 March 2014 – KD Nil) and **KD 26,804 thousand** (Level -1) (31 December 2014 – KD Nil; 31 March 2014 – KD Nil) respectively.

There are certain unquoted equity investments carried at cost net of impairment with a carrying amount of **KD 21,871 thousand** (31 December 2014 – KD 21,820 thousand; 31 March 2014 – KD 37,630 thousand).

# GULF BANK K.S.C.P.

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

31 March 2015

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

At 31 December 2014

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

At 31 March 2014

	<i>Level 1</i> <i>KD '000</i>	<i>Level 2</i> <i>KD '000</i>	<i>Level 3</i> <i>KD '000</i>	<i>Total</i> <i>KD '000</i>
<i>Financial classes available for sale:</i>				
Equity securities	31,272	12,354	-	43,626
Debt securities	30,464	-	-	30,464
	61,736	12,354	-	74,090

During the period, there were no transfers between any of the fair value hierarchy levels.

The positive and negative fair values of forward foreign exchange contracts and credit default swaps are valued using significant inputs of observable market data (Level 2). Refer Note 10.

Other financial assets and liabilities are carried at amortized cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

### 12. REPOSSESSED COLLATERAL

During the period, the Bank obtained possession of investment securities valued at KD Nil (31 December 2014: KD 11,889 thousand and 31 March 2014: KD Nil), real estate properties valued at KD Nil (31 December 2014: KD 12,293 thousand and 31 March 2014: KD 12,293 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 15,317 thousand (31 December 2014: KD 16,706 thousand and 31 March 2014: KD 14,879 thousand) are fair valued using quoted market prices (Level 1) and the balance amounting to KD 18,751 thousand (31 December 2014: KD 18,766 thousand and 31 March 2014: KD 10,064 thousand) is fair valued using observable market data (Level 2). The fair values of the real estate properties are not materially different from their carrying values.