

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

**30 June 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 30 June 2015, 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 and its executive regulation, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, during the six months period ended 30 June 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 six months period ended 30 June 2015 that might have had a material effect on the business of the Bank or on its financial position.

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8 July 2015  
Kuwait

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

PERIOD ENDED 30 JUNE 2015

	<i>3 months ended</i> <i>30 June</i> <i>2015</i> <i>KD 000's</i>	<i>3 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>2015</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2014</i> <i>KD 000's</i>
Interest income	41,878	40,989	85,182	80,827
Interest expense	11,802	12,536	23,865	23,672
<b>Net interest income</b>	<u>30,076</u>	<u>28,453</u>	<u>61,317</u>	<u>57,155</u>
Net fees and commissions	7,546	6,742	14,809	12,797
Net gains from dealing in foreign currencies and derivatives	2,324	2,321	4,152	4,392
Realised gains from disposal of investment securities	1,667	29	1,667	3,886
Dividend income	549	354	1,325	817
Other income	305	217	706	577
<b>Operating income</b>	<u>42,467</u>	<u>38,116</u>	<u>83,976</u>	<u>79,624</u>
Staff expenses	10,006	9,747	20,210	20,882
Occupancy costs	905	933	1,789	1,792
Depreciation	568	673	1,100	1,348
Other expenses	2,358	(3,271)	5,056	1,952
<b>Operating expenses</b>	<u>13,837</u>	<u>8,082</u>	<u>28,155</u>	<u>25,974</u>
<b>OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES</b>	<u>28,630</u>	<u>30,034</u>	<u>55,821</u>	<u>53,650</u>
Charge of provisions:				
- specific	15,065	13,449	28,314	32,197
- general	12,962	12,622	13,036	18,321
Loan recoveries net of write-off	(9,467)	(5,965)	(6,300)	(16,035)
Impairment loss on investment securities	773	2,707	1,231	2,803
<b>OPERATING PROFIT</b>	<u>9,297</u>	<u>7,221</u>	<u>19,540</u>	<u>16,364</u>
Contribution to Kuwait Foundation for the Advancement of Sciences	94	73	197	166
National Labour Support Tax	232	179	486	407
Zakat	94	73	197	166
<b>PROFIT FOR THE PERIOD</b>	<u>8,877</u>	<u>6,896</u>	<u>18,660</u>	<u>15,625</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	3	2	6	5

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 2015


	<i>3 months 30 June 2015 KD 000's</i>	<i>3 months ended 30 June 2014 KD 000's</i>	<i>6 months ended 30 June 2015 KD 000's</i>	<i>6 months ended 30 June 2014 KD 000's</i>
<b>Profit for the period</b>	8,877	6,896	18,660	15,625
<b>Other comprehensive income</b>				
<i>Other comprehensive income reclassified to interim condensed statement of income:</i>				
Investment securities:				
- Net realised gain on disposal	(1,669)	(29)	(1,669)	(3,007)
- Impairment loss	773	2,707	1,231	2,803
<i>Other comprehensive income to be reclassified to interim condensed statement of income in subsequent periods:</i>				
Net unrealised losses on investment securities	(929)	(2,964)	(1,524)	(3,299)
<b>Other comprehensive income for the period</b>	(1,825)	(286)	(1,962)	(3,503)
<b>Total comprehensive income for the period</b>	<u>7,052</u>	<u>6,610</u>	<u>16,698</u>	<u>12,122</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**

	(Unaudited) 30 June 2015 KD 000's	(Audited) 31 December 2014 KD 000's	(Unaudited) 30 June 2014 KD 000's
<b>ASSETS</b>			
Cash and cash equivalents	508,675	607,367	679,177
Treasury bills and bonds	210,422	188,086	197,053
Central Bank of Kuwait bonds	560,694	588,216	484,403
Deposits with banks and other financial institutions	-	22,000	11,272
Loans and advances to banks	86,389	127,596	136,051
Loans and advances to customers	3,586,478	3,583,103	3,575,139
Investment securities	135,382	82,339	88,678
Other assets	86,393	104,444	98,630
Premises and equipment	28,283	27,727	25,607
<b>TOTAL ASSETS</b>	<b>5,202,716</b>	<b>5,330,878</b>	<b>5,296,010</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	438,997	354,677	321,465
Deposits from financial institutions	669,777	678,669	692,095
Customer deposits	3,500,823	3,661,724	3,648,184
Subordinated loans	-	43,920	42,270
Other liabilities	67,993	80,527	97,281
<b>TOTAL LIABILITIES</b>	<b>4,677,590</b>	<b>4,819,517</b>	<b>4,801,295</b>
<b>EQUITY</b>			
Share capital	304,813	290,298	290,298
Proposed bonus shares	-	14,515	-
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	7,212	9,174	10,610
Retained earnings	73,534	54,874	53,281
Treasury shares	594,527 (69,401)	577,829 (66,468)	558,191 (63,476)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,202,716</b>	<b>5,330,878</b>	<b>5,296,010</b>

  
**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 JUNE 2015**

	<i>6 months ended 30 June 2015 KD 000's</i>	<i>6 months ended 30 June 2014 KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	18,660	15,625
Adjustments:		
Effective interest rate adjustment	(1,394)	(251)
Unrealised fair value gains on credit default swaps	58	(340)
Realised gains from disposal of investment securities	(1,667)	(3,886)
Dividend income	(1,325)	(817)
Depreciation	1,100	1,348
Loan loss provisions	41,350	50,518
Impairment loss on investment securities	1,231	2,803
Foreign exchange movement on subordinated loans	120	38
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>58,133</b>	<b>65,038</b>
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(22,336)	(19,911)
Central Bank of Kuwait bonds	27,522	55,118
Deposits with banks and other financial institutions	22,000	2,830
Loans and advances to banks	41,207	(10,636)
Loans and advances to customers	(44,567)	(262,733)
Other assets	18,051	65,473
<i>Increase/(decrease) in operating liabilities:</i>		
Due to banks	84,320	13,625
Deposits from financial institutions	(8,892)	(67,708)
Customer deposits	(160,901)	321,933
Other liabilities	(11,356)	(6,934)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>3,181</b>	<b>156,095</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities	(77,521)	(117)
Proceeds from sale of investment securities	22,952	33,001
Purchase of premises and equipment	(1,656)	(1,116)
Dividends income received	1,325	817
<b>NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES</b>	<b>(54,900)</b>	<b>32,585</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of subordinated loans	(44,040)	(42,383)
Purchase of treasury shares	(2,933)	(541)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(46,973)</b>	<b>(42,924)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(98,692)</b>	<b>145,756</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>607,367</b>	<b>533,421</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>508,675</b>	<b>679,177</b>
<b>Additional cash flow information</b>		
Interest received	101,634	97,123
Interest paid	28,684	21,190

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 2015

	Share capital <i>KD 000's</i>	Proposed bonus shares <i>KD 000's</i>	RESERVES						Treasury shares <i>KD 000's</i>	Total <i>KD 000's</i>	
			Statutory reserve <i>KD 000's</i>	Share premium <i>KD 000's</i>	Property revaluation reserve <i>KD 000's</i>	Treasury share reserve <i>KD 000's</i>	Fair valuation reserve <i>KD 000's</i>	Retained earnings <i>KD 000's</i>			Sub-total reserves <i>KD 000's</i>
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	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2014	290,298	-	9,097	153,024	17,635	24,246	10,610	53,281	267,893	(541)	(541)
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	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2015	304,813	-	12,824	153,024	18,874	24,246	7,212	73,534	289,714	(69,401)	525,126

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 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 six months period ended 30 June 2015 was authorised by the Board of Directors for issue on 8 July 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 for 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 six months period ended 30 June 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)**  
30 June 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 30 June 2015 KD 000's</i>	<i>3 months ended 30 June 2014 KD 000's</i>	<i>6 months ended 30 June 2015 KD 000's</i>	<i>6 months ended 30 June 2014 KD 000's</i>
Profit for the period	<u>8,877</u>	<u>6,896</u>	<u>18,660</u>	<u>15,625</u>
	<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>2,917,751,730</u>	<u>2,935,404,258</u>	<u>2,920,198,511</u>	<u>2,935,818,629</u>
Basic and diluted earnings per share (Fils)	<u>3</u>	<u>2</u>	<u>6</u>	<u>5</u>

Earning per share calculations for the period ended 30 June 2014 have been adjusted to take account of the bonus shares issued in 2015. Earnings per share for the six months period ended 30 June 2014 was 6 fils per share before retroactive adjustment to the number of shares following the bonus share issue.

**4. SHARE CAPITAL**

	<i>(Unaudited) 30 June 2015 KD 000's</i>	<i>(Audited) 31 December 2014 KD 000's</i>	<i>(Unaudited) 30 June 2014 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2014: 2,902,978,951 and 30 June 2014: 2,902,978,951) shares of 100 fils each	<u>304,813</u>	<u>290,298</u>	<u>290,298</u>

**5. TREASURY SHARES**

	<i>(Unaudited) 30 June 2015</i>	<i>(Audited) 31 December 2014</i>	<i>(Unaudited) 30 June 2014</i>
Number of treasury shares	<u>133,035,171</u>	<u>116,816,493</u>	<u>106,748,848</u>
Percentage of treasury shares	<u>4.36%</u>	<u>4.02%</u>	<u>3.68%</u>
Cost of treasury shares (KD 000's)	<u>69,401</u>	<u>66,468</u>	<u>63,476</u>
Weighted average market value of treasury shares (KD 000's)	<u>37,898</u>	<u>40,652</u>	<u>36,298</u>

The balance in the treasury share reserve of **KD 24,246 thousand** (31 December 2014: KD 24,246 thousand and 30 June 2014: 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 through out the holding period of treasury shares.

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

	Commercial Banking		Treasury & Investments		Total	
	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Operating income (excluding unallocated income provided below)	<u>70,643</u>	<u>68,132</u>	<u>4,524</u>	<u>3,309</u>	<u>75,167</u>	<u>71,441</u>
Segment result	<u>24,684</u>	<u>17,988</u>	<u>2,281</u>	<u>1,218</u>	<u>26,965</u>	<u>19,206</u>
Unallocated income					8,809	8,183
Unallocated expense					(17,114)	(11,764)
<b>Profit for the period</b>					<u>18,660</u>	<u>15,625</u>
Segment assets	3,722,774	3,786,210	1,365,265	1,385,563	5,088,039	5,171,773
Unallocated assets					114,677	124,237
<b>Total Assets</b>					<u>5,202,716</u>	<u>5,296,010</u>
Segment liabilities	2,941,162	3,199,355	1,604,707	1,456,406	4,545,869	4,655,761
Unallocated liabilities and equity					656,847	640,249
<b>Total Liabilities and Equity</b>					<u>5,202,716</u>	<u>5,296,010</u>

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

30 June 2015

**8. RELATED PARTY TRANSACTIONS**

Certain related parties (Major shareholders, Board members and officers of the Bank, their families and companies of which they are principal owners) were customers of the Bank in the ordinary course of business. The terms of these transactions were approved as per the Bank's policies.

The 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>30 June 2015</i>	<i>31 December 2014</i>	<i>30 June 2014</i>	<i>30 June 2015</i>	<i>31 December 2014</i>	<i>30 June 2014</i>			
							<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Board members:</b>									
<b>Balances</b>									
Loans and advances	-	-	-	5	4	3	58,523	60,209	58,601
Investment securities	-	-	-	1	1	1	29	31	36
Deposits	6	6	7	19	20	13	332,335	375,326	296,087
<b>Commitments</b>									
Guarantees / letters of credit	1	-	-	6	7	3	2,809	7,593	10,423
<b>Transactions</b>									
Interest income	-	-	-	8	10	5	816	1,959	805
Interest expense	1	2	2	6	7	4	1,452	2,677	1,125
<b>Executive management:</b>									
<b>Balances</b>									
Loans and advances	2	2	1	-	-	-	69	98	53
Deposits	12	10	11	-	-	-	1,756	1,279	1,241
<b>Commitments</b>									
Guarantees /letter of credit	1	1	1	-	-	-	1	1	1
<b>Transactions</b>									
Interest income	2	2	2	-	-	-	2	3	2
Interest expense	9	11	11	-	-	-	9	15	8

**GULF BANK K.S.C.P.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
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**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 30 June 2015 was **KD 58,093 thousand** (31 December 2014: KD 56,528 thousand and 30 June 2014: KD 45,092 thousand).

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

	<i>6 months ended</i> <i>30 June 2015</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June 2014</i> <i>KD 000's</i>
Salaries and other short-term benefits	1,723	1,688
End of service/termination benefits	66	58
	<u>1,789</u>	<u>1,746</u>

**9. CONTINGENT LIABILITIES AND COMMITMENTS**

	<i>(Unaudited)</i> <i>30 June</i> <i>2015</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2014</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 June</i> <i>2014</i> <i>KD 000's</i>
Guarantees	1,264,514	1,211,756	1,171,987
Letters of credit	198,215	199,445	223,272
	<u>1,462,729</u>	<u>1,411,201</u>	<u>1,395,259</u>

As at reporting date, the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 157,585 thousand** (31 December 2014: KD 166,405 thousand and 30 June 2014: KD 136,052 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 2015:

	<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>
<b>Derivatives instruments held as:</b>						
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>

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**10. DERIVATIVES (continued)**

At 31 December 2014:

	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	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 30 June 2014:

	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	8	(2)	13,580	13,580	-	-
Credit default swaps	303	(384)	94,403	11,272	-	83,131
	<u>311</u>	<u>(386)</u>	<u>107,983</u>	<u>24,852</u>	<u>-</u>	<u>83,131</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 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 2015

	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
<i>Financial assets available for sale :</i>				
Equity securities	26,599	6,718	-	33,317
Debt securities	35,027	-	-	35,027
	<u>61,626</u>	<u>6,718</u>	<u>-</u>	<u>68,344</u>

The amortized cost and fair value of investment securities held to maturity as at 30 June 2015 were **KD 45,113 thousand** (31 December 2014: KD Nil; 30 June 2014: KD Nil) and **KD 45,057 thousand** (Level: 1) (31 December 2014: KD Nil; 30 June 2014: KD Nil) respectively.

There are certain unquoted equity investments carried at cost net of impairment with a carrying amount of **KD 21,925 thousand** (31 December 2014: KD 21,820 thousand; 30 June 2014: KD 26,398 thousand).

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**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 assets available for sale :</i>				
Equity securities	28,034	7,046	-	35,080
Debt securities	25,439	-	-	25,439
	<u>53,473</u>	<u>7,046</u>	<u>-</u>	<u>60,519</u>

At 30 June 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 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>

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 58,562 thousand** (31 December 2014: KD 63,683 thousand and 30 June 2014: KD 52,382 thousand).

The Bank is compliant with the CBK regulations to dispose these within the stipulated time limit except on investment securities amounting to **KD 8,897 thousand** (31 December 2014: KD Nil and 30 June 2014: KD Nil).

During the period, the Bank obtained possession of investment securities valued at **KD Nil** (31 December 2014: KD 11,889 thousand and 30 June 2014: KD Nil), real estate properties valued at **KD Nil** (31 December 2014: KD 12,293 thousand and 30 June 2014: KD 12,293 thousand). Investment securities amounting to **KD 11,955 thousand** (31 December 2014: KD 16,706 thousand and 30 June 2014: KD 14,107 thousand) are fair valued using quoted market prices (Level 1) and the balance amounting to **KD 18,396 thousand** (31 December 2014: KD 18,766 thousand and 30 June 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.

**13. OTHER EXPENSES**

Other expenses for the period ended 30 June 2014 included KD 7,201 thousand relating to reversal of a legal provision which was no longer required.