

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

30 SEPTEMBER 2019



Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C.P. (the “Bank”) as at 30 September 2019, and the related interim condensed statement of income and interim condensed statement of comprehensive income for the three month and nine month periods then ended and the related interim condensed statement of cash flows and interim condensed statement of changes in equity for the nine months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim condensed 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, as amended, and its executive regulations, as amended, or of the Bank’s Memorandum of Incorporation and Articles of Association, as amended, during the nine months period ended 30 September 2019 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 material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the nine months period ended 30 September 2019 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

TALAL YOUSEF AL-MUZAINI
LICENCE NO. 209 A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

9 October 2019
Kuwait

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

PERIOD ENDED 30 SEPTEMBER 2019

	<i>3 months ended</i> <i>30 September</i> <i>2019</i> <i>KD 000's</i>	<i>3 months ended</i> <i>30 September</i> <i>2018</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2019</i> <i>KD 000's</i>	<i>9 months ended</i> <i>30 September</i> <i>2018</i> <i>KD 000's</i>
Interest income	64,824	61,716	192,963	180,434
Interest expense	28,696	23,201	82,346	65,051
Net interest income	36,128	38,515	110,617	115,383
Net fees and commissions	7,092	7,374	20,990	22,085
Net gains from dealing in foreign currencies and derivatives	2,860	2,300	7,441	6,820
Dividend income	-	90	575	678
Other income	188	355	2,228	769
Operating income	46,268	48,634	141,851	145,735
Staff expenses	11,713	10,471	34,963	31,062
Occupancy costs	731	1,190	2,020	3,344
Depreciation	1,798	909	5,246	2,729
Other expenses	4,265	3,712	16,207	11,180
Operating expenses	18,507	16,282	58,436	48,315
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES	27,761	32,352	83,415	97,420
Charge (release) of provisions:				
- specific	17,900	17,317	53,217	50,637
- general	612	(664)	266	16,006
Loan recoveries, net of write-off	(4,263)	(2,199)	(9,153)	(21,533)
Net provision on other financial assets	(279)	29	53	55
Impairment loss on other assets	19	1,260	159	7,575
OPERATING PROFIT	13,772	16,609	38,873	44,680
Contribution to Kuwait Foundation for the Advancement of Sciences	138	166	390	447
National Labour Support Tax	342	411	964	1,106
Zakat	138	166	390	447
PROFIT FOR THE PERIOD	13,154	15,866	37,129	42,680
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	5	5	13	15

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 30 SEPTEMBER 2019

	<i>3 months ended 30 September 2019 KD 000's</i>	<i>3 months ended 30 September 2018 KD 000's</i>	<i>9 months ended 30 September 2019 KD 000's</i>	<i>9 months ended 30 September 2018 KD 000's</i>
Profit for the period	13,154	15,866	37,129	42,680
Other comprehensive income				
<i>Items that will not be reclassified subsequently to interim condensed statement of income :</i>				
Net changes in fair value of investment securities -equity	16	(661)	1,270	(714)
<i>Items that are reclassified or may be reclassified subsequently to interim condensed statement of income:</i>				
Net changes in fair value of debt instruments at FVOCI	(10)	(5)	(22)	33
Other comprehensive income (loss) for the period	<u>6</u>	<u>(666)</u>	<u>1,248</u>	<u>(681)</u>
Total comprehensive income for the period	<u><u>13,160</u></u>	<u><u>15,200</u></u>	<u><u>38,377</u></u>	<u><u>41,999</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> 30 September 2019	<i>(Audited)</i> 31 December 2018	<i>(Unaudited)</i> 30 September 2018
Notes	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and cash equivalents	1,054,899	742,109	805,396
Treasury bills and bonds	252,000	395,736	395,732
Central Bank of Kuwait bonds	278,853	321,953	350,365
Deposits with banks and other financial institutions	117,861	156,569	177,228
Loans and advances to banks	153,907	143,668	128,335
Loans and advances to customers	3,992,207	3,950,053	3,821,130
Investment securities	161,633	167,372	123,254
Other assets	107,787	107,147	116,623
Premises and equipment	36,032	31,740	31,143
	<u>6,155,179</u>	<u>6,016,347</u>	<u>5,949,206</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	549,274	414,482	380,416
Deposits from financial institutions	940,346	1,005,894	1,056,088
Customer deposits	3,787,685	3,734,755	3,697,315
Subordinated Tier 2 bonds	100,000	100,000	100,000
Other liabilities	139,785	132,523	101,709
	<u>5,517,090</u>	<u>5,387,654</u>	<u>5,335,528</u>
EQUITY			
Share capital	4 304,813	304,813	304,813
Statutory reserve	32,429	32,429	26,475
Share premium	153,024	153,024	153,024
Property revaluation reserve	17,983	17,983	17,852
Treasury share reserve	24,111	24,111	24,111
Fair valuation reserve	8,317	7,382	6,559
Retained earnings	171,017	162,556	154,449
	<u>711,694</u>	<u>702,298</u>	<u>687,283</u>
Treasury shares	5 (73,605)	(73,605)	(73,605)
	<u>638,089</u>	<u>628,693</u>	<u>613,678</u>
TOTAL EQUITY	<u>638,089</u>	<u>628,693</u>	<u>613,678</u>
TOTAL LIABILITIES AND EQUITY	<u>6,155,179</u>	<u>6,016,347</u>	<u>5,949,206</u>


Omar Kutayba Alghanim
(Chairman)


Antoine Daher
(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 30 SEPTEMBER 2019

	Notes	<i>9 months ended 30 September 2019 KD 000's</i>	<i>9 months ended 30 September 2018 KD 000's</i>
OPERATING ACTIVITIES			
Profit for the period		37,129	42,680
Adjustments:			
Effective interest rate adjustment		(132)	(18)
Dividend income		(575)	(678)
Depreciation		5,246	2,729
Loan loss provisions		53,483	66,643
Net provision on other financial assets		53	55
Impairment loss on other assets	12	159	7,575
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		95,363	118,986
<i>Decrease/(increase) in operating assets:</i>			
Treasury bills and bonds		143,736	171,048
Central Bank of Kuwait bonds		43,100	44,189
Deposits with banks and other financial institutions		38,637	(138,231)
Loans and advances to banks		(10,055)	850
Loans and advances to customers		(96,061)	(73,487)
Other assets		(875)	(1,006)
<i>Increase/(decrease) in operating liabilities:</i>			
Due to banks		134,792	(31,689)
Deposits from financial institutions		(65,548)	86,891
Customer deposits		52,930	207,338
Other liabilities		2,541	(14,895)
NET CASH FLOWS FROM OPERATING ACTIVITIES		338,560	369,994
INVESTING ACTIVITIES			
Purchase of investment securities		(22,003)	(12,907)
Proceeds from sale of investment securities		29,084	5,281
Purchase of premises and equipment		(4,445)	(3,918)
Dividend income received		575	678
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		3,211	(10,866)
FINANCING ACTIVITIES			
Dividend paid	6	(28,981)	(26,190)
Purchase of treasury shares		-	(3,125)
Proceeds from sale of treasury shares		-	142
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(28,981)	(29,173)
NET INCREASE IN CASH AND CASH EQUIVALENTS		312,790	329,955
CASH AND CASH EQUIVALENTS AT 1 JANUARY		742,109	475,441
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		1,054,899	805,396
Additional cash flows information			
Interest received		194,771	183,818
Interest paid		77,591	63,083

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 30 SEPTEMBER 2019

	RESERVES							Treasury shares KD 000's	Total KD 000's	
	Share capital KD 000's	Statutory reserve KD 000's	Share premium KD 000's	Property revaluation reserve KD 000's	Treasury share reserve KD 000's	Fair valuation reserve KD 000's	Retained earnings KD 000's			Sub-total reserves KD 000's
At 1 January 2018	304,813	26,475	153,024	17,852	24,246	6,444	139,181	367,222	(70,757)	601,278
Impact on initial application of IFRS 9	-	-	-	-	-	(242)	(184)	(426)	-	(426)
At 1 January 2018 (restated)	304,813	26,475	153,024	17,852	24,246	6,202	138,997	366,796	(70,757)	600,852
Profit for the period	-	-	-	-	-	-	42,680	42,680	-	42,680
Other comprehensive income for the period	-	-	-	-	-	(681)	-	(681)	-	(681)
Total comprehensive income for the period	-	-	-	-	-	(681)	42,680	41,999	-	41,999
Dividend paid (Note 6)	-	-	-	-	-	-	(26,190)	(26,190)	-	(26,190)
Realised loss on equity securities at FVOCI	-	-	-	-	-	1,038	(1,038)	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	(3,125)	(3,125)
Sale of treasury shares	-	-	-	-	-	-	-	-	277	277
Loss on sale of treasury shares	-	-	-	-	(135)	-	-	(135)	-	(135)
At 30 September 2018	304,813	26,475	153,024	17,852	24,111	6,559	154,449	382,470	(73,605)	613,678
At 1 January 2019	304,813	32,429	153,024	17,983	24,111	7,382	162,556	397,485	(73,605)	628,693
Profit for the period	-	-	-	-	-	-	37,129	37,129	-	37,129
Other comprehensive income for the period	-	-	-	-	-	1,248	-	1,248	-	1,248
Total comprehensive income for the period	-	-	-	-	-	1,248	37,129	38,377	-	38,377
Dividend paid (Note 6)	-	-	-	-	-	-	(28,981)	(28,981)	-	(28,981)
Realised gain on equity securities at FVOCI	-	-	-	-	-	(313)	313	-	-	-
At 30 September 2019	304,813	32,429	153,024	17,983	24,111	8,317	171,017	406,881	(73,605)	638,089

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)
30 September 2019

1. INCORPORATION AND REGISTRATION

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

The interim condensed financial information of the Bank for the nine months period ended 30 September 2019 was authorised by the Board of Directors for issue on 9 October 2019.

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 2018 were prepared in accordance with International Financial Reporting Standard ("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 expected credit loss ("ECL") to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of IFRS as issued by the International Accounting Standards Board ("IASB") (collectively referred to as IFRS, as adopted for use by the State of Kuwait).

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 2018 except for the adoption of the following new standard which is effective from 1 January 2019:

IFRS 16: Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The only exceptions are short-term (i.e., where the lease term is 12 months or less) and low-value leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The Bank, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Bank assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Bank's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings. The Bank has availed the short-term and low-value leases exceptions. The right-of-use assets and lease liabilities recorded as at 1 January 2019 amounted to **KD 5,726 thousand**. The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the interim condensed statement of financial position.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Bank.

GULF BANK K.S.C.P.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 September 2019

2. BASIS OF PRESENTATION (continued)

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 2018. Further, operating results for the nine months period ended 30 September 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

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), except when otherwise indicated.

3. BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>3 months ended 30 September 2019 KD 000's</i>	<i>3 months ended 30 September 2018 KD 000's</i>	<i>9 months ended 30 September 2019 KD 000's</i>	<i>9 months ended 30 September 2018 KD 000's</i>
Profit for the period	<u>13,154</u>	<u>15,866</u>	<u>37,129</u>	<u>42,680</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>2,898,133,288</u>	<u>2,899,713,193</u>	<u>2,898,133,288</u>	<u>2,906,096,881</u>
Basic and diluted earnings per share (Fils)	<u>5</u>	<u>5</u>	<u>13</u>	<u>15</u>

4. SHARE CAPITAL

	<i>(Unaudited) 30 September 2019 KD 000's</i>	<i>(Audited) 31 December 2018 KD 000's</i>	<i>(Unaudited) 30 September 2018 KD 000's</i>
Authorised, issued and fully paid up 3,048,127,898 (31 December 2018: 3,048,127,898 and 30 September 2018: 3,048,127,898) shares of 100 fils	<u>304,813</u>	<u>304,813</u>	<u>304,813</u>

5. TREASURY SHARES

	<i>(Unaudited) 30 September 2019</i>	<i>(Audited) 31 December 2018</i>	<i>(Unaudited) 30 September 2018</i>
Number of treasury shares	<u>149,994,610</u>	<u>149,994,610</u>	<u>149,994,610</u>
Percentage of treasury shares	<u>4.92%</u>	<u>4.92%</u>	<u>4.92%</u>
Cost of treasury shares (KD 000's)	<u>73,605</u>	<u>73,605</u>	<u>73,605</u>
Weighted average market value of treasury shares (KD 000's)	<u>44,698</u>	<u>37,949</u>	<u>37,649</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 24,111 thousand** (31 December 2018: KD 24,111 thousand and 30 September 2018: KD 24,111 thousand) is not available for distribution. An amount equivalent to the cost 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)
30 September 2019

6. DIVIDEND

The shareholders at the Annual General Meeting (AGM) held on 11 March 2019 approved a cash dividend of **10 fils** per share (2017: 9 fils) for the year ended 31 December 2018. The cash dividend was recorded on 28 March 2019 and paid subsequently.

7. SEGMENTAL ANALYSIS

By Business Unit

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

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

Segmental information for the nine months period ended 30 September is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2019	2018	2019	2018	2019	2018
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Operating income (excluding unallocated income provided below)	109,529	113,410	6,128	11,759	115,657	125,169
Segment result	45,004	57,128	5,245	10,921	50,249	68,049
Unallocated income					26,194	20,566
Unallocated expense					(39,314)	(45,935)
Profit for the period					37,129	42,680
Segment assets	4,257,622	4,062,373	1,827,662	1,810,349	6,085,284	5,872,722
Unallocated assets					69,895	76,484
Total Assets					6,155,179	5,949,206
Segment liabilities	2,814,302	2,866,634	2,515,501	2,308,370	5,329,803	5,175,004
Unallocated liabilities and equity					825,376	774,202
Total Liabilities and Equity					6,155,179	5,949,206

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

30 September 2019

8. RELATED PARTY TRANSACTIONS

Certain related parties (major shareholder, Board members and executive management 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 statement of income and interim condensed financial information are as follows:

	<i>Number of Board Members or executive management (Audited)</i>		<i>Number of related parties (Audited)</i>		<i>KD 000's</i>		<i>KD 000's</i>	
	<i>30 September 2019</i>	<i>31 December 2018</i>	<i>30 September 2019</i>	<i>31 December 2018</i>	<i>30 September 2019</i>	<i>31 December 2018</i>	<i>30 September 2018</i>	<i>30 September 2018</i>
Board members:								
Balances								
Loans and advances	1	1	13	16	193,299	145,556	155,831	
Credit cards	4	3	6	5	41	65	55	
Deposits	8	8	63	52	63,609	618,269	501,642	
Commitments/derivatives								
Guarantees / letters of credit	1	1	5	8	5,654	6,611	7,278	
Forward foreign exchange contracts	-	-	1	1	1,037	15,541	18,445	
Transactions								
Interest income	1	1	19	24	5,178	7,781	6,117	
Interest expense	5	5	19	17	9,370	12,623	9,034	
Net fees and commissions	-	1	11	12	87	351	333	
Other expenses	-	-	12	9	1,990	1,294	876	
Purchase of equipment	-	-	2	3	156	71	62	
Executive management:								
Balances								
Loans and advances	2	1	-	-	53	30	31	
Credit cards	11	9	-	-	25	22	16	
Deposits	12	11	-	-	1,717	1,084	1,041	
Transactions								
Interest income	2	2	-	-	2	2	1	
Interest expense	13	12	-	-	21	15	11	

GULF BANK K.S.C.P.

Notes to the Interim Condensed Financial Information (Unaudited)

30 September 2019

8. RELATED PARTY TRANSACTIONS (continued)

The loans issued to directors and executive management are repayable within CBK regulatory limits and have interest rates of **3.5% to 6%** (2018: 3.5% to 5.75%) per annum. Some of the loans advanced to Board members and their related parties during the period are collateralised. The fair value of these collaterals as of 30 September 2019 was **KD 105,725 thousand** (31 December 2018: KD 58,614 thousand and 30 September 2018: KD 61,562 thousand).

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

	<i>9 months ended 30 September 2019</i>	<i>9 months ended 30 September 2018</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Salaries and other short-term benefits	3,027	2,727
End of service/termination benefits	322	155
	3,349	2,882

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited) 30 September 2019</i>	<i>(Audited) 31 December 2018</i>	<i>(Unaudited) 30 September 2018</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Guarantees	1,229,696	1,226,081	1,254,128
Letters of credit and acceptances	230,621	214,203	189,996
	1,460,317	1,440,284	1,444,124

As at reporting date, the Bank had undrawn commitments to extend credit facilities to customers amounting to **KD 203,487 thousand** (31 December 2018: KD 222,882 thousand and 30 September 2018: KD 219,797 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.

			<i>Notional amounts by term to maturity</i>		
At 30 September 2019:	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount total</i>	<i>Within 3 months</i>	<i>3-12 months</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	42	(54)	25,508	25,432	76
	42	(54)	25,508	25,432	76

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10. DERIVATIVES (continued)

At 31 December 2018:	<i>Notional amounts by term to maturity</i>				
	<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>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	718	(615)	61,975	33,439	28,536

At 30 September 2018:	<i>Notional amounts by term to maturity</i>				
	<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>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>
Derivatives instruments held as:					
Trading (and non qualifying hedges)					
Forward foreign exchange contracts	472	(1,320)	200,562	169,868	30,694

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amounts approximate to their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 30 September 2019:

	<i>Level 1 KD '000</i>	<i>Level 2 KD '000</i>	<i>Level 3 KD '000</i>	<i>Total KD '000</i>
Financial assets at FVOCI:				
Equity securities	15,642	5,241	13,838	34,721
Debt securities	-	201	-	201
	<u>15,642</u>	<u>5,442</u>	<u>13,838</u>	<u>34,922</u>

The amortized cost and fair value of investment securities at amortised cost as at 30 September 2019 were **KD 126,711 thousand** (31 December 2018: KD 130,098 thousand; 30 September 2018: KD 86,295 thousand) and **KD 107,998 thousand** (Level 1) (31 December 2018: KD 108,348 thousand; 30 September 2018: KD 67,618 thousand) and **KD 20,800 thousand** (Level 2) (31 December 2018: KD 20,800 thousand; 30 September 2018: KD 17,800 thousand) respectively.

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11. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2018:

	<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 at FVOCI:</i>				
Equity securities	15,723	5,531	13,847	35,101
Debt securities	-	2,173	-	2,173
	15,723	7,704	13,847	37,274

At 30 September 2018:

	<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 at FVOCI:</i>				
Equity securities	14,823	5,129	14,325	34,277
Debt securities	-	2,682	-	2,682
	14,823	7,811	14,325	36,959

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 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

	<i>(Unaudited)</i> <i>30 September</i> <i>2019</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 September</i> <i>2018</i> <i>KD 000's</i>
Accrued interest receivable	19,733	21,541	17,986
Sundry debtors and others	14,128	14,575	27,356
Repossessed collaterals (refer movement below)	73,926	71,031	71,281
	107,787	107,147	116,623

Movement in repossessed collaterals:

	<i>(Unaudited)</i> <i>30 September</i> <i>2019</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>30 September</i> <i>2018</i> <i>KD 000's</i>
Beginning balance	71,031	78,856	78,856
Additions			
- Listed equity securities	8,432	-	-
- Real estate properties	-	98,996	-
Disposals	(5,378)	(90,000)	-
Impairment loss	(159)	(16,821)	(7,575)
	73,926	71,031	71,281

Investment securities amounting to **KD 2,894 thousand** (31 December 2018: KD Nil and 30 September 2018: KD Nil) are fair valued using quoted market prices (Level 1). The fair values of the real estate properties are not materially different from their carrying values.