

GULF BANK K.S.C.

**INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)**

31 MARCH 2010

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Gulf Bank K.S.C. ("the Bank") as at 31 March 2010 and the related interim condensed statements of income, comprehensive income, cash flows and 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 Commercial Companies' Law of 1960, as amended, or of the Articles of Association of the Bank during the period ended 31 March 2010 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 organisation of banking business, and its related regulations, during the three months period ended 31 March 2010.



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AL-FAHAD, AL WAZZAN & CO.

8 April 2010
Kuwait

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

	<i>Note</i>	<i>3 months ended 31 March 2010 KD 000's</i>	<i>3 months ended 31 March 2009 KD 000's</i>
Interest income		46,627	65,848
Interest expense		21,703	41,930
Net interest income		<u>24,924</u>	<u>23,918</u>
Net fees and commissions		6,413	5,859
Net gain / (loss) from dealing in foreign currencies and derivatives (including fair value movements of credit default swaps)		10,342	(1,340)
Realised gains on disposal of investments available-for-sale		14,471	35
Dividend income		82	5
Impairment loss on investments available-for-sale		(264)	(3,373)
Other operating income		74	74
OPERATING INCOME		<u>56,042</u>	<u>25,178</u>
Staff expenses		8,258	6,306
Occupancy costs		626	528
Depreciation		609	596
Other expenses		2,280	2,183
Operating expenses		<u>11,773</u>	<u>9,613</u>
OPERATING PROFIT BEFORE PROVISIONS		44,269	15,565
Charge of provisions:			
Specific		40,920	6,149
General		1,873	7,748
Loans written off		928	-
OPERATING PROFIT		<u>548</u>	<u>1,668</u>
Contribution to Kuwait Foundation for the Advancement of Sciences		5	17
National Labour Support Tax		14	41
Zakat		5	17
PROFIT FOR THE PERIOD		<u>524</u>	<u>1,593</u>
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	<u>-</u>	<u>1</u>

The attached notes 1 to 10 form part of the interim condensed financial information.

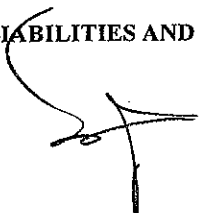
GULF BANK K.S.C.
Interim Condensed Statement of Comprehensive Income
(Unaudited)
PERIOD ENDED


	<i>3 months ended</i> <i>31 March</i> <i>2010</i> <i>KD 000's</i>	<i>3 months ended</i> <i>31 March</i> <i>2009</i> <i>KD 000's</i>
Profit for the period	524	1,593
Other comprehensive income		
Net unrealised gain on investments available- for-sale	993	6,814
Net realised gain transferred to statement of income on disposal of investments available-for-sale	<u>(12,580)</u>	<u>-</u>
Other comprehensive(expense)/income for the period	<u>(11,587)</u>	<u>6,814</u>
Total comprehensive (expense)/income for the period	<u><u>(11,063)</u></u>	<u><u>8,407</u></u>

The attached notes 1 to 10 form part of the interim condensed financial information.

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

		<i>(Unaudited)</i> 31 March 2010 KD 000's	<i>(Audited)</i> 31 December 2009 KD 000's	<i>(Unaudited)</i> 31 March 2009 KD 000's
ASSETS				
Cash and short term funds		436,806	421,350	423,919
Treasury bills and bonds		437,336	486,206	438,547
Central Bank of Kuwait bonds		264,308	272,487	58,248
Deposits with banks and other financial institutions		5,000	70,267	427,707
Loans and advances to banks		9,726	9,258	33,316
Loans and advances to customers		3,163,260	3,265,753	3,517,743
Investments available-for-sale		117,777	142,646	158,600
Other assets		56,262	51,057	52,103
Premises and equipment		25,304	24,887	23,961
TOTAL ASSETS		<u>4,515,779</u>	<u>4,743,911</u>	<u>5,134,144</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		19,033	89,874	39,223
Deposits from financial institutions		820,635	918,962	672,455
Customer deposits		3,105,816	3,149,440	3,753,028
Subordinated loans		86,640	86,040	87,390
Other liabilities		86,303	91,742	158,797
TOTAL LIABILITIES		<u>4,118,427</u>	<u>4,336,058</u>	<u>4,710,893</u>
EQUITY				
Share capital	4	250,770	250,770	250,770
Share premium	4	153,024	153,024	153,024
Property revaluation reserve		16,639	16,639	15,528
Treasury share reserve		27,130	27,979	27,979
Fair valuation reserve		23,930	35,517	17,433
(Accumulated deficit)/retained earnings		(25,921)	(26,445)	3,221
		<u>445,572</u>	<u>457,484</u>	<u>467,955</u>
Treasury shares	6	(48,220)	(49,631)	(44,704)
		<u>397,352</u>	<u>407,853</u>	<u>423,251</u>
TOTAL LIABILITIES AND EQUITY		<u>4,515,779</u>	<u>4,743,911</u>	<u>5,134,144</u>


Ali Al-Rashaid Al-Bader
(Chairman)


Michel Accad
(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 10 form part of the interim condensed financial information.

GULF BANK K.S.C.
Interim Condensed Statement of Cash Flows
(Unaudited)
PERIOD ENDED

	<i>3 months ended</i> <i>31 March</i> <i>2010</i> <i>KD 000's</i>	<i>3 months ended</i> <i>31 March</i> <i>2009</i> <i>KD 000's</i>
OPERATING ACTIVITIES		
Profit for the period	524	1,593
Adjustments:		
Realised gain from disposal of investments available-for-sale	(14,471)	(35)
Dividend income	(82)	(5)
Impairment loss on investments available-for-sale	264	3,373
Depreciation	609	596
Effective interest rate adjustment	355	-
Loans written off	928	-
Loan loss provision	42,793	13,897
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	30,920	19,419
<i>(Increase) decrease in operating assets:</i>		
Treasury bills and bonds	48,870	(11,950)
Central Bank of Kuwait bonds	8,179	(33,265)
Deposits with banks and other financial institutions	65,267	(13,781)
Loans and advances to banks	(468)	(1,343)
Loans and advances to customers	57,327	(86,950)
Other assets	(5,205)	(12,135)
<i>(Decrease) increase in operating liabilities:</i>		
Due to banks	(70,841)	(52,286)
Deposits from financial institutions	(98,327)	13,947
Customer deposits	(43,624)	(72,693)
Subordinated loans	600	4,605
Other liabilities	(4,349)	(8,507)
NET CASH USED IN OPERATING ACTIVITIES	(11,651)	(254,939)
INVESTING ACTIVITIES		
Purchase of investments available-for-sale	(9)	(144)
Proceeds from sale of investments available-for-sale	27,498	1,112
Purchase of premises and equipment	(1,026)	(892)
Dividend received	82	5
NET CASH FROM INVESTING ACTIVITIES	26,545	81
FINANCING ACTIVITIES		
Due to Central Bank of Kuwait	-	(80,000)
Capital contribution from rights issue	-	376,156
Purchase of treasury shares	(8)	-
Proceeds from sale of treasury shares	570	-
Proceeds from sale of treasury shares rights entitlement	-	700
NET CASH FROM FINANCING ACTIVITIES	562	296,856
NET INCREASE IN CASH AND SHORT TERM FUNDS	15,456	41,998
CASH AND SHORT TERM FUNDS AT 1 JANUARY	421,350	381,921
CASH AND SHORT TERM FUNDS AT 31 MARCH	436,806	423,919

The attached notes 1 to 10 form part of the interim condensed financial information.

GULF BANK K.S.C.
Interim Condensed Statement of Changes in Equity (Unaudited)
 THREE MONTHS PERIOD ENDED

	RESERVES							Treasury shares KD 000's	Total KD 000's	
	Share capital KD 000's	Statutory reserve KD 000's	General 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			(Accumulated deficit) retained earnings KD 000's
At 1 January 2009	125,385	89,438	2,356	46,044	15,528	27,979	10,619	(233,957)	(41,993)	37,988
Issue of capital	125,385	-	-	250,771	-	-	-	-	250,771	(45,404)
Sale of rights entitlement on treasury shares	-	-	-	-	-	-	-	-	-	700
Accumulated deficit set off against reserves (Note 4)	-	(89,438)	(2,356)	(143,791)	-	-	-	235,585	-	-
Total comprehensive income for the period	-	-	-	-	-	-	6,814	1,593	8,407	-
At 31 March 2009	250,770	-	-	153,024	15,528	27,979	17,433	3,221	217,185	(44,704)
At 1 January 2010	250,770	-	-	153,024	16,639	27,979	35,517	(26,445)	206,714	(49,631)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(8)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	1,419
Loss on sale of treasury shares	-	-	-	-	-	(849)	-	-	(849)	-
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	(11,587)	524	(11,063)	-
At 31 March 2010	250,770	-	-	153,024	16,639	27,130	23,930	(25,921)	194,802	(48,220)
										397,352

The attached notes 1 to 10 form part of the interim condensed financial information.

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2010

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. (the Bank) is a public shareholding company incorporated in Kuwait and is registered as a Bank with the Central Bank of Kuwait and 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 2010 was authorised by the Board of Directors for issue on 8 April 2010.

2. BASIS OF PRESENTATION

This interim condensed financial information of the Bank has been prepared in accordance with IAS 34, Interim Financial Reporting, except as noted below. 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 2009. The annual financial statements for the year ended 31 December 2009 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait'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 interim condensed financial information does not contain all information and disclosures required for the preparation of Bank's annual financial statements for the year ended 31 December 2009. Operating results for the three months period are not necessarily indicative of the results that may be expected for the year ending 31 December 2010.

This interim condensed financial information has been presented in Kuwaiti Dinars rounded off to the nearest thousand.

3. BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>3 months ended 31 March 2010 KD 000's</i>	<i>3 months ended 31 March 2009 KD 000's</i>
Profit for the period	524	1,593
	<u>Shares</u>	<u>Shares</u>
Weighted average number of issued shares	2,507,702,366	2,159,410,371
Less: Weighted average number of treasury shares	(52,077,848)	(36,263,737)
	<u>2,455,624,518</u>	<u>2,123,146,634</u>
Earnings per share (Fils)	<u>-</u>	<u>1</u>

The earnings per share for the three months period ended 31 March 2009 has not been adjusted to give effect to the bonus element in the rights issue due to the non-availability of the market price of the Bank's shares on the rights issue date (Note 6).

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2010

4. SHARE CAPITAL

	<i>(Unaudited)</i> 31 March 2010 KD 000's	<i>(Audited)</i> 31 December 2009 KD 000's	<i>(Unaudited)</i> 31 March 2009 KD 000's
Authorised, issued and fully paid up 2,507,702,366 (2009: 2,507,702,366) shares of 100 fils each	<u>250,770</u>	<u>250,770</u>	<u>250,770</u>

In 2008, the Bank's Board of Directors resolved to recommend an increase in equity share capital from KD 125,385,118 to KD 250,770,236 through a rights issue of 1,253,851,183 shares of 100 fils each at a premium of 200 fils per share, to shareholders on record as of 26 October 2008. The terms of rights issue were approved at the ordinary and extraordinary general meetings of shareholders held on 2 December 2008. The Amiri decree authorising this capital increase was issued on 23 December 2008.

During the subscription period in January 2009, 68% of the rights issue was subscribed by existing Shareholders and in line with the resolutions adopted by shareholders at the above extraordinary general meeting, Kuwait Investment Authority took the unsubscribed shares.

The share premium, statutory reserve and general reserve as of 31 January 2009 were utilised to offset accumulated losses of KD 235,585,000 as of that date which was approved by the shareholders on 11 April 2009.

5. PROVISIONS TO BE CEDED TO THE CENTRAL BANK OF KUWAIT

As at 31 March 2010, provisions to be ceded to the Central Bank of Kuwait is **KD Nil** (31 March 2009: KD Nil). The ultimate amount to be ceded to the Central Bank of Kuwait for the year will depend on the situation at the year end. The identification of provisions no longer required was made in the same manner as adopted at the end of 2009 and in accordance with Central Bank of Kuwait instructions.

6. TREASURY SHARES

	<i>(Unaudited)</i> 31 March 2010	<i>(Audited)</i> 31 December 2009	<i>(Unaudited)</i> 31 March 2009
Number of treasury shares	50,983,737	52,453,737	36,263,737
Percentage of treasury shares	2.03%	2.09%	1.45%
Cost of treasury shares (KD 000's)	<u>48,220</u>	<u>49,631</u>	<u>44,704</u>
Market value of treasury shares (KD 000's)	<u>18,609</u>	<u>15,736</u>	<u>-</u>

It was not possible to disclose the market value of the treasury shares as of 31 March 2009, as the Kuwait Stock Exchange had suspended trading in the Bank's share with effect from 26 October 2008. The Bank's shares resumed trading on 14 April 2009.

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2010

7. SEGMENTAL ANALYSIS

By Business Unit

Commercial Banking

Acceptance of deposits from individuals, corporates' and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and handling loans 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 month period ended 31 March is as follows:

	Commercial Banking		Treasury & Investments		Total	
	2010 KD 000's	2009 KD 000's	2010 KD 000's	2009 KD 000's	2010 KD 000's	2009 KD 000's
Operating income (Excluding unallocated income provided below)	27,502	25,295	22,077	(3,711)	49,579	21,584
Segment result	(20,596)	12,832	21,390	(4,326)	794	8,506
Unallocated income	-	-	-	-	6,463	3,594
Unallocated expense	-	-	-	-	(6,733)	(10,507)
Operating profit					524	1,593
Segment assets	3,213,333	3,577,040	1,233,952	1,485,159	4,447,285	5,062,199
Unallocated assets	-	-	-	-	68,494	71,945
Total Assets					4,515,779	5,134,144
Segment liabilities	2,425,124	2,776,243	1,561,527	1,725,563	3,986,651	4,501,806
Unallocated liabilities and equity	-	-	-	-	529,128	632,338
Total Liabilities and Equity					4,515,779	5,134,144

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2010

8. RELATED PARTY TRANSACTIONS

Certain related parties (directors 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 balances included in the financial position are as follows:

	Directors and Key Management Personnel		
	<i>(Unaudited)</i> 31 March 2010 KD 000's	<i>(Audited)</i> 31 December 2009 KD 000's	<i>(Unaudited)</i> 31 March 2009 KD 000's
Board members:			
Loans, receivables and advances	401,006	401,952	353,628
Provision for losses on receivable from related parties	211,897	208,695	211,970
Investments available-for-sale	-	-	6,300
Impairment loss on investments available-for-sale	-	-	3,150
Deposits	590,624	647,061	4,048
Guarantees issued	7,891	14,561	12,506
Executive management:			
Loans	1,456	1,385	3,239
Deposits	1,119	643	10
Guarantees issued	-	-	2

The loans granted to directors and key management personnel are repayable within three years and have interest rates of **3% to 7%** (2009: 5.75 % to 7.75 %) per annum. Some of the loans advanced to the directors during the period are collateralised. The fair value of these collaterals as of 31 March 2010 was **KD 146,398 thousand** (31 December 2009: KD148,853 thousand and 31 March 2009: KD 110,388 thousand).

The transactions included in the interim condensed statement of income are as follows:

	<i>3 months ended</i> 31 March 2010 KD 000's	<i>3 months ended 31</i> March 2009 KD 000's
Board members, directors and key management personnel:		
Interest income earned	1,596	1,952
Interest expense on deposits	3,260	12
Provision for on receivable from a related parties	1,747	-
Key management compensation:		
Salaries and other short-term benefits	624	526
End of service/termination benefits	27	71

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2010

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited)</i> 31 March 2010 KD 000's	<i>(Audited)</i> 31 December 2009 KD 000's	<i>(Unaudited)</i> 31 March 2009 KD 000's
Guarantees	955,355	941,928	1,323,307
Letters of credit	204,313	219,332	728,094
Capital commitment	1,606	1,606	-
Irrevocable commitments to extend credit:			
Original term to maturity of one year or less	76,564	68,633	122,411
	<u>76,564</u>	<u>68,633</u>	<u>122,411</u>
	<u>1,237,838</u>	<u>1,231,499</u>	<u>2,173,812</u>

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 notional amounts of derivative financial instruments 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.

At 31 March 2010:

	<i>Notional amount total</i> KD 000's	<i>Notional amounts by term to maturity</i>		
		<i>Within 3 months</i> KD 000's	<i>3-12 months</i> KD 000's	<i>Over 1 year</i> KD 000's
Derivatives instruments held as:				
Trading (and non qualifying hedges)				
Forward foreign exchange contracts	90,531	90,531	-	-
Credit default swaps	420,126	8,807	23,104	388,215
Structured products	61,370	-	2,888	58,482
	<u>572,027</u>	<u>99,338</u>	<u>25,992</u>	<u>446,697</u>

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
31 March 2010

10. DERIVATIVES (continued)

At 31 December 2009:

	<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	5,237	5,237	-	-
Credit default swaps	427,278	-	23,092	404,186
Structured products	75,285	2,868	14,340	58,077
	<u>507,800</u>	<u>8,105</u>	<u>37,432</u>	<u>462,263</u>

At 31 March 2009:

	<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	31,976	30,499	1,477	-
Credit default swaps	457,287	10,196	-	447,091
Structured products	76,466	-	14,565	61,901
	<u>565,729</u>	<u>40,695</u>	<u>16,042</u>	<u>508,992</u>