

GULF BANK K.S.C.

**INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)**

30 JUNE 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 30 June 2010 and the related interim condensed statements of income and comprehensive income for the three months and six months period then ended, and the related interim condensed statement of cash flows and changes in equity for the six months period then ended and explanatory notes. 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.

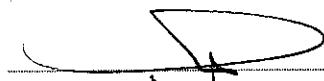
Conclusion

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 30 June 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 six months period ended 30 June 2010.



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

| | <i>3 months ended</i> <i>30 June</i> <i>2010</i> <i>KD 000's</i> | <i>3 months ended</i> <i>30 June</i> <i>2009</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2010</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2009</i> <i>KD 000's</i> | |
|--|---|---|---|---|-----|
| Interest income | 47,916 | 48,575 | 94,543 | 114,423 | |
| Interest expense | 19,330 | 30,143 | 41,033 | 72,073 | |
| Net interest income | 28,586 | 18,432 | 53,510 | 42,350 | |
| Net fees and commissions | 8,687 | 5,658 | 15,100 | 11,517 | |
| Net gain from dealing in foreign currencies and derivatives (including fair value movements of credit default swaps) | 8,058 | 22,610 | 18,400 | 21,270 | |
| Realised gains on disposal of investments available-for-sale | 7,542 | 3,811 | 22,013 | 3,846 | |
| Dividend income | 2 | 137 | 84 | 142 | |
| Impairment loss on investments available-for-sale | (458) | (1,187) | (722) | (4,560) | |
| Other operating income | 39 | 36 | 113 | 110 | |
| OPERATING INCOME | 52,456 | 49,497 | 108,498 | 74,675 | |
| Staff expenses | 5,952 | 5,929 | 14,210 | 12,235 | |
| Occupancy costs | 638 | 626 | 1,264 | 1,154 | |
| Depreciation | 627 | 594 | 1,236 | 1,190 | |
| Other expenses | 2,355 | 6,774 | 4,635 | 8,957 | |
| Operating expenses | 9,572 | 13,923 | 21,345 | 23,536 | |
| OPERATING PROFIT BEFORE PROVISIONS | 42,884 | 35,574 | 87,153 | 51,139 | |
| Charge/ (release) of provisions: | | | | | |
| Specific | 52,306 | 83,389 | 93,226 | 89,538 | |
| General | (10,949) | (38,656) | (9,076) | (30,908) | |
| Loans written off | - | - | 928 | - | |
| OPERATING PROFIT/(LOSS) | 1,527 | (9,159) | 2,075 | (7,491) | |
| Contribution to Kuwait Foundation for the Advancement of Sciences | 16 | (17) | 21 | - | |
| National Labour Support Tax | 37 | (41) | 51 | - | |
| Zakat | 16 | (17) | 21 | - | |
| PROFIT/(LOSS) FOR THE PERIOD | 1,458 | (9,084) | 1,982 | (7,491) | |
| BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE (Fils) | 3 | 1 | (4) | 1 | (3) |

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)
PERIODS ENDED

| | <i>3 months ended</i> <i>30 June</i> <i>2010</i> <i>KD 000's</i> | <i>3 months ended</i> <i>30 June</i> <i>2009</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2010</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2009</i> <i>KD 000's</i> |
|--|---|---|---|---|
| Profit/ (loss) for the period | 1,458 | (9,084) | 1,982 | (7,491) |
| Other comprehensive (expense)/income | | | | |
| Net unrealized (gain)/loss on investments available- for-sale | (1,754) | 11,894 | (761) | 20,342 |
| Net realised gain transferred to statement of income on disposal of investments available-for-sale | (7,102) | (1,494) | (19,682) | (1,494) |
| Other comprehensive (expense)/income for the period | <u>(8,856)</u> | <u>10,400</u> | <u>(20,443)</u> | <u>18,848</u> |
| Total comprehensive (expense)/income for the period | <u>(7,398)</u> | <u>1,316</u> | <u>(18,461)</u> | <u>11,357</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> 30 June 2010 KD 000's | <i>(Audited)</i> 31 December 2009 KD 000's | <i>(Unaudited)</i> 30 June 2009 KD 000's |
|--|---|---|---|---|
| ASSETS | | | | |
| Cash and short term funds | | 336,739 | 421,350 | 346,901 |
| Treasury bills and bonds | | 500,226 | 486,206 | 577,045 |
| Central Bank of Kuwait bonds | | 317,948 | 272,487 | 69,289 |
| Deposits with banks and other financial institutions | | 68,362 | 70,267 | 77,504 |
| Loans and advances to banks | | 9,702 | 9,258 | 31,533 |
| Loans and advances to customers | | 3,104,229 | 3,265,753 | 3,399,989 |
| Investments available-for-sale | | 97,279 | 142,646 | 156,233 |
| Other assets | | 53,094 | 51,057 | 32,000 |
| Premises and equipment | | 25,716 | 24,887 | 24,374 |
| TOTAL ASSETS | | 4,513,295 | 4,743,911 | 4,714,868 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES | | | | |
| Due to banks | | 50,657 | 89,874 | 20,160 |
| Deposits from financial institutions | | 784,896 | 918,962 | 737,205 |
| Customer deposits | | 3,113,380 | 3,149,440 | 3,304,897 |
| Subordinated loans | | 87,270 | 86,040 | 86,115 |
| Other liabilities | | 85,864 | 91,742 | 140,290 |
| TOTAL LIABILITIES | | 4,122,067 | 4,336,058 | 4,288,667 |
| 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 | | 25,423 | 27,979 | 27,979 |
| Fair valuation reserve | | 15,074 | 35,517 | 29,467 |
| Accumulated deficit | | (24,463) | (26,445) | (5,863) |
| | | 436,467 | 457,484 | 470,905 |
| Treasury shares | 6 | (45,239) | (49,631) | (44,704) |
| | | 391,228 | 407,853 | 426,201 |
| TOTAL LIABILITIES AND EQUITY | | 4,513,295 | 4,743,911 | 4,714,868 |


Ali Al-Rashaid Al-Bader
(Chairman)


Michel Accad
(Chief General Manager & Chief Executive Officer)

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

| | <i>6 months ended</i> <i>30 June</i> <i>2010</i> <i>KD 000's</i> | <i>6 months ended</i> <i>30 June</i> <i>2009</i> <i>KD 000's</i> |
|--|---|---|
| OPERATING ACTIVITIES | | |
| Profit/ (loss) for the period | 1,982 | (7,491) |
| Adjustments: | | |
| Realised gain from disposal of investments available-for-sale | (22,013) | (3,846) |
| Dividend income | (84) | (142) |
| Impairment loss on investments available-for-sale | 722 | 4,560 |
| Depreciation | 1,236 | 1,190 |
| Effective interest rate adjustment | 355 | - |
| Loans written off | 928 | - |
| Loan loss provision | 84,150 | 58,630 |
| OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES | 67,276 | 52,901 |
| <i>(Increase) decrease in operating assets:</i> | | |
| Treasury bills and bonds | (14,020) | (150,448) |
| Central Bank of Kuwait bonds | (45,461) | (44,306) |
| Deposits with banks and other financial institutions | 1,905 | 336,422 |
| Loans and advances to banks | (444) | 440 |
| Loans and advances to customers | 74,171 | 3 |
| Other assets | (2,037) | 7,968 |
| <i>(Decrease) increase in operating liabilities:</i> | | |
| Due to banks | (39,217) | (71,349) |
| Deposits from financial institutions | (134,066) | 78,697 |
| Customer deposits | (36,060) | (520,824) |
| Subordinated loans | 1,230 | 3,330 |
| Other liabilities | (3,958) | (40,946) |
| NET CASH USED IN OPERATING ACTIVITIES | (130,681) | (348,112) |
| INVESTING ACTIVITIES | | |
| Purchase of investments available-for-sale | (453) | (155) |
| Proceeds from sale of investments available-for-sale | 46,668 | 18,148 |
| Purchase of premises and equipment | (2,065) | (1,899) |
| Dividend received | 84 | 142 |
| NET CASH FROM INVESTING ACTIVITIES | 44,234 | 16,236 |
| FINANCING ACTIVITIES | | |
| Due to Central Bank of Kuwait | - | (80,000) |
| Capital contribution from rights issue | - | 376,156 |
| Purchase of treasury shares | (52) | - |
| Proceeds from sale of treasury shares | 1,888 | - |
| Proceeds from sale of treasury shares rights entitlement | - | 700 |
| NET CASH FROM FINANCING ACTIVITIES | 1,836 | 296,856 |
| NET DECREASE IN CASH AND SHORT TERM FUNDS | (84,611) | (35,020) |
| CASH AND SHORT TERM FUNDS AT 1 JANUARY | 421,350 | 381,921 |
| CASH AND SHORT TERM FUNDS AT 30 JUNE | 336,739 | 346,901 |

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)
SIX 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 KD 000's | Sub-total reserves 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) | (45,404) | 37,988 |
| Issue of capital | 125,385 | - | - | 250,771 | - | - | - | - | 250,771 | - | 376,156 |
| Sale of rights entitlement on treasury shares | - | - | - | - | - | - | - | - | - | 700 | 700 |
| Accumulated deficit set off against reserves (Note 4) | - | (89,438) | (2,356) | (143,791) | - | - | - | 235,585 | - | - | - |
| Total comprehensive income for the period | - | - | - | - | - | - | 18,848 | (7,491) | 11,357 | - | 11,357 |
| At 30 June 2009 | 250,770 | - | - | 153,024 | 15,528 | 27,979 | 29,467 | (5,863) | 220,135 | (44,704) | 426,201 |
| At 1 January 2010 | 250,770 | - | - | 153,024 | 16,639 | 27,979 | 35,517 | (26,445) | 206,714 | (49,631) | 407,853 |
| Purchase of treasury shares | - | - | - | - | - | - | - | - | - | (52) | (52) |
| Sale of treasury shares | - | - | - | - | - | - | - | - | - | 4,444 | 4,444 |
| Loss on sale of treasury shares | - | - | - | - | - | (2,556) | - | - | (2,556) | - | (2,556) |
| Total comprehensive (expense)/income for the period | - | - | - | - | - | - | (20,443) | 1,982 | (18,461) | - | (18,461) |
| At 30 June 2010 | 250,770 | - | - | 153,024 | 16,639 | 25,423 | 15,074 | (24,463) | 185,697 | (45,239) | 391,228 |

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)
30 June 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 six months period ended 30 June 2010 was authorised by the Board of Directors for issue on 08 July 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 six 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/ (LOSS) 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 2010 KD 000's</i> | <i>3 months ended 30 June 2009 KD 000's</i> | <i>6 months ended 30 June 2010 KD 000's</i> | <i>6 months ended 30 June 2009 KD 000's</i> |
|--|---|---|---|---|
| Profit (loss) for the period | 1,458 | (9,084) | 1,982 | (7,491) |
| | Shares | Shares | Shares | Shares |
| Weighted average number of issued shares | 2,507,702,366 | 2,507,702,366 | 2,507,702,366 | 2,333,556,368 |
| Less: Weighted average number of treasury shares | (49,437,583) | (36,263,737) | (50,750,422) | (36,263,737) |
| | <u>2,458,264,783</u> | <u>2,471,438,629</u> | <u>2,456,951,944</u> | <u>2,297,292,631</u> |
| Earnings (loss) per share (Fils) | <u>1</u> | <u>(4)</u> | <u>1</u> | <u>(3)</u> |

The loss per share for the three months and six months period ended 30 June 2009 have 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, as the Kuwait Stock Exchange had suspended trading in the Bank's share with effect from 26 October 2008. The Bank's share resumed trading on 14 April 2009.

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

4. SHARE CAPITAL

| | <i>(Unaudited)</i> | <i>(Audited)</i> | <i>(Unaudited)</i> |
|--|--------------------|--------------------|--------------------|
| | <i>30 June</i> | <i>31 December</i> | <i>30 June</i> |
| | <i>2010</i> | <i>2009</i> | <i>2009</i> |
| | <i>KD 000's</i> | <i>KD 000's</i> | <i>KD 000's</i> |
| 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 30 June 2010, a provision to be ceded to the Central Bank of Kuwait is **KD Nil** (30 June 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 the instructions of Central Bank of Kuwait.

6. TREASURY SHARES

| | <i>(Unaudited)</i> | <i>(Audited)</i> | <i>(Unaudited)</i> |
|--|--------------------|--------------------|--------------------|
| | <i>30 June</i> | <i>31 December</i> | <i>30 June</i> |
| | <i>2010</i> | <i>2009</i> | <i>2009</i> |
| Number of treasury shares | 47,883,737 | 52,453,737 | 36,263,737 |
| Percentage of treasury shares | 1.91% | 2.09% | 1.45% |
| Cost of treasury shares (KD 000's) | <u>45,239</u> | <u>49,631</u> | <u>44,704</u> |
| Market value of treasury shares (KD 000's) | <u>19,393</u> | <u>15,736</u> | <u>13,780</u> |

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 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 six month period ended 30 June 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) | <u>58,958</u> | <u>47,985</u> | <u>32,702</u> | <u>22,281</u> | <u>91,660</u> | <u>70,266</u> |
| Segment result | (52,229) | (26,355) | 31,206 | 21,072 | (21,023) | (5,283) |
| Unallocated income | | | | | 16,839 | 4,409 |
| Unallocated expense | | | | | 6,166 | (6,617) |
| Net profit | | | | | <u>1,982</u> | <u>(7,491)</u> |
| Segment assets | 3,105,662 | 3,448,931 | 1,303,655 | 1,205,089 | 4,409,317 | 4,654,020 |
| Unallocated assets | | | | | 103,978 | 60,848 |
| Total Assets | | | | | <u>4,513,295</u> | <u>4,714,868</u> |
| Segment liabilities | 2,598,431 | 2,292,187 | 1,387,399 | 1,802,519 | 3,985,830 | 4,094,706 |
| Unallocated liabilities and equity | | | | | 527,465 | 620,162 |
| Total Liabilities and Equity | | | | | <u>4,513,295</u> | <u>4,714,868</u> |

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 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> | <i>(Audited)</i> | <i>(Unaudited)</i> |
| | <i>30 June</i> | <i>31 December</i> | <i>30 June</i> |
| | <i>2010</i> | <i>2009</i> | <i>2009</i> |
| | <i>KD 000's</i> | <i>KD 000's</i> | <i>KD 000's</i> |
| Board members: | | | |
| Loans, receivables and advances | 162,977 | 401,952 | 420,817 |
| Provision for losses on receivable from related parties | - | 208,695 | 208,877 |
| Investments available-for-sale | - | - | 6,300 |
| Impairment loss on investments available-for-sale | - | - | 3,150 |
| Deposits | 468,412 | 647,061 | 404,012 |
| Guarantees issued | 4,628 | 14,561 | 11,978 |
| Executive management: | | | |
| Loans | 1,531 | 1,385 | 2,837 |
| Deposits | 1,026 | 643 | - |
| Guarantees issued | 1 | - | 1 |

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 30 June 2010 was **KD 161,884 thousand** (31 December 2009: KD148,853 thousand and 30 June 2009: KD 139,040,244 thousand).

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

| | <i>6 months ended</i> | <i>6 months ended</i> |
|---|-----------------------|-----------------------|
| | <i>30 June 2010</i> | <i>30 June 2009</i> |
| | <i>KD 000's</i> | <i>KD 000's</i> |
| Board members, directors and key management personnel: | | |
| Interest income earned | 3,328 | 5,586 |
| Interest expense on deposits | 5,826 | 9,075 |
| Provision for receivable from a related party | 3,476 | - |
| Key management compensation: | | |
| Salaries and other short-term benefits | 1,268 | 1,069 |
| End of service/termination benefits | 45 | 157 |

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

9. CONTINGENT LIABILITIES AND COMMITMENTS

| | <i>(Unaudited)</i> 30 June 2010 KD 000's | <i>(Audited)</i> 31 December 2009 KD 000's | <i>(Unaudited)</i> 30 June 2009 KD 000's |
|---|---|---|---|
| Guarantees | 986,427 | 941,928 | 911,247 |
| Letters of credit | 213,078 | 219,332 | 502,397 |
| Capital commitment | 1,629 | 1,606 | - |
| Irrevocable commitments to extend credit: | | | |
| Original term to maturity of one year or less | 78,202 | 68,633 | 74,698 |
| Original term to maturity of more than one year | 17,074 | - | 500 |
| | <u>95,276</u> | <u>68,633</u> | <u>75,198</u> |
| | <u>1,296,410</u> | <u>1,231,499</u> | <u>1,488,842</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 30 June 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) | | | | |
| Foreign exchange contracts | 48,049 | 48,049 | - | - |
| Credit default swaps | 413,176 | 14,545 | 17,454 | 381,177 |
| Structured products | 47,271 | - | 2,909 | 44,362 |
| | <u>508,496</u> | <u>62,594</u> | <u>20,363</u> | <u>425,539</u> |

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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) | | | | |
| 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 30 June 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) | | | | |
| Foreign exchange contracts | 16,425 | 15,887 | 538 | - |
| Credit default swaps | 440,544 | - | 8,753 | 431,791 |
| Structured products | 75,254 | - | 14,353 | 60,901 |
| | <u>532,223</u> | <u>15,887</u> | <u>23,644</u> | <u>492,692</u> |