

GULF BANK K.S.C.

**INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)**

30 June 2012

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

	<i>3 months ended</i>	<i>3 months ended</i>	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
<i>Note</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Interest income	44,576	43,149	88,607	85,036
Interest expense	14,863	16,788	30,167	34,258
Net interest income	29,713	26,361	58,440	50,778
Net fees and commissions	6,445	8,587	14,401	16,253
Net gains from dealing in foreign currencies and derivatives	2,263	6,569	9,436	11,637
Realised gains from disposal of investments available-for-sale	2,389	3,026	2,552	3,831
Dividend income	221	50	221	53
Other income	257	179	577	334
OPERATING INCOME	41,288	44,772	85,627	82,886
Staff expenses	7,978	8,059	16,928	15,859
Occupancy costs	857	774	1,637	1,454
Depreciation	718	699	1,418	1,382
Other expenses	2,894	1,448	6,979	4,257
Operating expenses	12,447	10,980	26,962	22,952
OPERATING PROFIT BEFORE PROVISIONS / IMPAIRMENT LOSSES	28,841	33,792	58,665	59,934
Charge of provisions:				
- specific	1,396	3,349	9,315	7,261
- general	20,742	14,698	34,566	35,682
Loans (recoveries)/ written-off	(1,674)	6,139	(5,108)	(5,588)
Impairment loss on investments available-for-sale	2,697	672	6,496	3,409
OPERATING PROFIT	5,680	8,934	13,396	19,170
Contribution to Kuwait Foundation for the Advancement of Sciences	58	90	135	192
National Labour Support Tax	140	220	332	474
Zakat	58	90	135	192
PROFIT FOR THE PERIOD	5,424	8,534	12,794	18,312
BASIC AND DILUTED EARNINGS PER SHARE (Fils)	3	2	3	5
	2	3	5	7

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 30 June 2012 KD 000's</i>	<i>3 months ended 30 June 2011 KD 000's</i>	<i>6 months ended 30 June 2012 KD 000's</i>	<i>6 months ended 30 June 2011 KD 000's</i>
Profit for the period	5,424	8,534	12,794	18,312
Other comprehensive expense				
Net unrealised losses on investments available-for-sale	(2,646)	(742)	(5,492)	(139)
Net realised gains on disposal of/ impairment losses on investments available-for-sale recycled	1,629	(2,131)	5,300	(1,431)
Other comprehensive expense for the period	(1,017)	(2,873)	(192)	(1,570)
Total comprehensive income for the period	4,407	5,661	12,602	16,742

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>	<i>(Audited)</i>	<i>(Unaudited)</i>
	30 June	31 December	30 June
	2012	2011	2011
<i>Notes</i>	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and short term funds	343,986	370,519	281,977
Treasury bills and bonds	456,102	418,221	537,992
Central Bank of Kuwait bonds	413,546	429,482	342,479
Deposits with banks and other financial institutions	32,057	20,000	76,256
Loans and advances to banks	61,259	34,140	45,413
Loans and advances to customers	3,366,968	3,334,087	3,242,667
Investments available-for-sale	132,013	106,009	102,153
Other assets	44,012	47,513	47,561
Premises and equipment	25,896	25,924	25,859
TOTAL ASSETS	4,875,839	4,785,895	4,702,357
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	190,789	76,179	71,181
Deposits from financial institutions	811,300	776,819	819,548
Customer deposits	3,251,676	3,330,444	3,222,816
Subordinated loans	84,045	83,565	82,335
Other liabilities	97,798	88,629	77,972
TOTAL LIABILITIES	4,435,608	4,355,636	4,273,852
EQUITY			
Share capital	263,309	250,770	250,770
Proposed bonus shares	-	12,539	-
Statutory reserve	2,469	2,469	-
Share premium	153,024	153,024	153,024
Property revaluation reserve	16,698	16,698	16,243
Treasury share reserve	24,258	24,289	24,289
Fair valuation reserve	7,017	7,209	15,748
Retained earnings	21,020	8,226	10,926
	487,795	475,224	471,000
Treasury shares	(47,564)	(44,965)	(42,495)
	440,231	430,259	428,505
TOTAL LIABILITIES AND EQUITY	4,875,839	4,785,895	4,702,357

Mahmoud Abdul Khaleq Al Nouri
(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>6 months ended</i> <i>30 June</i> <i>2012</i> <i>KD 000's</i>	<i>6 months ended</i> <i>30 June</i> <i>2011</i> <i>KD 000's</i>
OPERATING ACTIVITIES		
Profit for the period	12,794	18,312
Adjustments:		
Realised gains from disposal of investments available-for-sale	(2,552)	(3,831)
Dividend income	(221)	(53)
Depreciation	1,418	1,382
Effective interest rate adjustment	-	1,563
Loan loss provisions	43,881	42,943
Loans (recoveries)/written-off	(5,108)	(5,588)
Impairment loss on investments available-for-sale	6,496	3,409
Foreign exchange movement on subordinated loans	480	(1,845)
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	57,188	56,292
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(37,881)	(16,529)
Central Bank of Kuwait bonds	15,936	(32,424)
Deposits with banks and other financial institutions	(12,057)	34,954
Loans and advances to banks	(27,119)	(23,633)
Loans and advances to customers	(71,705)	(100,399)
Other assets	3,501	8,096
<i>(Decrease)/increase in operating liabilities:</i>		
Due to banks	114,610	3,860
Deposits from financial institutions	34,481	(67,029)
Customer deposits	(78,768)	151,950
Other liabilities	9,220	(1,955)
NET CASH FLOWS FROM OPERATING ACTIVITIES	7,406	13,183
INVESTING ACTIVITIES		
Purchase of investments available-for-sale	(37,026)	(25,721)
Proceeds from sale of investments available-for-sale	6,886	14,638
Purchase of premises and equipment	(1,390)	(1,417)
Dividends received	221	53
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(31,309)	(12,447)
FINANCING ACTIVITIES		
Purchase of treasury shares	(2,667)	(13)
Proceeds from sale of treasury shares	37	1,061
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	(2,630)	1,048
NET (DECREASE)/INCREASE IN CASH AND SHORT TERM FUNDS	(26,533)	1,784
CASH AND SHORT TERM FUNDS AT 1 JANUARY	370,519	280,193
CASH AND SHORT TERM FUNDS AT 30 JUNE	343,986	281,977
Additional cash flow information		
Interest received	96,968	85,199
Interest paid	29,524	35,370

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										
	<i>Share capital</i> <i>KD 000's</i>	<i>Proposed bonus shares</i> <i>KD 000's</i>	<i>Statutory reserve</i> <i>KD 000's</i>	<i>Share premium</i> <i>KD 000's</i>	<i>Property revaluation reserve</i> <i>KD 000's</i>	<i>Treasury share reserve</i> <i>KD 000's</i>	<i>Fair valuation reserve</i> <i>KD 000's</i>	<i>(Accumulated deficit) retained earnings</i> <i>KD 000's</i>	<i>Sub-total reserves</i> <i>KD 000's</i>	<i>Treasury shares</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
At 1 January 2011	250,770	-	-	153,024	16,243	24,993	17,318	(7,386)	204,192	(44,247)	410,715
Profit for the period	-	-	-	-	-	-	-	18,312	18,312	-	18,312
Other comprehensive expense for the period	-	-	-	-	-	-	(1,570)	-	(1,570)	-	(1,570)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	(1,570)	18,312	16,742	-	16,742
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(13)	(13)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	1,765	1,765
Loss on sale of treasury shares	-	-	-	-	-	(704)	-	-	(704)	-	(704)
At 30 June 2011	250,770	-	-	153,024	16,243	24,289	15,748	10,926	220,230	(42,495)	428,505
At 1 January 2012	250,770	12,539	2,469	153,024	16,698	24,289	7,209	8,226	211,915	(44,965)	430,259
Profit for the period	-	-	-	-	-	-	-	12,794	12,794	-	12,794
Other comprehensive expense for the period	-	-	-	-	-	-	(192)	-	(192)	-	(192)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	(192)	12,794	12,602	-	12,602
Issue of bonus shares (Note 6)	12,539	(12,539)	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,667)	(2,667)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	68	68
Loss on sale of treasury shares	-	-	-	-	-	(31)	-	-	(31)	-	(31)
At 30 June 2012	263,309	-	2,469	153,024	16,698	24,258	7,017	21,020	224,486	(47,564)	440,231

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 2012

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. (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. 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 2012 was authorised by the Board of Directors for issue on 10 July 2012.

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 2011 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 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 2011.

Amendments to IFRS, which are effective for the annual accounting period starting from 1 January 2012 did not have any material impact on the accounting policies, financial position or performance of the Bank.

The Bank has not early adopted any other standards, interpretations or amendments that have been issued but not effective.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Bank's annual financial statements for the year ended 31 December 2011. Further, operating results for the six months period ended 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

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

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2012

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 2012 KD 000's</i>	<i>3 months ended 30 June 2011 KD 000's</i>	<i>6 months ended 30 June 2012 KD 000's</i>	<i>6 months ended 30 June 2011 KD 000's</i>
Profit for the period	5,424	8,534	12,794	18,312
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted average number of issued shares	2,633,087,484	2,633,087,484	2,633,087,484	2,633,087,484
Less: Weighted average number of treasury shares	(56,323,330)	(48,461,321)	(54,575,897)	(48,942,877)
	<u>2,576,764,154</u>	<u>2,584,626,163</u>	<u>2,578,511,587</u>	<u>2,584,144,607</u>
Basic and diluted earnings per share (Fils)	<u>2</u>	<u>3</u>	<u>5</u>	<u>7</u>

Earnings per share calculations for the period ended 30 June 2011 have been adjusted to take account of the bonus shares issued in 2012.

4. SHARE CAPITAL

	<i>(Unaudited) 30 June 2012 KD 000's</i>	<i>(Audited) 31 December 2011 KD 000's</i>	<i>(Unaudited) 30 June 2011 KD 000's</i>
Authorised, issued and fully paid up 2,633,087,484 (2011: 2,507,702,366) shares of 100 fils each	<u>263,309</u>	<u>250,770</u>	<u>250,770</u>

5. TREASURY SHARES

	<i>(Unaudited) 30 June 2012</i>	<i>(Audited) 31 December 2011</i>	<i>(Unaudited) 30 June 2011</i>
Number of treasury shares	58,566,138	49,958,737	45,033,737
Percentage of treasury shares	2.22%	1.99%	1.80%
Cost of treasury shares (KD 000's)	47,564	44,965	42,495
Market value of treasury shares (KD 000's)	25,476	25,479	24,318

6. BONUS SHARES

The shareholders at the Annual General Meeting held on 17 March 2012 approved the distribution of bonus shares of 5% on the outstanding issued share capital as at 31 December 2011 amounting to KD 12,539 thousand (31 December 2011: Nil and 30 June 2011: Nil) representing 125,385,118 shares of 100 fils each.

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2012

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 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:

	<u>Commercial Banking</u>		<u>Treasury & Investments</u>		<u>Total</u>	
	<u>2012</u>	2011	<u>2012</u>	2011	<u>2012</u>	2011
	<u>KD 000's</u>	KD 000's	<u>KD 000's</u>	KD 000's	<u>KD 000's</u>	KD 000's
Operating income (Excluding unallocated income provided below)	<u>66,355</u>	61,700	<u>8,475</u>	12,146	<u>74,830</u>	73,846
Segment result	<u>34,044</u>	38,028	<u>5,013</u>	7,385	<u>39,057</u>	45,413
Unallocated income					<u>10,797</u>	9,040
Unallocated expense					<u>(37,060)</u>	(36,141)
Profit for the period					<u><u>12,794</u></u>	<u>18,312</u>
Segment assets	<u>3,466,149</u>	3,301,024	<u>1,339,781</u>	1,322,195	<u>4,805,930</u>	4,623,219
Unallocated assets					<u>69,909</u>	79,138
Total Assets					<u><u>4,875,839</u></u>	<u>4,702,357</u>
Segment liabilities	<u>2,873,834</u>	2,956,435	<u>1,416,479</u>	1,195,433	<u>4,290,313</u>	4,151,868
Unallocated liabilities and equity					<u>585,526</u>	550,489
Total Liabilities and Equity					<u><u>4,875,839</u></u>	<u>4,702,357</u>

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

30 June 2012

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 2012</i>	<i>31 December 2011</i>	<i>30 June 2011</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Board members:			
Loans, receivables and advances	54,059	110,674	101,093
Provision for losses on receivable from related parties	-	2,162	-
Investments available-for-sale	762	780	853
Deposits	226,548	321,622	353,776
Guarantees issued	5,851	35,917	12,508
Executive management:			
Loans	551	561	1,037
Deposits	1,699	1,382	1,374
Guarantees issued	1	1	1

The loans granted to directors and key management personnel are repayable within three years and have interest rates of **3% to 7%** (2011: 3% to 7%) per annum. Some of the loans advanced above are collateralised. The fair value of these collaterals as of 30 June 2012 was **KD 54,082 thousand** (31 December 2011: KD 92,598 thousand and 30 June 2011: KD 98,634 thousand).

The transactions included in the interim condensed financial information are as follows:

	<i>6 months ended</i>	<i>6 months ended</i>
	<i>30 June 2012</i>	<i>30 June 2011</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Board members, directors and key management personnel:		
Interest income earned	1,070	573
Interest expense on deposits	1,712	1,183
Key management compensation:		
Salaries and other short-term benefits	1,469	1,399
End of service/termination benefits	47	56

GULF BANK K.S.C.
Notes to the Interim Condensed Financial Information
(Unaudited)
30 June 2012

9. CONTINGENT LIABILITIES AND COMMITMENTS

	<i>(Unaudited)</i> 30 June 2012 KD 000's	<i>(Audited)</i> 31 December 2011 KD 000's	<i>(Unaudited)</i> 30 June 2011 KD 000's
Guarantees	968,004	973,591	880,400
Letters of credit	257,240	266,590	252,244
Irrevocable commitment to extend credit:			
Original term to maturity of more than one year	-	-	34,306
	<u>1,225,244</u>	<u>1,240,181</u>	<u>1,166,950</u>

As at the reporting date the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 93,304 thousand** (31 December 2011: KD 115,499 thousand and 30 June 2011: KD 103,144 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 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 2012:

	<i>Positive fair value</i> KD 000's	<i>Negative fair value</i> KD 000's	<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	648	(710)	106,112	61,301	44,811	-
Credit default swaps	-	(7,881)	241,268	19,611	68,637	153,020
Structured products	5,121	-	11,206	-	11,206	-
	<u>5,769</u>	<u>(8,591)</u>	<u>358,586</u>	<u>80,912</u>	<u>124,654</u>	<u>153,020</u>

At 31 December 2011:

	<i>Positive fair value</i> KD 000's	<i>Negative fair value</i> KD 000's	<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	567	(749)	76,457	70,995	5,462	-
Credit default swaps	-	(10,844)	294,706	12,535	130,023	152,148
Structured products	8,916	-	11,142	-	11,142	-
	<u>9,483</u>	<u>(11,593)</u>	<u>382,305</u>	<u>83,530</u>	<u>146,627</u>	<u>152,148</u>

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

At 30 June 2011:

	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount total KD 000's</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months KD 000's</i>	<i>3-12 months KD 000's</i>	<i>Over 1 year KD 000's</i>
Derivatives instruments held as:						
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	90	(61)	22,922	18,456	4,466	-
Credit default swaps	-	(10,493)	346,630	17,839	78,708	250,083
Structured products	5,429	-	10,978	-	-	10,978
	<u>5,519</u>	<u>(10,554)</u>	<u>380,530</u>	<u>36,295</u>	<u>83,174</u>	<u>261,061</u>