

**GULF BANK K.S.C.**

**INTERIM CONDENSED FINANCIAL INFORMATION  
(UNAUDITED)**

**31 March 2011**

**Al-Fahad, Al Wazzan & Co.**

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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 2011 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 2011 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 2011.



WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
ERNST & YOUNG  
AL AIBAN, AL OSAIMI & PARTNERS



BADER A. AL WAZZAN  
LICENCE NO. 62-A  
DELOITTE & TOUCHE  
AL-FAHAD, AL WAZZAN & CO.

10 April 2011  
Kuwait

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

	<i>Note</i>	<i>3 months ended 31 March 2011 KD 000's</i>	<i>3 months ended 31 March 2010 KD 000's</i>
Interest income		41,887	46,627
Interest expense		17,470	21,703
<b>Net interest income</b>		<b>24,417</b>	<b>24,924</b>
Net fees and commissions		7,666	6,413
Net gains from dealing in foreign currencies and derivatives (including fair value movements of credit default swaps)		5,068	10,342
Realised gains from disposal of investments available-for-sale		805	14,471
Dividend income		3	82
Impairment loss on investments available-for-sale		(2,737)	(264)
Other income		155	74
<b>OPERATING INCOME</b>		<b>35,377</b>	<b>56,042</b>
Staff expenses		7,678	8,258
Occupancy costs		680	626
Depreciation		683	609
Other expenses		2,931	2,280
<b>Operating expenses</b>		<b>11,972</b>	<b>11,773</b>
<b>OPERATING PROFIT BEFORE PROVISIONS</b>		<b>23,405</b>	<b>44,269</b>
Charge of provisions:			
- specific		3,912	40,920
- general		20,984	1,873
Loans (recovery)/written-off		(11,727)	928
<b>OPERATING PROFIT</b>		<b>10,236</b>	<b>548</b>
Contribution to Kuwait Foundation for the Advancement of Sciences		102	5
National Labour Support Tax		254	14
Zakat		102	5
<b>PROFIT FOR THE PERIOD</b>		<b>9,778</b>	<b>524</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (Fils)</b>	3	<b>4</b>	-

The attached notes 1 to 9 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 31 March 2011 KD 000's</i>	<i>3 months ended 31 March 2010 KD 000's</i>
Profit for the period	<u>9,778</u>	<u>524</u>
<b>Other comprehensive income/(expense)</b>		
Net unrealised gains on investments available-for-sale	603	993
Net realised losses/(gains) on disposal of/ impairment losses on investments available-for-sale recycled	<u>700</u>	<u>(12,580)</u>
<b>Other comprehensive income/(expense) for the period</b>	<u>1,303</u>	<u>(11,587)</u>
<b>Total comprehensive income/(expense) for the period</b>	<u><u>11,081</u></u>	<u><u>(11,063)</u></u>

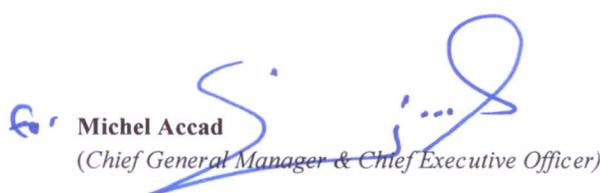
The attached notes 1 to 9 form part of the interim condensed financial information.

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

	<i>(Unaudited)</i> 31 March 2011 <i>KD 000's</i>	<i>(Audited)</i> 31 December 2010 <i>KD 000's</i>	<i>(Unaudited)</i> 31 March 2010 <i>KD 000's</i>
<b>ASSETS</b>			
Cash and short term funds	367,871	280,193	436,806
Treasury bills and bonds	543,176	521,463	437,336
Central Bank of Kuwait bonds	306,351	310,055	264,308
Deposits with banks and other financial institutions	41,175	111,210	5,000
Loans and advances to banks	32,796	21,780	9,726
Loans and advances to customers	3,246,216	3,181,377	3,163,260
Investments available-for-sale	87,386	92,218	117,777
Other assets	56,281	55,657	56,262
Premises and equipment	25,742	25,824	25,304
<b>TOTAL ASSETS</b>	<b>4,706,994</b>	<b>4,599,777</b>	<b>4,515,779</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	123,091	67,321	19,033
Deposits from financial institutions	842,154	886,577	820,635
Customer deposits	3,157,643	3,070,866	3,105,816
Subordinated loans	83,160	84,180	86,640
Other liabilities	79,155	80,118	86,303
<b>TOTAL LIABILITIES</b>	<b>4,285,203</b>	<b>4,189,062</b>	<b>4,118,427</b>
<b>EQUITY</b>			
Share capital	4 250,770	250,770	250,770
Share premium	153,024	153,024	153,024
Property revaluation reserve	16,243	16,243	16,639
Treasury share reserve	24,993	24,993	27,130
Fair valuation reserve	18,621	17,318	23,930
Retained earnings (accumulated deficit)	2,392	(7,386)	(25,921)
	<b>466,043</b>	<b>454,962</b>	<b>445,572</b>
Treasury shares	5 (44,252)	(44,247)	(48,220)
	<b>421,791</b>	<b>410,715</b>	<b>397,352</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,706,994</b>	<b>4,599,777</b>	<b>4,515,779</b>



**Ali Al-Rashaid Al-Bader**  
(Chairman)



**Michel Accad**  
(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 9 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 31 March 2011 KD 000's</i>	<i>3 months ended 31 March 2010 KD 000's</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	9,778	524
Adjustments:		
Realised gains from disposal of investments available-for-sale	(805)	(14,471)
Dividend income	(3)	(82)
Impairment loss on investments available-for-sale	2,737	264
Depreciation	683	609
Effective interest rate adjustment	2,020	355
Loans (recovery)/written-off	(11,727)	928
Loan loss provisions	24,896	42,793
Foreign exchange movement on subordinated loans	(1,020)	600
<b>OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>26,559</b>	<b>31,520</b>
<i>(Increase)/decrease in operating assets:</i>		
Treasury bills and bonds	(21,713)	48,870
Central Bank of Kuwait bonds	3,704	8,179
Deposits with banks and other financial institutions	70,035	65,267
Loans and advances to banks	(11,016)	(468)
Loans and advances to customers	(80,375)	57,327
Other assets	(624)	(5,205)
<i>(Decrease)/increase in operating liabilities:</i>		
Due to banks	55,770	(70,841)
Deposits from financial institutions	(44,423)	(98,327)
Customer deposits	86,777	(43,624)
Other liabilities	(616)	(4,349)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>84,078</b>	<b>(11,651)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments available-for-sale	(617)	(9)
Proceeds from sale of investments available-for-sale	4,820	27,498
Purchase of premises and equipment	(601)	(1,026)
Dividends received	3	82
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>3,605</b>	<b>26,545</b>
<b>FINANCING ACTIVITIES</b>		
Purchase of treasury shares	(5)	(8)
Proceeds from sale of treasury shares	-	570
<b>NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES</b>	<b>(5)</b>	<b>562</b>
<b>NET INCREASE IN CASH AND SHORT TERM FUNDS</b>	<b>87,678</b>	<b>15,456</b>
<b>CASH AND SHORT TERM FUNDS AT 1 JANUARY</b>	<b>280,193</b>	<b>421,350</b>
<b>CASH AND SHORT TERM FUNDS AT 31 MARCH</b>	<b>367,871</b>	<b>436,806</b>
<b>Additional cash flow information</b>		
Interest received	39,970	30,562
Interest paid	18,896	22,126

The attached notes 1 to 9 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			Subtotal reserves KD 000's
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	-	-	-	-	-	-	-	-	-	(8)	(8)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	1,419	1,419
Loss on sale of treasury shares	-	-	-	-	-	(849)	-	-	(849)	-	(849)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	(11,587)	524	(11,063)	-	(11,063)
At 31 March 2010	250,770	-	-	153,024	16,639	27,130	23,930	(25,921)	194,802	(48,220)	397,352
<b>At 1 January 2011</b>	<b>250,770</b>	<b>-</b>	<b>-</b>	<b>153,024</b>	<b>16,243</b>	<b>24,993</b>	<b>17,318</b>	<b>(7,386)</b>	<b>204,192</b>	<b>(44,247)</b>	<b>410,715</b>
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(5)	(5)
Total comprehensive income for the period	-	-	-	-	-	-	1,303	9,778	11,081	-	11,081
At 31 March 2011	250,770	-	-	153,024	16,243	24,993	18,621	2,392	215,273	(44,252)	421,791

The attached notes 1 to 9 form part of the interim condensed financial information.

**GULF BANK K.S.C.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2011

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**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 2011 was authorised by the Board of Directors for issue on 10 April 2011.

**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 annual financial statements for the year ended 31 December 2010 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 2010.

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 2010. Further, operating results for the three month period ended 31 March 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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 are based on the weighted average number of shares outstanding during the period, which is as follows:

	<i>3 months ended 31 March 2011 KD 000's</i>	<i>3 months ended 31 March 2010 KD 000's</i>
Profit for the period	9,778	524
	<u>Shares</u>	<u>Shares</u>
Weighted average number of issued shares	2,507,702,366	2,507,702,366
Less: Weighted average number of treasury shares	(46,878,848)	(52,077,848)
	<u>2,460,823,518</u>	<u>2,455,624,518</u>
Basic and diluted earnings per share (Fils)	<u>4</u>	<u>-</u>

**GULF BANK K.S.C.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2011

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**4. SHARE CAPITAL**

	<i>(Unaudited)</i> <i>31 March</i> <i>2011</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2010</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>31 March</i> <i>2010</i> <i>KD 000's</i>
Authorised, issued and fully paid up 2,507,702,366 (2010: 2,507,702,366) shares of 100 fils each	<b>250,770</b>	250,770	250,770

**5. TREASURY SHARES**

	<i>(Unaudited)</i> <i>31 March</i> <i>2011</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2010</i> <i>KD 000's</i>	<i>(Unaudited)</i> <i>31 March</i> <i>2010</i> <i>KD 000's</i>
Number of treasury shares	<b>46,888,737</b>	46,878,737	50,983,737
Percentage of treasury shares	<b>1.87%</b>	1.87%	2.03%
Cost of treasury shares (KD 000's)	<b>44,252</b>	44,247	48,220
Market value of treasury shares (KD 000's)	<b>23,913</b>	26,721	18,609

**GULF BANK K.S.C.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2011

**6. 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:

	<b>Commercial Banking</b>		<b>Treasury &amp; Investments</b>		<b>Total</b>	
	<u>2011</u> <u>KD 000's</u>	<u>2010</u> <u>KD 000's</u>	<u>2011</u> <u>KD 000's</u>	<u>2010</u> <u>KD 000's</u>	<u>2011</u> <u>KD 000's</u>	<u>2010</u> <u>KD 000's</u>
Operating income (Excluding unallocated income provided below)	<b>28,264</b>	27,502	<b>1,952</b>	22,077	<b>30,216</b>	49,579
Segment result	<b>24,464</b>	(20,596)	<b>1,290</b>	21,390	<b>25,754</b>	794
Unallocated income					<b>5,161</b>	6,463
Unallocated expense					<b>(21,137)</b>	(6,733)
<b>Operating profit</b>					<b>9,778</b>	524
Segment assets	<b>3,336,752</b>	3,213,333	<b>1,326,401</b>	1,233,952	<b>4,663,153</b>	4,447,285
Unallocated assets					<b>43,841</b>	68,494
<b>Total Assets</b>					<b>4,706,994</b>	4,515,779
Segment liabilities	<b>2,795,865</b>	2,425,124	<b>1,372,048</b>	1,561,527	<b>4,167,913</b>	3,986,651
Unallocated liabilities and equity					<b>539,081</b>	529,128
<b>Total Liabilities and Equity</b>					<b>4,706,994</b>	4,515,779

**GULF BANK K.S.C.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2011

**7. 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> <b>31 March</b> <i>2011</i> <b>KD 000's</b>	<i>(Audited)</i> <b>31 December</b> <i>2010</i> <b>KD 000's</b>	<i>(Unaudited)</i> <b>31 March</b> <i>2010</i> <b>KD 000's</b>
<b>Board members:</b>			
Loans, receivables and advances	159,387	160,448	401,006
Provision for losses on receivable from related parties	-	-	211,897
Deposits	416,508	488,133	590,624
Guarantees issued	14,076	10,157	7,891
<b>Executive management:</b>			
Loans	1,046	1,026	1,456
Deposits	1,732	977	1,119
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%** (2010: 3% to 7%) per annum. Some of the loans advanced above are collateralised. The fair value of these collaterals as of 31 March 2011 was **KD 215,028 thousand** (31 December 2010: KD 193,457 thousand and 31 March 2010: KD 146,398 thousand).

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

	<b>3 months ended</b> <b>31 March 2011</b> <b>KD 000's</b>	<b>3 months ended</b> <b>31 March 2010</b> <b>KD 000's</b>
Board members, directors and key management personnel:		
Interest income earned	1,370	1,596
Interest expense on deposits	1,892	3,260
Provision for losses on receivable from related parties	-	1,747
Key management compensation:		
Salaries and other short-term benefits	701	624
End of service/termination benefits	30	27

**GULF BANK K.S.C.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2011

**8. CONTINGENT LIABILITIES AND COMMITMENTS**

	<i>(Unaudited)</i> 31 March 2011 KD 000's	<i>(Audited)</i> 31 December 2010 KD 000's	<i>(Unaudited)</i> 31 March 2010 KD 000's
Guarantees	874,149	969,495	955,355
Letters of credit	239,169	211,209	204,313
Capital commitment	924	1,122	1,606
Irrevocable commitment to extend credit:			
Original term to maturity of more than one year	15,000	15,000	-
	<u>15,000</u>	<u>15,000</u>	<u>-</u>
	<u>1,129,242</u>	<u>1,196,826</u>	<u>1,161,274</u>

As at the reporting date the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 90,347 thousand** (31 December 2010: KD 82,376 thousand and 31 March 2010: KD 76,564 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

**9. 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 2011:**

	<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
<b>Derivatives instruments held as:</b>				
Trading (and non qualifying hedges)				
Forward exchange contracts	29,558	28,574	984	-
Credit default swaps	365,351	8,316	56,826	300,209
Structured products	11,088	-	-	11,088
	<u>405,997</u>	<u>36,890</u>	<u>57,810</u>	<u>311,297</u>

**At 31 December 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
<b>Derivatives instruments held as:</b>				
Trading (and non qualifying hedges)				
Forward foreign exchange contracts	13,979	13,979	-	-
Credit default swaps	380,650	8,418	65,941	306,291
Structured products	11,224	-	-	11,224
	<u>405,853</u>	<u>22,397</u>	<u>65,941</u>	<u>317,515</u>

**GULF BANK K.S.C.**  
**Notes to the Interim Condensed Financial Information**  
**(Unaudited)**  
31 March 2011

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**9. DERIVATIVES (continued)**

At 31 March 2010:

	<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	43,454	43,454	-	-
Credit default swaps	420,126	8,807	23,104	388,215
Structured products	61,370	-	2,888	58,482
	<u>524,950</u>	<u>52,261</u>	<u>25,992</u>	<u>446,697</u>