LDD 13-05-'10 08:43

GULF FINANCE HOUSE BSC

INTERIM FINANCIAL INFORMATION

31 MARCH 2010

Commercial registration	:	44136 (registered with Central Bank of Bahrain as an Islamic wholesale investment bank)
Office	:	Bahrain Financial Harbour PO Box 10006, Manama, Kingdom of Bahrain
Directors	:	Dr. Esam Yousif A. Janahi, *Chairman* Hamad A Aziz Al-Shaya, *Vice Chairman* Abdul Latif Abdullah Al-Meer Adel Dawood Al-Ohali Yousuf Mohammed Khayat Dr. Abdul Aziz Al – Hinai Anthony Travis Mosabah Saif Al Mutairy Abdullah Ali Al Hamli Mohammad Ebrahim Mohammed Bader Nasser Al Subaei
Chief Executive Officer	:	Edward Noel Pretty
Company secretary	:	Dr. Haider Majali
Auditors	:	KPMG

GULF FINANCE HOUSE BSC

INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010

CONTENTS **Page**

Independent auditors' report on review of interim financial information	1
Interim financial information	
Condensed consolidated statement of financial position	2
Condensed consolidated income statement	3
Condensed consolidated statement of comprehensive income	4
Condensed consolidated statement of changes in equity	5
Condensed consolidated statement of cash flows	6
Condensed consolidated statement of changes in restricted investment accounts	7 - 8
Condensed consolidated statement of sources and uses of charity and zakah fund	9
Notes to the interim financial information	10 - 14

KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

Independent auditors' report on review of interim financial information

To
The Board of Directors
Gulf Finance House BSC
Manama
Kingdom of Bahrain

9 May 2010

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Gulf Finance House BSC (the "Bank") and its subsidiaries (together, the "Group") as at 31 March 2010, and the related condensed consolidated statements of income, comprehensive income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund (the "interim financial information") for the three month period then ended. The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting.* Our responsibility is to express a conclusion on this interim 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 financial information is not prepared, in all material respects, in accordance with IAS 34 - *Interim Financial Reporting.*

Emphasis of matter

Without qualifying our conclusion, we draw attention to note 1 in the interim financial information which discusses material uncertainties relating to the Group's liquidity position and regulatory capital adequacy, which, may cast doubt about the appropriateness of the going concern assumption used in the preparation of the interim financial information.

KPMG

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2010 US$ 000's

	Note	31 March 2010 (reviewed)	31 December 2009 (audited)	31 March 2009 (reviewed)
ASSETS				
Cash and bank balances		5,430	10,174	18,749
Placements with financial and other institutions	4	156,701	454,966	743,491
Financing receivables		15,000	29,173	68,154
Receivable from investment banking services		85,270	85,270	245,883
Development property		-	-	591,996
Investment in associates		374,462	376,424	394,969
Investment securities	5	323,010	349,399	434,044
Other assets	6	341,294	336,930	445,215
Total assets		**1,301,167**	1,642,336	2,942,501
LIABILITIES				
Investors' funds		196,984	246,193	255,272
Placements from financial and other institutions		169,165	210,842	730,821
Financing liabilities	7	397,206	652,520	687,347
Payable towards development property		-	-	317,186
Other liabilities		91,760	96,584	72,631
Total liabilities		**855,115**	1,206,139	2,063,257
Unrestricted investment accounts		**2,026**	2,875	2,259
EQUITY				
Share capital		621,449	604,079	315,375
Share premium		205,398	202,316	180,382
Treasury shares		(52,371)	(52,371)	(17,364)
Statutory reserve		106,700	106,700	106,700
Other reserves		2,048	4,300	29,919
Investments fair value reserve		975	975	1,132
(Accumulated losses) / retained earnings		(440,173)	(432,677)	260,841
Total equity (page 5)		**444,026**	433,322	876,985
Total liabilities, unrestricted investment accounts and equity		**1,301,167**	1,642,336	2,942,501
Restricted investment accounts (page 7)		**48,500**	50,042	72,600

Dr. Esam Yousif A. Janahi
Chairman

Edward Noel Pretty
Chief Executive Officer

The Board of Directors approved the interim financial information consisting of pages 2 to 14 on 9 May 2010.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2010 US$ 000's

	Note	**Three months ended 31 March 2010** (reviewed)	Three months ended 31 March 2009 (reviewed)
Income from investment banking services		5,161	46,840
Placement, arrangement and management fees		4,031	1,542
Income from placements with financial and other institutions		404	1,419
Income from financing		302	373
Share of losses from investment in associates		(1,964)	(101)
Income from investment securities		1,910	(1,472)
Foreign exchange gain, net		2,222	795
Other income, net	8	6,402	106
Total income		**18,468**	49,502
Staff costs		3,594	16,337
Investment advisory expenses		2,290	6,329
Finance expense		12,374	11,357
Provision for impairment	9	-	43,000
Other expenses		7,706	10,215
Total expenses		**25,964**	87,238
LOSS FOR THE PERIOD		**(7,496)**	(37,736)
Earnings per share			
Basic and diluted earnings per share (US cents)		**(0.43)**	(3.99)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the three months ended 31 March 2010 US$ 000's

	Three months ended 31 March 2010 (reviewed)	Three months ended 31 March 2009 (reviewed)
Loss for the period	(7,496)	(37,736)
Other comprehensive income	-	-
Total comprehensive income for the period	**(7,496)**	(37,736)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three months ended 31 March 2010

US$ 000's

	Share capital	Share premium	Treasury shares	Statutory reserve	Other reserves	Invest-ments fair value reserve	(Accumul ated losses)	Total equity
31 March 2010 (reviewed)								
Balance at 1 January 2010	604,079	202,316	(52,371)	106,700	4,300	975	(432,677)	433,322
Loss for the period	-	-	-	-	-	-	(7,496)	(7,496)
Total comprehensive income for the period (page 4)	-	-	-	-	-	-	(7,496)	(7,496)
Conversion of murabaha to share capital (note 7)	17,370	3,117	-	-	(487)	-	-	20,000
Share issue expenses	-	(35)	-	-	-	-	-	(35)
Share grants vesting expense, net of forfeitures (note 10)	-	-	-	-	(1,765)	-	-	(1,765)
Balance at 31 March 2010	**621,449**	**205,398**	**(52,371)**	**106,700**	**2,048**	**975**	**(440,173)**	**444,026**

	Share capital	Share premium	Treasury shares	Statutory reserve	Share grants reserve	Invest-ments fair value reserve	Retained earnings	Total equity
31 March 2009 (reviewed)								
Balance at 1 January 2009	262,813	180,382	(17,364)	106,700	23,508	1,132	409,702	966,873
Loss for the period							(37,736)	(37,736)
Total comprehensive income for the period (page 4)	-	-	-	-	-	-	(37,736)	(37,736)
Issue of bonus shares	52,562	-	-	-	-	-	(52,562)	-
Share grants vesting expense (note 10)	-	-	-	-	6,411	-	-	6,411
Dividend declared for 2008	-	-	-	-	-	-	(52,563)	(52,563)
Charity contribution declared for 2008	-	-	-	-	-	-	(3,000)	(3,000)
Board remuneration declared for 2008	-	-	-	-	-	-	(3,000)	(3,000)
Balance at 31 March 2009	315,375	180,382	(17,364)	106,700	29,919	1,132	260,841	876,985

The interim financial information consists of pages 2 to 14.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2010 US$ 000's

	Three months ended 31 March 2010 (reviewed)	Three months ended 31 March 2009 (reviewed)
OPERATING ACTIVITIES		
Proceeds of income from investment banking services	5,161	-
Placements with/ received from financial and other institutions, net	(43,537)	(206,717)
Cash received from 'water park' operations	530	-
Receipt of financing, net	-	1,408
(Disbursement)/ receipt of financing of projects, net	(1,508)	19,222
Investors' funds utilised, net	(29,249)	(283,510)
Placement, arrangement and management fees received	31	1,542
Income from placements and financing received	471	1,419
Payment for operating expenses and project costs	(16,486)	(23,497)
Cash flows from operating activities	**(84,587)**	(490,133)
INVESTING ACTIVITIES		
Purchase of investment securities	(6,882)	(39,933)
Proceeds from disposal of investment securities	21,217	-
Dividends received	242	1,929
Payments for acquisition of equipment	(166)	(1,681)
Distributions received from associates	-	14,709
Cash flows from investing activities	**14,411**	(24,976)
FINANCING ACTIVITIES		
Financing liabilities, net	(220,724)	51,660
Finance expense paid	(11,545)	(10,565)
Cash paid to charitable organisations	(631)	593
Board remuneration paid	-	(3,000)
Dividends paid	(114)	(51,191)
Net (payments)/ receipts from unrestricted investment accounts	(849)	314
Cash flows from financing activities	**(233,863)**	(12,189)
DECREASE IN CASH AND CASH EQUIVALENTS	**(304,039)**	(527,298)
Cash and cash equivalents at 1 January	325,552	1,289,538
CASH AND CASH EQUIVALENTS at 31 March	**21,513**	762,240
Cash and cash equivalents comprise:		
Cash and bank balances	5,430	18,749
Placements with financial and other institutions (note 4)	16,083	743,491
	21,513	762,240

The interim financial information consists of pages 2 to 14.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2010

31 March 2010 (reviewed)	**Balance at 1 January 2010**			**Movements during the period**						**Balance at 31 March 2010**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share (US$)	**Total US$ 000's**
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Kuwait National Real Estate Investment & Services Co. KSCC	250	0.35	87	-	-	-	-	-	-	250	0.35	87
Gulf Holding Company	10,000	0.24	2,417	-	(12)	-	-	-	-	10,000	0.24	2,405
Gulf North Africa Holding Company KSCC	11,500	0.24	2,751	-	(12)	-	-	-	-	11,500	0.24	2,739
Gulf Real Estate Development Company	936	12.05	11,271	-	3	-	-	-	-	936	12.04	11,274
Al Basha'er Fund	93	7.22	671	-	38	-	-	-	-	93	7.62	709
Pan European Fund	35.85	869.32	31,165	-	(1,559)	-	-	-	-	35.85	825.81	29,606
Oman Development Co	522.50	3.12	1,628	-	-	-	-	-	-	522.50	3.12	1,628
			50,042	**-**	**(1,542)**	**-**	**-**	**-**	**-**			**48,500**

The interim financial information consists of pages 2 to 14.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the three months ended 31 March 2009 *(continued)*

31 March 2009 (reviewed)

Company	Balance at 1 January 2009			Movements during the period						Balance at 31 March 2009		
	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share (US$)	Total US$ 000's
Mena Real Estate Company KSCC	150	0.36	54	-	-	-	-	-	-	150	0.36	54
Kuwait National Real Estate Investment & Services Co. KSCC	250	0.36	90	-	-	-	-	-	-	250	0.36	90
Gulf Holding Company	10,000	0.36	3,624	-	(1)	-	-	-	-	10,000	0.36	3,623
Gulf North Africa Holding Company KSCC	11,500	0.36	4,168	-	(1)	-	-	-	-	11,500	0.36	4,167
Gulf Real Estate Development Company	936	13.32	12,472	-	1	-	-	-	-	936	13.32	12,473
Al Basha'er Fund	203	7.93	1,610	(871)	(76)	-	-	-	-	93	7.12	663
Pan European Fund	35.85	1,410.76	50,576	-	(676)	-	-	-	-	35.85	1,391.91	49,900
Oman Development Co	522.50	3.12	1,628	-	2	-	-	-	-	522.5	3.12	1,630
			74,222	(871)	(751)	-	-	-	-			72,600

CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the three months ended 31 March 2010

	31 March 2010 US$ 000's (reviewed)	31 March 2009 US$ 000's (reviewed)
Sources of charity and zakah fund		
Contributions by the Bank	-	3,000
Non-Islamic income	1	2
Total sources	**1**	3,002
Uses of charity and zakah fund		
Contributions to charitable organisations	(631)	(345)
Total uses	**(631)**	(345)
Excess of sources over uses	**(630)**	2,657
Undistributed charity and zakah fund at 1 January	11,256	5,718
Undistributed charity and zakah fund at 31 March	**10,626**	8,375

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010

1 **Basis of preparation**

The interim financial information has been prepared in condensed form in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*. The interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2009.

The accounting policies and methods of computation applied by the Group in the preparation of the interim financial information are consistent with those applied in the preparation of the audited consolidated financial statements for the year ended 31 December 2009, except for the changes arising from adoption of relevant revised IFRS, amendments and interpretation issued by IASB and FAS issued by AAOIFI that are effective for annual reporting periods beginning 1 January 2010.

Going concern

As at 31 March 2010, the Group's had accumulated losses of US$ 440.173 million and, as of that date, its current contractual obligations exceed its liquid assets. As a result, the ability of the Group to meet its obligations when due depends on its ability to achieve a timely disposal of assets. Further, the regulatory capital adequacy ratio of the Group as at 31 March 2010 stood at 13.97%, which restricts the Group's ability to absorb further losses or undertake additional exposures. These factors indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

During the period, the Group has repaid US$ 220 million of debt obligations on the due date and was able to refinance a portion of its debts due during the period (refer note 7). The management has put in place an asset sale and liquidity plan to generate liquidity to support repayment of the Group's obligations when they fall due. Further, the Group has a pipeline of revenues and is undertaking cost reduction exercises that would improve its operating cash flows. The Group is also evaluating other options to arrange liquidity and strengthen its position over the next twelve months. These actions are also expected to improve the Group's capital adequacy ratio. The Board of Directors' have reviewed the Group's future plans and are satisfied with the appropriateness of the going concern assumption for preparation of the interim financial information.

2 The interim financial information is not audited but has been reviewed by KPMG. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2009 and the reviewed interim financial information for the three months ended 31 March 2009. The comparatives for the condensed consolidated statements of income, comprehensive income, cash flows, changes in equity and changes in restricted investment accounts and sources and uses of charity and zakah fund have been extracted from the reviewed interim financial information for the three months ended 31 March 2009.

3 During the period, the paid up capital of the Bank increased from US$ 604,079 thousand to US$ 621,447 thousand as a result of exercise of conversion option by the holders of the convertible murabaha (refer note 7).

4 **Placement from financial and other institutions**

Placements with financial and other institutions include balances amounting to US$ 140,618 thousand (31 December 2009: 139,588 thousand) that are pledged against commitments and facilities of projects of the Group and are not available for the Group's day-to-day operations. These amounts have not been considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010

5 Investment securities

	31 March 2010 US$ 000's (reviewed)	31 December 2009 US$ 000's (audited)	31 March 2009 US$ 000's (reviewed)
Investments designated at fair value through profit or loss	31,360	33,976	37,844
Available-for-sale investments	291,650	315,423	396,200
	323,010	349,399	434,044

Income from investment securities include fair value loss of US$ Nil (31 March 2009: US$ 3,401 thousand) on 'investment designated at fair value through profit or loss'.

6 Other assets

	31 March 2010 US$ 000's (reviewed)	31 December 2009 US$ 000's (audited)	31 March 2009 US$ 000's (reviewed)
Project costs recoverable	6,447	5,497	9,298
Financing to projects	188,266	186,758	213,955
Receivable from sale of investment securities	94,463	94,463	109,035
Operating property and equipment of a water park	24,798	28,625	43,434
Other equipment	14,456	15,910	20,389
Goodwill on acquisition of subsidiaries	-	-	17,375
Prepayments and other receivables	12,864	5,677	31,729
	341,294	336,930	445,215

7 Financing liabilities

	31 March 2010 US$ 000's (reviewed)	31 December 2009 US$ 000's (audited)	31 March 2009 US$ 000's (reviewed)
Murabaha financing	100,747	301,620	303,007
Wakala financing	130,440	150,907	196,524
Sukuk liability	137,702	152,640	187,816
Convertible murabaha	28,317	47,353	-
	397,206	652,520	687,347

Murabaha financing

During the period, the Group repaid US$ 200 million of the outstanding murabaha financing facility and refinanced the balance of US$ 100 million to be repaid in 6 months. The Murabaha financing facility carries an agreed profit rate of 5.00% over the benchmark rate (LIBOR).

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010

7 *Financing liabilities (continued)*

Wakala financing

Wakala financing facilities include financing of US$ 100 million that was due in the first quarter of 2010. During the period the Group repaid US$ 20 million of the outstanding facility and renegotiated the balance amount to be repaid equally in 2010 and 2011 at an agreed profit rate of 8.5% .

Sukuk liability

During the period the Group repurchased Sukuk Certificates of nominal value of US$ 15 million.

Convertible murabaha facility

During 2009, the Group issued a compound financial instrument ("Notes") in the form of unsecured convertible murabaha facility. The Notes have a tenure of 3 years maturing in October 2012 unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 0.38 per share. The Notes provide for returns of 8% p.a. payable quarterly to the holder. During the period, Note holders amounting to US$ 20 million have exercised their option to convert their Notes into equity.

8 Other income

Other income includes provisions no longer required written back of US$ 4,248 thousand and recoveries of expenses from project entities of US$ 1,667 thousand.

9 Provision for impairment

	31 March 2010 US$ 000's (reviewed)	31 March 2009 US$ 000's (reviewed)
Receivable from investment banking services	-	23,000
Development property	-	20,000
	-	43,000

10 Share-based employee compensation scheme

During the period, 7.85 million share awards were forfeited due to non-satisfaction of service conditions by outgoing employees of the Bank. A net reversal of vesting charge amounting to US$ 1,765 thousand (31 March 2009: charge of US$ 6,411thousand) was recognised as part of staff costs during the period. As at 31 March 2010, 8.24 million share awards were outstanding to be exercised in future periods.

11 Significant related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group and assets under management of the Group.

During the period, the Group recognised income from investment banking services of US$ 4,986 thousand (31 March 2009: US$ 46,540 thousand) arising from transactions with related parties..

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010

12 Segment reporting

31 March 2010	Development infrastructure	Banking	Unallocated	Total
Segment revenue	10,109	3,210	5,149	**18,468**
Segment expenses	2,322	20,998	2,644	**25,964**
Segment result	7,787	(17,788)	2,505	**(7,496)**
Segment assets	815,343	468,925	16,899	**1,301,167**
Segment liabilities	166,876	595,442	92,797	**855,115**

31 March 2009	Development infrastructure	Banking	Unallocated	Total
Segment revenue	50,165	5	(668)	49,502
Segment expenses	52,235	31,805	3,198	87,238
Segment result	(2,070)	(31,800)	(3,866)	(37,736)
Segment assets	1,733,094	1,180,632	28,775	2,942,501
Segment liabilities	552,914	1,434,949	75,394	2,063,257

13 Commitments and contingencies

The commitments contracted in the normal course of business of the Group:

	31 March 2010 US$ 000's (reviewed)	31 December 2009 US$ 000's (audited)
Commitments to invest	36,613	30,613
Commitments to extend finance	16,500	-
Capital commitments	220	283

The Group has issued financial guarantees and credit enhancements of US$ 150,636 thousand (31 December 2009: US$ 169,454 thousand) to financial institutions and other lenders to secure credit facility arrangements for projects managed by the Group. The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 150 million (31 December 2009: US$ 150 million). In the opinion of the management, based on their assessment of expected cash flows from the underlying projects, the financing commitment and financial guarantees are not expected to be drawn down. In the event of a drawdown, the Group would have a charge over the assets of the project.

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 March 2010 due to the performance of any of its projects.

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the three months ended 31 March 2010

13 *Commitments and contingencies (continued)*

Contingencies

The Group has contingent claims arising from the decision to not proceed with a project development agreement during the year. The Group is currently negotiating with the counter party for an amicable settlement. While liability is not admitted, if defense against the action is unsuccessful, the claim and associated costs could amount to approximately US$ 36 million. The management does not expect any significant liability to arise on final closure.

14 Due to the inherent nature of the Group's business, the three month results reported in this interim financial information may not represent a proportionate share of the overall annual results.

15 Appropriations of net profit, if any, are made only at the year end.

16 Certain prior period amounts have been regrouped to conform to the current period's presentation. Such regrouping did not affect previously reported profit/ (loss), comprehensive income or equity.