

GULF INTERNATIONAL BANK B.S.C.

2011 FIRST QUARTER

FINANCIAL STATEMENTS



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Independent Auditors' Report on Review of interim consolidated financial statements

The Board of Directors
Gulf International Bank BSC
PO Box 1017
Manama
Kingdom of Bahrain

28 April 2011

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Gulf International Bank BSC (the "Bank") and its subsidiaries (together the "Group") as at 31 March 2011, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended (interim consolidated financial statements). The Board of Directors of the Bank is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim consolidated financial statements 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 consolidated financial statements 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 consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Consolidated Statement of Financial Position

	<i>Note</i>	<u>31.3.11</u> US\$ millions	<u>31.12.10</u> US\$ millions
ASSETS			
Cash and other liquid assets		1,286.2	1,043.9
Placements		4,789.6	3,576.3
Trading securities		80.4	79.7
Investment securities	6	3,132.9	3,067.8
Loans and advances	7	7,276.8	7,510.1
Other assets		266.3	249.9
Total assets		<u>16,832.2</u>	<u>15,527.7</u>
LIABILITIES			
Deposits from banks		2,264.7	2,224.4
Deposits from customers		7,441.7	6,479.2
Securities sold under agreements to repurchase		720.6	945.5
Other liabilities		274.8	273.0
Senior term financing		3,676.6	3,176.6
Subordinated term financing		511.0	511.0
Total liabilities		<u>14,889.4</u>	<u>13,609.7</u>
EQUITY			
Share capital		2,500.0	2,500.0
Reserves	8	287.7	288.7
Retained earnings		(844.9)	(870.7)
Total equity		<u>1,942.8</u>	<u>1,918.0</u>
Total liabilities & equity		<u>16,832.2</u>	<u>15,527.7</u>

The interim consolidated financial statements were approved by the Board of Directors on 28th April 2011 and signed on its behalf by:-

Jammaz bin Abdullah Al-Suhaimi
Chairman

Mansour bin Saleh Al Maiman
Vice Chairman

Yahya bin Abdullah Alyahya
Chief Executive Officer

The notes on pages 6 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Income

		Three months ended 31.3.11	Three months ended 31.3.10
	<i>Note</i>	US\$ millions	US\$ millions
Interest income		62.8	68.4
Interest expense		31.5	25.2
Net interest income		31.3	43.2
Fee and commission income	3	14.6	8.8
Net trading income	4	4.0	3.6
Other income	5	3.5	0.6
Total income		53.4	56.2
Staff expenses		18.4	17.1
Premises expenses		2.1	2.6
Other operating expenses		6.7	5.9
Total operating expenses		27.2	25.6
Net income before provisions and tax		26.2	30.6
Provisions for investment securities	6	-	4.0
Provisions for loans and advances	7	0.5	(6.5)
Net income before tax		26.7	28.1
Taxation charge on overseas activities		(0.9)	(1.3)
Net income		25.8	26.8
<i>Earnings per share</i>	11	<i>US\$0.01</i>	<i>US\$0.01</i>

Jammaz bin Abdullah Al-Suhaimi
Chairman

Mansour bin Saleh Al Maiman
Vice Chairman

Yahya bin Abdullah Alyahya
Chief Executive Officer

The notes on pages 6 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Three months ended 31.3.11 US\$ millions	Three months ended 31.3.10 US\$ millions
Net income	25.8	26.8
Other comprehensive income:		
Cash flow hedges:-		
- net changes in fair value	(0.1)	(1.1)
- net amount transferred to consolidated statement of income	(0.8)	(2.0)
Available-for-sale securities:-		
- net changes in fair value	-	34.4
- net amount transferred to consolidated statement of income	(0.1)	(0.5)
Total other comprehensive income	(1.0)	30.8
Total comprehensive income	24.8	57.6

The notes on pages 6 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Reserves	Retained earnings	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2010	2,500.0	230.1	(950.7)	1,779.4
Net income for the year	-	-	100.4	100.4
Other comprehensive income:-				
- Cash flow hedges:				
net fair value gains	-	0.9	-	0.9
- Available-for-sale securities:				
net fair value gains	-	38.6	-	38.6
Transfers in the year :-				
- Transfers to consolidated statement of income	-	(1.3)	-	(1.3)
Total other comprehensive income	-	38.2	-	38.2
Total comprehensive income	-	38.2	100.4	138.6
Transfers from retained earnings	-	20.4	(20.4)	-
At 31st December 2010	2,500.0	288.7	(870.7)	1,918.0
Net income for the period	-	-	25.8	25.8
Other comprehensive income:-				
- Cash flow hedges:				
net fair value losses	-	(0.1)	-	(0.1)
- Available-for-sale securities:				
net fair value gains	-	-	-	-
Transfers in the period :-				
- Transfers to consolidated statement of income	-	(0.9)	-	(0.9)
Total other comprehensive income	-	(1.0)	-	(1.0)
Total comprehensive income	-	(1.0)	25.8	24.8
At 31st March 2011	2,500.0	287.7	(844.9)	1,942.8

The notes on pages 6 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Cash Flows

	Three months ended 31.3.11 US\$ millions	Three months ended 31.3.10 US\$ millions
OPERATING ACTIVITIES		
Net income	25.8	26.8
Adjustments to reconcile net income to net cash inflow from operating activities:		
Provisions for investment securities	-	(4.0)
Provisions for loans and advances	(0.5)	6.5
Realised profit on investment securities	(0.6)	(0.6)
Amortisation of investment securities	4.8	0.4
Net increase in placements with banks	(1,213.3)	(1,598.5)
Net (increase) / decrease in trading securities	(0.7)	7.7
Net decrease in loans and advances	233.8	453.1
Increase in accrued interest receivable	(11.3)	(10.2)
Increase in accrued interest payable	9.6	8.3
Net increase in other net assets	(5.3)	(27.9)
Net increase in deposits from banks	40.3	377.6
Net increase in deposits from customers	962.5	1,097.4
Net cash inflow from operating activities	45.1	336.6
INVESTING ACTIVITIES		
Purchase of investment securities	(88.3)	(444.4)
Sale and maturity of investment securities	10.4	192.6
Net cash outflow from investing activities	(77.9)	(251.8)
FINANCING ACTIVITIES		
Net decrease in securities sold under agreements to repurchase	(224.9)	(67.0)
Net increase in senior term financing	500.0	100.1
Net cash inflow from financing activities	275.1	33.1
Increase in cash and cash equivalents	242.3	117.9
Cash and cash equivalents at 1st January	1,043.9	508.2
Cash and cash equivalents at 31st March	1,286.2	626.1

The notes on pages 6 to 9 form part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2011

1. INCORPORATION AND REGISTRATION

The parent company of the Group (the Group), Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as a conventional wholesale bank with the Central Bank of Bahrain. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Group is principally engaged in the provision of wholesale commercial and investment banking services. The Group operates through subsidiaries, branch offices and representative offices located in six countries worldwide.

2. ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim consolidated financial statements for the three months ended 31st March 2011 have been prepared in compliance with International Accounting Standard (IAS) No. 34: Interim Financial Reporting. The accounting policies have been consistently applied by the Bank and its subsidiaries and are consistent with those of the previous year, as set out in the consolidated financial statements for the year ended 31st December 2010.

3. FEE & COMMISSION INCOME

	Three months ended 31.3.11	Three months ended 31.3.10
	US\$ millions	US\$ millions
Fee and commission income		
Investment banking and management fees	7.6	5.2
Commissions on letters of credit and guarantee	6.4	3.2
Other fee and commission income	0.9	0.7
Total fee and commission income	14.9	9.1
Fee and commission expense	(0.3)	(0.3)
Net fee and commission income	14.6	8.8

Investment banking and management fees comprise fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities, and services relating to structured financing, privatisations, IPOs, and mergers and acquisitions.

Fee and commission expense principally comprises security custody fees.

4. NET TRADING INCOME

	Three months ended 31.3.11	Three months ended 31.3.10
	US\$ millions	US\$ millions
Foreign exchange	2.4	2.2
Managed funds	1.4	1.3
Other net trading income	0.2	0.1
	4.0	3.6

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2011**
5. OTHER INCOME

Other income principally comprises dividends on equity investments classified as available-for-sale.

6. INVESTMENT SECURITIES

Investment securities principally comprise investment-grade rated debt securities issued by major international financial institutions and government related entities. All investment securities at 31st March 2011 and 31st December 2010 were classified as available-for-sale.

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:-

	<u>31.3.11</u>		<u>31.12.10</u>	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	2,498.2	89.1	2,435.8	89.4
BBB+ to BBB- / Baa1 to Baa3	222.0	7.9	207.6	7.6
Other debt securities	84.0	3.0	81.5	3.0
Total debt securities	2,804.2	100.0	2,724.9	100.0
Equity investments	328.7		342.9	
	3,132.9		3,067.8	

Provisions for impairment

The movements in the provisions for the impairment of investment securities were as follows:-

	<u>2011</u>	<u>2010</u>
	US\$ millions	US\$ millions
At 1st January	67.8	97.5
Exchange rate movements	0.4	(0.4)
Amounts utilised	-	(1.8)
Release for the period	-	(4.0)
At 31st March	68.2	91.3

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2011

7. LOANS AND ADVANCES

	<u>31.3.11</u>	<u>31.12.10</u>
	US\$ millions	US\$ millions
Gross loans and advances	7,918.8	8,152.4
Provisions for impairment	(642.0)	(642.3)
Net loans and advances	<u>7,276.8</u>	<u>7,510.1</u>

Provisions for impairment

The movements in the provisions for the impairment of loans and advances were as follows:-

	<u>2011</u>			<u>2010</u>		
	<u>Specific</u>	<u>Non-Specific</u>	<u>Total</u>	<u>Specific</u>	<u>Non-Specific</u>	<u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January	397.3	245.0	642.3	394.1	240.0	634.1
Exchange rate movements	0.2	-	0.2	(0.2)	-	(0.2)
Amounts utilised	-	-	-	(0.5)	-	(0.5)
Charge / (release) for the period	30.5	(31.0)	(0.5)	1.2	5.3	6.5
At 31st March	<u>428.0</u>	<u>214.0</u>	<u>642.0</u>	<u>394.6</u>	<u>245.3</u>	<u>639.9</u>

8. RESERVES

	<u>Share Premium</u>	<u>Compulsory reserve</u>	<u>Voluntary reserve</u>	<u>Cash flow hedge reserve</u>	<u>Available-for-sale securities revaluation reserve</u>	<u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2010	7.6	169.2	106.7	11.1	(64.5)	230.1
Arising in the year:-						
- Cash flow hedges net fair value gains	-	-	-	0.9	-	0.9
- Available-for-sale securities net fair value gains	-	-	-	-	38.6	38.6
Transfers in the year:-						
- Transfers to consolidated statement of income	-	-	-	(5.7)	4.4	(1.3)
Net gains	-	-	-	(4.8)	43.0	38.2
Transfers from retained earnings	-	10.2	10.2	-	-	20.4
At 31st December 2010	<u>7.6</u>	<u>179.4</u>	<u>116.9</u>	<u>6.3</u>	<u>(21.5)</u>	<u>288.7</u>
Arising in the period:-						
- Cash flow hedges net fair value losses	-	-	-	(0.1)	-	(0.1)
- Available-for-sale securities net fair value gains	-	-	-	-	-	-
Transfers in the period:-						
- Transfers to consolidated statement of income	-	-	-	(0.8)	(0.1)	(0.9)
Net losses	-	-	-	(0.9)	(0.1)	(1.0)
At 31st March 2011	<u>7.6</u>	<u>179.4</u>	<u>116.9</u>	<u>5.4</u>	<u>(21.6)</u>	<u>287.7</u>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2011**

9 . DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

The notional amounts of derivatives and foreign exchange instruments were as follows:-

	<u>Trading</u> US\$ millions	<u>31.3.11 Hedging</u> US\$ millions	<u>Total</u> US\$ millions	<u>31.12.10 Total</u> US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	728.0	2,711.5	3,439.5	2,493.0
Interest rate contracts:-				
Interest rate swaps	1,616.9	4,789.7	6,406.6	7,010.9
Cross currency swaps	-	533.3	533.3	400.0
Options, caps and floors purchased	24.3	-	24.3	24.3
Options, caps and floors written	24.3	-	24.3	24.3
	<u>1,665.5</u>	<u>5,323.0</u>	<u>6,988.5</u>	<u>7,459.5</u>
Credit contracts:-				
Protection sold	25.0	-	25.0	25.0
Total	<u>2,418.5</u>	<u>8,034.5</u>	<u>10,453.0</u>	<u>9,977.5</u>

There is no credit risk in respect of options, caps and floors written and protection sold on credit contracts as they represent obligations of the Group.

At 31st March 2011, the Value-at-Risk of the foreign exchange, interest rate and credit derivative trading contracts analysed in the table above was US\$0.1 million, US\$0.1 million and nil respectively (31st December 2010: US\$0.1 million, US\$0.1 million and nil respectively). Value-at-Risk is a measure of market risk exposure and represents an estimate, with a 99 per cent level of confidence, of the potential loss that might arise if the positions were to be held unchanged for ten consecutive business days. The estimate is based on a twelve month historical observation period of unweighted data from the DataMetrics TM data set.

10. CREDIT-RELATED FINANCIAL INSTRUMENTS

	<u>31.3.11 Notional principal amount</u> US\$ millions	<u>31.12.10 Notional principal amount</u> US\$ millions
Direct credit substitutes	189.1	164.0
Transaction-related contingent items	2,022.3	1,237.2
Short-term self-liquidating trade-related contingent items	177.2	209.2
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	440.8	539.5
	<u>2,829.4</u>	<u>2,149.9</u>

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of shares in issue during the period.

	<u>Three months ended 31.3.11</u>	<u>Three months ended 31.3.10</u>
Net income (US\$ millions)	25.8	26.8
Weighted average number of shares in issue (millions)	2,500.0	2,500.0
Basic and diluted earnings per share	<u>US\$0.01</u>	<u>US\$0.01</u>