

GULF INTERNATIONAL BANK B.S.C.
2010 FIRST QUARTER
CONSOLIDATED 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

13 May 2010

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 2010, 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>31.3.10</u> US\$ millions	<u>31.12.09</u> US\$ millions
ASSETS			
Cash and other liquid assets		626.1	508.2
Placements with banks		5,699.6	4,101.1
Trading securities		42.5	50.2
Investment securities	6	2,307.5	2,018.1
Loans and advances	7	8,838.5	9,298.1
Other assets		240.7	232.0
Total assets		<u>17,754.9</u>	<u>16,207.7</u>
LIABILITIES			
Deposits from banks		2,931.8	2,554.2
Deposits from customers		8,592.7	7,495.3
Securities sold under agreements to repurchase		498.0	565.0
Other liabilities		276.4	294.9
Senior term financing		3,108.0	3,007.9
Subordinated term financing		511.0	511.0
Total liabilities		<u>15,917.9</u>	<u>14,428.3</u>
EQUITY			
Share capital		2,500.0	2,500.0
Share premium		7.6	7.6
Reserves	8	253.3	222.5
Retained earnings		(923.9)	(950.7)
Total equity		<u>1,837.0</u>	<u>1,779.4</u>
Total liabilities & equity		<u>17,754.9</u>	<u>16,207.7</u>

The interim consolidated financial statements were approved by the Board of Directors on 13th May 2010 and signed on its behalf by:-

Mansour bin Saleh Al Maiman
Vice Chairman

Abdullah bin Hassan Al-Abdul-Gader
Chairman of Board Audit Committee

Yahya bin Abdullah Alyahya
Chief Executive Officer

The notes on pages 6 to 10 form part of these interim consolidated financial statements.

Consolidated Statement of Income

		Three months ended 31.3.10	Three months ended 31.3.09
	<i>Note</i>	US\$ millions	US\$ millions
Interest income		68.4	189.7
Interest expense		25.2	124.6
Net interest income		43.2	65.1
Fee and commission income	3	8.8	10.1
Net trading income	4	3.6	10.4
Other income	5	0.6	(0.1)
Total income		56.2	85.5
Staff expenses		17.1	21.5
Premises expenses		2.6	2.6
Other operating expenses		5.9	7.7
Total operating expenses		25.6	31.8
Net income before provisions and tax		30.6	53.7
Provisions for investment securities	6	4.0	9.8
Provisions for loans and advances	7	(6.5)	(19.3)
Net income before tax		28.1	44.2
Taxation charge on overseas activities		(1.3)	(1.3)
Net income		26.8	42.9
<i>Earnings per share</i>		<i>US\$0.01</i>	<i>US\$0.02</i>

Mansour bin Saleh Al Maiman
Vice Chairman

Abdullah bin Hassan Al-Abdul-Gader
Chairman of Board Audit Committee

Yahya bin Abdullah Alyahya
Chief Executive Officer

The notes on pages 6 to 10 form part of these interim consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Three months ended <u>31.3.10</u> US\$ millions	Three months ended <u>31.3.09</u> US\$ millions
Net income	26.8	42.9
Other comprehensive income:		
Cash flow hedges:-		
- net changes in fair value	(1.1)	3.1
- net amount transferred to consolidated statement of income	(2.0)	(1.6)
Available-for-sale securities:-		
- net changes in fair value	34.4	(64.0)
- net amount transferred to consolidated statement of income	(0.5)	1.2
Total other comprehensive income	<u>30.8</u>	<u>(61.3)</u>
Total comprehensive income	<u>57.6</u>	<u>(18.4)</u>

The notes on pages 6 to 10 form part of these interim consolidated financial statements.

 Consolidated Statement of Changes in Equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2009	2,500.0	7.6	216.0	(798.1)	1,925.5
Total comprehensive income for the year	-	-	6.5	(152.6)	(146.1)
At 31st December 2009	2,500.0	7.6	222.5	(950.7)	1,779.4
Total comprehensive income for the period	-	-	30.8	26.8	57.6
At 31st March 2010	2,500.0	7.6	253.3	(923.9)	1,837.0

The notes on pages 6 to 10 form part of these interim consolidated financial statements.

Consolidated Statement of Cash Flows

	Three months ended 31.3.10 US\$ millions	Three months ended 31.3.09 US\$ millions
OPERATING ACTIVITIES		
Net income	26.8	42.9
Adjustments to reconcile net income to net cash inflow from operating activities:		
Provisions for investment securities	(4.0)	(9.8)
Provisions for loans and advances	6.5	19.3
Realised (profit) / loss on investment securities	(0.6)	0.7
Amortisation of investment securities	0.4	(0.1)
(Increase) / decrease in accrued interest receivable	(10.2)	86.6
Increase / (decrease) in accrued interest payable	8.3	(26.6)
Net (increase) / decrease in other net assets	(27.9)	42.8
Net decrease in trading securities	7.7	32.6
Net cash inflow from operating activities	7.0	188.4
INVESTING ACTIVITIES		
Net increase in placements with banks	(1,598.5)	(1,068.0)
Net decrease in loans and advances	453.1	643.8
Purchase of investment securities	(444.4)	(0.4)
Sale and maturity of investment securities	192.6	110.5
Decrease in due from shareholders	-	4,832.0
Net cash (outflow) / inflow from investing activities	(1,397.2)	4,517.9
FINANCING ACTIVITIES		
Net increase / (decrease) in deposits from banks	377.6	(175.4)
Net increase / (decrease) in deposits from customers	1,097.4	(431.7)
Net decrease in securities sold under agreements to repurchase	(67.0)	(165.1)
Net increase / (decrease) in senior term financing	100.1	(28.9)
Net cash inflow / (outflow) from financing activities	1,508.1	(801.1)
Increase in cash and cash equivalents	117.9	3,905.2
Cash and cash equivalents at 1st January	508.2	303.0
Cash and cash equivalents at 31st March	626.1	4,208.2

The notes on pages 6 to 10 form part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2010

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 2010 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 2009.

3. FEE & COMMISSION INCOME

	Three months ended 31.3.10	Three months ended 31.3.09
	US\$ millions	US\$ millions
Fee and commission income		
Investment banking and management fees	5.2	5.9
Commissions on letters of credit and guarantee	3.2	4.0
Loan commitment fees	0.3	0.5
Other fee and commission income	0.4	0.1
Total fee and commission income	9.1	10.5
Fee and commission expense	(0.3)	(0.4)
Net fee and commission income	8.8	10.1

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, and bank charges and commissions.

4. NET TRADING INCOME

	Three months ended 31.3.10	Three months ended 31.3.09
	US\$ millions	US\$ millions
Foreign exchange	2.2	5.6
Managed funds	1.3	3.3
Interest rate derivatives	0.1	0.7
Debt and equity securities	-	0.8
	3.6	10.4

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.

Interest rate derivatives includes interest rate swaps, forward rate agreements, interest rate futures and interest rate options.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2010

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 2010 and 31st December 2009 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:-

	31.3.10		31.12.09	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	1,699.1	87.2	1,404.8	76.1
BBB+ to BBB- / Baa1 to Baa3	192.5	10.0	365.1	19.8
Other debt securities	56.0	2.8	76.6	4.1
Total debt securities	1,947.6	100.0	1,846.5	100.0
Equity investments	359.9		171.6	
	2,307.5		2,018.1	

Equity investments at 31st March 2010 included listed equities amounting to US\$189.4 million received in settlement of a secured past due loan.

Provisions for impairment

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

	2010	2009
	US\$ millions	US\$ millions
At 1st January	97.5	776.5
Exchange rate movements	(0.4)	(1.3)
Amounts utilised	(1.8)	(572.9)
Release for the period	(4.0)	(9.8)
At 31st March	91.3	192.5

The amounts utilised during the three months ended 31st March 2009 principally comprised US\$563.5 million arising on the write off of the Group's investments in structured investment vehicles (SIVs). The investments in SIVs were fully provisioned. No incremental losses arose as a result of the write off.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2010

7. LOANS AND ADVANCES

	<u>31.3.10</u>	<u>31.12.09</u>
	US\$ millions	US\$ millions
Gross loans and advances	9,478.4	9,932.2
Provisions for impairment	(639.9)	(634.1)
Net loans and advances	<u>8,838.5</u>	<u>9,298.1</u>

Provisions for impairment

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

	<u>2010</u>			<u>2009</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	394.1	240.0	634.1	94.2	180.0	274.2
Exchange rate movements	(0.2)	-	(0.2)	(0.1)	-	(0.1)
Amounts utilised	(0.5)	-	(0.5)	-	-	-
Charge for the period	1.2	5.3	6.5	6.3	13.0	19.3
At 31st March	394.6	245.3	639.9	100.4	193.0	293.4

8. RESERVES

	<u>2010</u>		<u>2009</u>		<u>Total</u>
	<u>Compulsory reserve</u>	<u>Voluntary reserve</u>	<u>Cash flow hedge reserve</u>	<u>Available-for-sale securities revaluation reserve</u>	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	
At 1st January 2009	169.2	106.7	7.2	(67.1)	216.0
Arising in the year:-					
- Available-for-sale securities net fair value gains	-	-	-	2.6	2.6
- Cash flow hedges net fair value gains	-	-	9.9	-	9.9
Transfers in the year:-					
- Transfers to consolidated statement of income	-	-	(6.0)	-	(6.0)
Net gains	-	-	3.9	2.6	6.5
At 31st December 2009	169.2	106.7	11.1	(64.5)	222.5
Arising in the period:-					
- Available-for-sale securities: net fair value gains	-	-	-	34.4	34.4
- Cash flow hedges: net fair value losses	-	-	(1.1)	-	(1.1)
Transfers in the period:-					
- Transfers to consolidated statement of income	-	-	(2.0)	(0.5)	(2.5)
Net gains	-	-	(3.1)	33.9	30.8
At 31st March 2010	169.2	106.7	8.0	(30.6)	253.3

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2010

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

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

	<u>Trading</u> US\$ millions	<u>31.3.10 Hedging</u> US\$ millions	<u>Total</u> US\$ millions	<u>31.12.09 Total</u> US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	1,046.5	2,821.2	3,867.7	3,310.4
Interest rate contracts:-				
Interest rate swaps and swaptions	2,494.5	1,688.1	4,182.6	3,636.6
Forward rate agreements	-	24.8	24.8	181.6
Options, caps and floors purchased	24.3	-	24.3	24.3
Options, caps and floors written	24.3	-	24.3	24.3
	<u>2,543.1</u>	<u>1,712.9</u>	<u>4,256.0</u>	<u>3,866.8</u>
Credit contracts:-				
Protection sold	39.0	-	39.0	39.0
Total	<u>3,628.6</u>	<u>4,534.1</u>	<u>8,162.7</u>	<u>7,216.2</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 2010, the Value-at-Risk of the foreign exchange, interest rate and credit derivative trading contracts analysed in the table above was nil, US\$0.1 million and nil respectively (31st December 2009: nil, 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>31.3.10 Notional principal amount</u> US\$ millions	<u>31.12.09 Notional principal amount</u> US\$ millions
Direct credit substitutes	156.0	171.6
Transaction-related contingent items	896.1	808.7
Short-term self-liquidating trade-related contingent items	239.9	234.3
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	893.6	945.8
	<u>2,185.6</u>	<u>2,160.4</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 31.3.10</u>	<u>Three months ended 31.3.09</u>
Net income (US\$ millions)	26.8	42.9
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\$0.02</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2010

12. PARENT COMPANY

The condensed interim unconsolidated financial statements of Gulf International Bank B.S.C. were as follows:-

a) Condensed Statement of Financial Position

	<u>31.3.10</u>	<u>31.12.09</u>
	US\$ millions	US\$ millions
Assets		
Cash and other liquid assets	157.4	197.0
Placements with banks	4,109.8	2,258.9
Trading securities	40.3	47.9
Investment securities	2,306.7	2,017.7
Investments in subsidiaries	233.8	235.7
Loans and advances	8,847.7	9,307.4
Other assets	207.8	195.4
Total assets	<u>15,903.5</u>	<u>14,260.0</u>
Liabilities		
Deposits from banks	2,784.2	2,326.0
Deposits from customers	6,899.3	5,557.4
Securities sold under agreements to purchase	498.0	790.0
Other liabilities	266.0	288.3
Senior term financing	3,108.0	3,007.9
Subordinated term financing	511.0	511.0
Total liabilities	<u>14,066.5</u>	<u>12,480.6</u>
Total equity	<u>1,837.0</u>	<u>1,779.4</u>
Total liabilities & equity	<u>15,903.5</u>	<u>14,260.0</u>

The investments in subsidiaries are accounted for at fair value. Gains and losses arising from changes in the fair values of the investments are accounted for in equity.

b) Condensed Statement of Income

	<u>Three months ended 31.3.10</u>	<u>Three months ended 31.3.09</u>
	US\$ millions	US\$ millions
Net interest income	42.1	60.4
Fee and commission income	4.5	5.3
Net trading income	2.2	5.1
Other income	0.6	(0.5)
Total income	<u>49.4</u>	<u>70.3</u>
Operating expenses	17.8	21.8
Net income before provisions and tax	<u>31.6</u>	<u>48.5</u>
Provisions for investment securities	4.0	10.2
Provisions for loans and advances	(6.5)	(19.3)
Net income before tax	<u>29.1</u>	<u>39.4</u>
Taxation charge on overseas activities	(1.2)	(1.3)
Net income	<u>27.9</u>	<u>38.1</u>