

GULF INTERNATIONAL BANK B.S.C.
2008 THIRD QUARTER
CONSOLIDATED FINANCIAL STATEMENTS



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 consolidated financial statements

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

23 October 2008

Introduction

We have reviewed the accompanying condensed consolidated balance sheet of Gulf International Bank BSC (the "Bank") and its subsidiaries (together the "Group") as at 30 September 2008, and the related condensed consolidated statements of income, changes in equity and cash flows for the nine-month period then ended (interim consolidated financial statements). The Directors of the Bank are 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 Balance Sheet

	<i>Note</i>	<u>At 30.9.08</u> US\$ millions	<u>At 31.12.07</u> US\$ millions
ASSETS			
Cash and other liquid assets		283.3	532.7
Due from brokers		-	243.3
Placements with banks		4,513.4	5,629.1
Trading securities		335.2	1,342.6
Investment securities	6	6,620.1	8,070.7
Loans and advances	7	13,465.4	12,601.8
Other assets		393.4	1,533.8
Total assets		25,610.8	29,954.0
LIABILITIES			
Deposits from banks		4,098.9	5,970.7
Deposits from customers		12,904.3	13,674.0
Securities sold under agreements to repurchase		3,476.4	4,141.5
Securities sold but not yet purchased		-	233.2
Other liabilities		556.2	511.5
Senior term financing		2,537.6	2,657.8
Subordinated term financing		550.0	550.0
Total liabilities		24,123.4	27,738.7
EQUITY			
Share capital	8	2,500.0	1,500.0
Proposed increase in share capital	8	-	1,000.0
Share premium		7.6	7.6
Reserves	9	(470.1)	109.6
Retained earnings		(550.1)	(401.9)
Total equity		1,487.4	2,215.3
Total liabilities & equity		25,610.8	29,954.0

The interim consolidated financial statements were approved by the Board of Directors on 23rd October 2008 and signed on their behalf by:-

Jammaz bin Abdullah Al-Suhaimi
Chairman

Dr. Khaled M. Al-Fayez
Chief Executive Officer

The notes on pages 5 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Income

	Note	Three months ended		Nine months ended	
		30.9.08	30.9.07	30.9.08	30.9.07
		US\$ millions	US\$ millions	US\$ millions	US\$ millions
Interest income		296.2	397.7	946.9	1,102.2
Interest expense		222.5	314.2	724.8	870.0
Net interest income		73.7	83.5	222.1	232.2
Fee and commission income	3	19.0	24.7	60.4	66.5
Net trading loss	4	(18.2)	(41.8)	(48.9)	(22.5)
Profits on investment securities		26.6	7.7	36.5	18.3
Other income	5	(0.9)	(0.3)	8.0	3.5
Total income		100.2	73.8	278.1	298.0
Staff expenses		26.1	29.7	81.1	84.9
Premises expenses		2.6	2.7	7.7	7.5
Other operating expenses		8.0	7.4	23.2	21.6
Total operating expenses		36.7	39.8	112.0	114.0
Net income before provisions and tax		63.5	34.0	166.1	184.0
Provisions for investment securities	6	284.2	14.8	319.4	16.2
Provisions for loans and advances	7	(0.6)	(4.9)	(6.1)	(9.8)
Net (loss) / income before tax		(220.1)	24.1	(147.2)	177.6
Taxation (charge) / credit on overseas activities		(0.6)	10.1	(1.0)	6.9
Net (loss) / income		(220.7)	34.2	(148.2)	184.5
<i>Earnings per share</i>		<i>(US\$0.14)</i>	<i>US\$0.02</i>	<i>(US\$0.09)</i>	<i>US\$0.14</i>

Jammaz bin Abdullah Al-Suhaimi
Chairman

Dr. Khaled M. Al-Fayez
Chief Executive Officer

The notes on pages 5 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Cash Flows

	Nine months ended 30.9.08	Nine months ended 30.9.07
	US\$ millions	US\$ millions
OPERATING ACTIVITIES		
Net (loss) / income	(148.2)	184.5
Adjustments to reconcile net (loss) / income to net cash inflow from operating activities:		
Provisions for investment securities	319.4	16.2
Provisions for loans and advances	(6.1)	(9.8)
Profits on investment securities	(36.5)	(18.3)
Amortisation of investment securities	82.0	3.1
Decrease / (increase) in accrued interest receivable	101.2	(2.2)
(Decrease) / increase in accrued interest payable	(195.3)	15.1
Decrease / (increase) in other net assets	301.4	(107.7)
Net decrease in trading securities	1,007.4	590.9
Net cash inflow from operating activities	1,425.3	671.8
INVESTING ACTIVITIES		
Net decrease in due from brokers	243.3	445.3
Net decrease / (increase) in placements with banks	1,115.7	(266.7)
Net increase in loans and advances	(857.5)	(4,190.8)
Purchase of investment securities	(396.5)	(1,340.9)
Sale and maturity of investment securities	880.4	1,104.5
Net cash inflow / (outflow) from investing activities	985.4	(4,248.6)
FINANCING ACTIVITIES		
Net (decrease) / increase in deposits from banks	(1,871.9)	638.0
Net (decrease) / increase in deposits from customers	(769.7)	2,196.7
Net decrease in securities sold under agreements to repurchase	(665.1)	(83.2)
Net decrease in securities sold but not yet purchased	(233.2)	(450.3)
Net (decrease) / increase in senior term financing	(120.2)	890.8
Increase in share capital	1,000.0	500.0
Dividend paid	-	(127.7)
Net cash (outflow) / inflow from financing activities	(2,660.1)	3,564.3
Decrease in cash and cash equivalents	(249.4)	(12.5)
Cash and cash equivalents at 1st January	532.7	268.2
Cash and cash equivalents at 30th September	283.3	255.7

The notes on pages 5 to 9 form part of these interim consolidated financial statements.

Consolidated Statement of Changes in Equity

	Share capital	Proposed increase in share capital	Share premium	Reserves	Retained earnings	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2007	1,000.0	-	7.6	365.9	483.1	1,856.6
Arising in the year:-						
- Available-for-sale securities:						
net fair value losses	-	-	-	(248.8)	-	(248.8)
- Cash flow hedges:						
net fair value gains	-	-	-	1.3	-	1.3
Transfers in the year:-						
- Transfers to statement of income	-	-	-	(8.8)	-	(8.8)
Net losses recognised directly in equity	-	-	-	(256.3)	-	(256.3)
Increase in share capital	500.0	1,000.0	-	-	-	1,500.0
Dividend for 2006	-	-	-	-	(127.7)	(127.7)
Net loss for the year	-	-	-	-	(757.3)	(757.3)
At 31st December 2007	1,500.0	1,000.0	7.6	109.6	(401.9)	2,215.3
Arising in the period:-						
- Available-for-sale securities:						
net fair value losses	-	-	-	(672.5)	-	(672.5)
- Cash flow hedges:						
net fair value gains	-	-	-	1.0	-	1.0
Transfers in the period:-						
- Transfers to statement of income	-	-	-	91.8	-	91.8
Net losses recognised directly in equity	-	-	-	(579.7)	-	(579.7)
Net loss for the period	-	-	-	-	(148.2)	(148.2)
Transfer to share capital	1,000.0	(1,000.0)	-	-	-	-
At 30th September 2008	2,500.0	-	7.6	(470.1)	(550.1)	1,487.4

The notes on pages 5 to 9 form part of these interim consolidated financial statements.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30th September 2008**

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 nine months ended 30th September 2008 have been prepared in compliance with International Accounting Standard (IAS) 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 2007 except for changes resulting from the adoption of amendments to IAS 39 - Financial Instruments: Recognition and Measurement, as described in more detail below.

In October 2008, the International Accounting Standards Board (IASB) amended IAS 39 - Financial Instruments: Recognition and Measurement to permit the reclassification of certain non-derivative financial assets in order to ensure consistency with US GAAP. The amendments were made in response to requests by regulators to enable banks to measure non-derivative financial assets which are no longer traded in an active market at amortised cost.

The amendments to IAS 39 distinguish those non-derivative financial assets which are eligible for classification as loans and receivables. Loans and receivables represent non-derivative financial assets that have fixed or determinable payments, are not quoted in an active market, and contain no features that could cause the holder not to recover substantially all of the initial investment, except through credit deterioration. In accordance with the amendments to IAS 39, non-derivative financial assets that meet the prescribed criteria for loans and receivables may be reclassified from available-for-sale to loans and receivables where the reporting entity has the intent and ability to hold the financial assets for the foreseeable future.

The amendment to IAS 39 in respect of the reclassification of available-for-sale securities was adopted for debt securities for which there are no quoted prices in an active market with effect from 1st July 2008. From that date, the reclassified securities have been measured at amortised cost using the effective interest rate method. The related disclosures are set out in note 6 to the interim consolidated financial statements

3. FEE & COMMISSION INCOME

	Three months ended		Nine months ended	
	30.9.08	30.9.07	30.9.08	30.9.07
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Fee and commission income				
Investment banking and management fees	12.8	17.6	39.9	47.8
Commissions on letters of credit and guarantee	5.5	5.5	18.4	14.4
Loan commitment fees	0.8	1.5	2.6	3.7
Other fee and commission income	0.5	0.7	1.2	2.4
Total fee and commission income	19.6	25.3	62.1	68.3
Fee and commission expense	(0.6)	(0.6)	(1.7)	(1.8)
Net fee and commission income	19.0	24.7	60.4	66.5

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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30th September 2008**

4. NET TRADING LOSS

	Three months ended		Nine months ended	
	30.9.08	30.9.07	30.9.08	30.9.07
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange	3.6	2.4	10.0	7.5
Interest rate derivatives	2.8	(0.1)	3.5	0.2
Equity securities	(2.7)	(1.2)	(3.3)	(1.8)
Debt securities	(0.3)	(27.5)	(25.7)	(27.0)
Managed funds	(21.6)	(15.4)	(33.4)	(1.4)
	(18.2)	(41.8)	(48.9)	(22.5)

The loss on debt securities during the nine months ended 30th September 2008 included a loss of US\$28.4 million arising on the liquidation of the Group's asset backed security proprietary trading portfolio. The portfolio was entirely liquidated during the three months ended 31st March 2008.

5. OTHER INCOME

Other income principally comprises profits realised on sale of fixed assets, dividends on available-for-sale equity investments, and loan recoveries.

6. INVESTMENT SECURITIES

	30.9.08	31.12.07
	US\$ millions	US\$ millions
Available-for-sale securities	4,682.7	8,070.7
Other investment securities	1,937.4	-
Total investment securities	6,620.1	8,070.7

Available-for-sale securities are measured at fair value. Other investment securities are classified as loans and receivables and are measured at amortised cost less provision for impairment.

At 1st July 2008, and in accordance with the amendments to IAS 39 - Financial Instruments: Recognition and Measurement, qualifying debt securities were reclassified from available-for-sale to other investment securities. The reclassified debt securities comprised asset backed securities, including collateralised debt obligations and residential mortgaged-backed securities, which are not quoted in an active market and accordingly meet the criteria prescribed by IAS 39 for classification as loans and receivables. As a result of the severe deterioration in the credit markets that has been witnessed since mid-2007, there are no longer quoted prices in an active market for these securities.

The unrealised revaluation loss relating to the reclassified securities at the date of transfer on 1st July 2008 and accounted for in equity, amounted to US\$639.5 million. This is to be amortised over the remaining tenor of the reclassified securities based on the effective interest rates of the respective securities. The fair value of the reclassified securities at 30th September 2008 based on indicative prices obtained from lead managers, or valuation techniques using assumptions to determine the estimated underlying cash flows was US\$1,708.9 million.

Provisions for impairment

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

	2008	2007
	US\$ millions	US\$ millions
At 1st January	985.0	63.9
Exchange rate movement	(3.5)	0.3
Amounts utilised	(18.2)	(0.3)
Charge for the period	319.4	16.2
At 30th September	1,282.7	80.1

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30th September 2008**

7. LOANS AND ADVANCES

	<u>30.9.08</u>	<u>31.12.07</u>
	US\$ millions	US\$ millions
Gross loans and advances	13,531.8	12,677.2
Provisions for impairment	(66.4)	(75.4)
Net loans and advances	<u>13,465.4</u>	<u>12,601.8</u>

Provisions for impairment

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

	<u>2008</u>	<u>2007</u>
	US\$ millions	US\$ millions
At 1st January	75.4	83.0
Exchange rate movement	-	(0.2)
Amounts utilised	(2.9)	(0.5)
Release for the period	(6.1)	(9.8)
At 30th September	<u>66.4</u>	<u>72.5</u>

8. SHARE CAPITAL

At an Extraordinary General Assembly meeting held on 20th February 2008, the shareholders ratified an earlier commitment in 2007 to increase the issued share capital of the bank by US\$1.0 billion to US\$2.5 billion. The proceeds of the capital increase were received in March 2008. The capital increase was classified as a proposed increase in share capital pending the completion of the relevant legal formalities. The legal formalities were completed on 10th September 2008, following which the proposed increase in share capital was transferred to share capital.

9. RESERVES

	<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
At 1st January 2007	169.2	106.7	(1.2)	91.2	365.9
Arising in the year:-					
- Available-for-sale securities net fair value losses	-	-	-	(248.8)	(248.8)
- Cash flow hedges: net fair value gains	-	-	1.3	-	1.3
Transfers in the year:-					
- Transfers to statement of income	-	-	1.0	(9.8)	(8.8)
Net gains / (losses) recognised directly in equity	-	-	2.3	(258.6)	(256.3)
At 31st December 2007	<u>169.2</u>	<u>106.7</u>	<u>1.1</u>	<u>(167.4)</u>	<u>109.6</u>
Arising in the period:-					
- Available-for-sale securities: net fair value losses	-	-	-	(672.5)	(672.5)
- Cash flow hedges: net fair value gains	-	-	1.0	-	1.0
Transfers in the period:-					
- Transfers to statement of income	-	-	(3.7)	95.5	91.8
Net losses recognised directly in equity	-	-	(2.7)	(577.0)	(579.7)
At 30th September 2008	<u>169.2</u>	<u>106.7</u>	<u>(1.6)</u>	<u>(744.4)</u>	<u>(470.1)</u>

The available-for-sale securities revaluation reserve at 30th September 2008 included US\$558.6 million in respect of debt securities reclassified to loans and receivables on 1st July 2008. This is to be amortised over the remaining tenor of the reclassified securities using the effective interest rate method.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30th September 2008**

10. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

	Trading	30.9.08 Hedging	Total	31.12.07 Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	1,552.9	4,757.9	6,310.8	5,193.5
Options purchased	14.3	55.3	69.6	82.6
Options written	14.3	-	14.3	27.3
	1,581.5	4,813.2	6,394.7	5,303.4
Interest rate contracts:-				
Futures	104.5	-	104.5	162.4
Interest rate swaps and swaptions	2,338.7	4,607.1	6,945.8	6,851.3
Options, caps and floors purchased	24.3	-	24.3	24.3
Options, caps and floors written	286.4	-	286.4	1,255.8
	2,753.9	4,607.1	7,361.0	8,293.8
Credit contracts:-				
Protection bought	-	-	-	125.8
Protection sold	159.0	-	159.0	203.4
	159.0	-	159.0	329.2
Equity contracts:-				
Contracts for differences	-	-	-	2.4
Total	4,494.4	9,420.3	13,914.7	13,928.8

Financial futures are exchange traded and therefore not subject to credit risk. There is no credit risk in respect of options, caps and floors written as they represent obligations of the Group

At 30th September 2008 the Value-at-Risk of the foreign exchange, interest rate, credit and equity derivative trading contracts analysed in the table above was nil, US\$0.2 million, US\$1.1 million and nil respectively (31st December 2007: US\$0.2 million, US\$0.2 million, US\$1.1 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.

11. CREDIT-RELATED FINANCIAL INSTRUMENTS

	30.9.08	31.12.07
	US\$ millions	US\$ millions
Direct credit substitutes	368.9	2,269.2
Transaction-related contingent items	1,405.6	1,505.1
Short-term self-liquidating trade-related contingent items	774.3	588.9
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	1,759.6	2,898.7
	4,308.4	7,261.9

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30th September 2008**

12. PARENT COMPANY

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

a) Condensed Balance Sheet

	<u>At 30.9.08</u> US\$ millions	<u>At 31.12.07</u> US\$ millions
Assets		
Cash and other liquid assets	264.4	505.5
Placements with banks	1,912.0	2,191.2
Trading securities	294.5	398.4
Investment securities	6,610.1	8,058.1
Investments in subsidiaries	251.2	250.6
Loans and advances	13,503.1	12,533.3
Other assets	335.6	1,452.9
Total assets	23,170.9	25,390.0
Liabilities		
Deposits from banks	3,975.5	5,924.2
Deposits from customers	10,612.8	9,473.5
Securities sold under agreements to purchase	3,476.4	4,112.8
Other liabilities	531.2	456.4
Senior term financing	2,537.6	2,657.8
Subordinated term financing	550.0	550.0
Total liabilities	21,683.5	23,174.7
Total equity	1,487.4	2,215.3
Total liabilities & equity	23,170.9	25,390.0

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

b) Condensed Statement of Income

	<u>Nine months ended 30.9.08</u> US\$ millions	<u>Nine months ended 30.9.07</u> US\$ millions
Net interest income	209.1	212.1
Fee and commission income	31.5	39.1
Net trading (loss) / income	(28.8)	2.7
Profits on investment securities	36.5	18.3
Dividend received from GIBUK	-	14.1
Other income	7.4	4.0
Total income	255.7	290.3
Total operating expenses	76.8	72.8
Net income before provisions and tax	178.9	217.5
Provisions for investment securities	317.8	16.3
Provisions for loans and advances	(6.1)	(9.8)
Net (loss) / income before tax	(132.8)	211.0
Taxation charge on overseas activities	(1.0)	(3.2)
Net (loss) / income	(133.8)	207.8