

GULF INTERNATIONAL BANK B.S.C.

2009 FIRST HALF

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 July 2009

### **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 30 June 2009, and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-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>At 30.6.09</u> US\$ millions	<u>At 31.12.08</u> US\$ millions
<b>ASSETS</b>			
Cash and other liquid assets		203.4	303.0
Placements with banks		3,285.9	4,037.4
Due from shareholders	6	-	4,832.0
Trading securities		130.3	207.1
Investment securities	7	2,045.6	2,220.5
Loans and advances	8	11,088.6	12,972.1
Other assets		362.9	461.4
<b>Total assets</b>		<u>17,116.7</u>	<u>25,033.5</u>
<b>LIABILITIES</b>			
Deposits from banks		2,663.7	3,385.9
Deposits from customers		8,946.4	15,009.1
Securities sold under agreements to repurchase		477.8	1,244.8
Other liabilities		330.0	486.7
Senior term financing		2,302.6	2,431.5
Subordinated term financing		550.0	550.0
<b>Total liabilities</b>		<u>15,270.5</u>	<u>23,108.0</u>
<b>EQUITY</b>			
Share capital		2,500.0	2,500.0
Share premium		7.6	7.6
Reserves	9	159.2	216.0
Retained earnings		(820.6)	(798.1)
<b>Total equity</b>		<u>1,846.2</u>	<u>1,925.5</u>
<b>Total liabilities &amp; equity</b>		<u>17,116.7</u>	<u>25,033.5</u>

The interim consolidated financial statements were approved on 13th July 2009 and signed on behalf of the Board of Directors by:-

**Jammaz bin Abdullah Al-Suhaimi**  
Chairman

**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

	<i>Note</i>	Three months ended		Six months ended	
		30.6.09	30.6.08	30.6.09	30.6.08
		US\$ millions	US\$ millions	US\$ millions	US\$ millions
Interest income		114.1	297.3	303.8	650.7
Interest expense		66.3	222.5	190.9	502.3
<b>Net interest income</b>		<b>47.8</b>	<b>74.8</b>	<b>112.9</b>	<b>148.4</b>
Fee and commission income	3	9.6	21.6	19.7	41.4
Net trading income / (loss)	4	6.5	2.8	16.9	(30.7)
Realised profits / (losses) on investment securities		0.3	4.3	(0.4)	9.9
Other income	5	0.3	4.9	0.9	8.9
<b>Total income</b>		<b>64.5</b>	<b>108.4</b>	<b>150.0</b>	<b>177.9</b>
Staff expenses		20.0	26.8	41.5	55.0
Premises expenses		2.9	2.5	5.5	5.1
Other operating expenses		5.6	7.9	13.3	15.2
<b>Total operating expenses</b>		<b>28.5</b>	<b>37.2</b>	<b>60.3</b>	<b>75.3</b>
<b>Net income before provisions and tax</b>		<b>36.0</b>	<b>71.2</b>	<b>89.7</b>	<b>102.6</b>
Provisions for investment securities	7	31.0	(25.2)	40.8	(35.2)
Provisions for loans and advances	8	(132.3)	4.9	(151.6)	5.5
<b>Net (loss) / income before tax</b>		<b>(65.3)</b>	<b>50.9</b>	<b>(21.1)</b>	<b>72.9</b>
Taxation charge on overseas activities		(0.1)	(1.1)	(1.4)	(0.4)
<b>Net (loss) / income</b>		<b>(65.4)</b>	<b>49.8</b>	<b>(22.5)</b>	<b>72.5</b>
<i>Earnings per share</i>	12	<u>(US\$0.03)</u>	<u>US\$0.02</u>	<u>(US\$0.01)</u>	<u>US\$0.03</u>

Jammaz bin Abdullah Al-Suhaimi  
Chairman

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		Six months ended	
	30.6.09	30.6.08	30.6.09	30.6.08
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
<b>Net (loss) / income</b>	<b>(65.4)</b>	49.8	<b>(22.5)</b>	72.5
Other comprehensive income / (loss):				
Cash flow hedges:-				
- net changes in fair value	(1.0)	2.6	2.1	2.9
- net amount transferred to statement of income	(2.3)	(3.8)	(3.9)	(2.6)
Available-for-sale securities:-				
- net changes in fair value	9.0	(40.8)	(55.0)	(625.9)
- net amount transferred to statement of income	(1.2)	18.2	-	48.3
<b>Total other comprehensive income / (loss)</b>	<b>4.5</b>	(23.8)	<b>(56.8)</b>	(577.3)
<b>Total comprehensive (loss) / income</b>	<b>(60.9)</b>	26.0	<b>(79.3)</b>	(504.8)

The notes on pages 6 to 10 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 2008	1,500.0	1,000.0	7.6	109.6	(401.9)	2,215.3
Transfer to share capital	1,000.0	(1,000.0)	-	-	-	-
Total comprehensive income for the year	-	-	-	106.4	(396.3)	(289.8)
At 31st December 2008	2,500.0	-	7.6	216.0	(798.2)	1,925.5
Total comprehensive income for the period	-	-	-	(56.8)	(22.5)	(79.3)
At 30th June 2009	2,500.0	-	7.6	159.2	(820.6)	1,846.2

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

## Consolidated Statement of Cash Flows

	Six months ended <b>30.6.09</b> US\$ millions	Six months ended <b>30.6.08</b> US\$ millions
<b>OPERATING ACTIVITIES</b>		
Net (loss) / income	(22.5)	72.5
Adjustments to reconcile net income to net cash inflow from operating activities:		
Provisions for investment securities	(40.8)	35.2
Provisions for loans and advances	151.6	(5.5)
Realised loss / (profit) on investment securities	0.4	(9.9)
Amortisation of investment securities	0.2	1.1
Decrease in accrued interest receivable	141.2	129.8
Decrease in accrued interest payable	(115.7)	(195.6)
(Increase) / decrease in other net assets	(117.3)	60.4
Net decrease in trading securities	76.8	984.0
<b>Net cash inflow from operating activities</b>	<b>73.9</b>	<b>1,072.0</b>
<b>INVESTING ACTIVITIES</b>		
Net decrease in due from brokers	-	243.3
Net decrease / (increase) in placements with banks	751.5	(892.1)
Decrease in due from shareholders	4,832.0	-
Net decrease / (increase) in loans and advances	1,731.9	(553.8)
Purchase of investment securities	(1.3)	(350.0)
Sale and maturity of investment securities	193.2	472.6
<b>Net cash inflow / (outflow) from investing activities</b>	<b>7,507.3</b>	<b>(1,080.0)</b>
<b>FINANCING ACTIVITIES</b>		
Net decrease in deposits from banks	(722.2)	(756.9)
Net decrease in deposits from customers	(6,062.7)	(62.1)
Net decrease in securities sold under agreements to repurchase	(767.0)	(175.1)
Net decrease in securities sold but not yet purchased	-	(233.2)
Net decrease in senior term financing	(128.9)	(97.1)
Increase in share capital	-	1,000.0
<b>Net cash outflow from financing activities</b>	<b>(7,680.8)</b>	<b>(324.4)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(99.6)</b>	<b>(332.4)</b>
<b>Cash and cash equivalents at 1st January</b>	<b>303.0</b>	<b>532.7</b>
<b>Cash and cash equivalents at 30th June</b>	<b>203.4</b>	<b>200.3</b>

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended 30th June 2009**

**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 six months ended 30th June 2009 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 2008, except for changes in presentation resulting from amendments to IAS 1 and IAS 34 as described in more detail below.

The format of the interim consolidated financial statements has been revised to comply with amendments to IAS 34: Interim Financial Reporting that became effective for financial years beginning on or after 1st January 2009. IAS 34 has been amended following a revision of IAS 1: Presentation of Financial Statements relating to changes in the presentation of the consolidated financial statements, most notably the inclusion of the consolidated statement of comprehensive income as set out on page 3 of the interim consolidated financial statements.

**3. FEE & COMMISSION INCOME**

	Three months ended		Six months ended	
	30.6.09	30.6.08	30.6.09	30.6.08
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
<b>Fee and commission income</b>				
Investment banking and management fees	5.6	14.7	11.5	27.1
Commissions on letters of credit and guarantee	3.8	6.4	7.8	12.9
Loan commitment fees	0.4	0.7	0.9	1.8
Other fee and commission income	0.3	0.3	0.4	0.7
Total fee and commission income	10.1	22.1	20.6	42.5
<b>Fee and commission expense</b>	(0.5)	(0.5)	(0.9)	(1.1)
<b>Net fee and commission income</b>	9.6	21.6	19.7	41.4

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 / (LOSS)**

	Three months ended		Six months ended	
	30.6.09	30.6.08	30.6.09	30.6.08
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange	1.7	3.5	7.3	6.4
Managed funds	3.6	(1.3)	6.9	(11.8)
Debt securities	0.7	0.3	1.6	(25.4)
Interest rate derivatives	0.3	0.1	1.0	0.7
Equity securities	0.2	0.2	0.1	(0.6)
	6.5	2.8	16.9	(30.7)

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 six months ended 30th June 2009

**5. OTHER INCOME**

Other income principally comprises dividends on equity investments classified as available-for-sale, and loan recoveries.

**6. DUE FROM SHAREHOLDERS**

Based on an agreement effective 31st December 2008, the Group sold, without recourse, a significant portion of its investment securities portfolio to shareholders of the Bank. The securities were sold at their amortised cost less specific provisions for impairment as at the effective date of the sale.

The total amortised cost less specific provisions for impairment of the sold securities at the effective date of sale on 31st December 2008, based on rates of exchange prevailing on that date, was US\$4,832.0 million. The settlement date for the sale of the securities was 27th March 2009.

**7. 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 30th June 2009 and 31st December 2008 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:-

	30.6.09		31.12.08	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	1,528.8	82.1	1,690.4	84.1
BBB+ to BBB- / Baa1 to Baa3	271.5	14.6	256.4	12.7
Other debt securities	60.8	3.3	64.4	3.2
Total debt securities	1,861.1	100.0	2,011.2	100.0
Equity investments	184.5		209.3	
	2,045.6		2,220.5	

Provisions for impairment

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

	2009	2008
	US\$ millions	US\$ millions
<b>At 1st January</b>	776.5	985.0
Exchange rate movement	(0.9)	3.8
Amounts utilised	(624.4)	(3.2)
(Release) / charge for the period	(40.8)	35.2
<b>At 30th June</b>	110.4	1,020.8

In March 2009, all investments in structured investment vehicles (SIVs), amounting in total to US\$563.5 million, were transferred off-balance sheet to the memorandum records. The investments in SIVs were fully provisioned. This resulted in a decrease in the related specific provisions of US\$563.5 million. The transfer of the SIVs to the memorandum records had no impact on the net book value of investment securities reported in the consolidated statement of financial position.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended 30th June 2009

8. LOANS AND ADVANCES

	<u>30.6.09</u>	<u>31.12.08</u>
	US\$ millions	US\$ millions
Gross loans and advances	11,513.5	13,246.3
Provisions for impairment	(424.9)	(274.2)
Net loans and advances	<u>11,088.6</u>	<u>12,972.1</u>
<u>Provisions for impairment</u>		

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

	<u>2009</u>			<u>2008</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	94.2	180.0	274.2	10.4	65.0	75.4
Amounts utilised	(0.9)	-	(0.9)	(2.9)	-	(2.9)
Charge / (release) for the period	101.6	50.0	151.6	(5.5)	-	(5.5)
At 30th June	<u>194.9</u>	<u>230.0</u>	<u>424.9</u>	<u>2.0</u>	<u>65.0</u>	<u>67.0</u>

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 2008	169.2	106.7	1.1	(167.4)	109.6
Arising in the year:-					
- Available-for-sale securities net fair value gains	-	-	-	8.2	8.2
- Cash flow hedges net fair value gains	-	-	10.5	-	10.5
Transfers in the year:-					
- Transfers to statement of income	-	-	(4.4)	92.1	87.7
Net gains recognised directly in equity	-	-	6.1	100.3	106.4
At 31st December 2008	<u>169.2</u>	<u>106.7</u>	<u>7.2</u>	<u>(67.1)</u>	<u>216.0</u>
Arising in the period:-					
- Available-for-sale securities: net fair value losses	-	-	-	(55.0)	(55.0)
- Cash flow hedges: net fair value gains	-	-	2.1	-	2.1
Transfers in the period:-					
- Transfers to statement of income	-	-	(3.9)	-	(3.9)
Net gains recognised directly in equity	-	-	(1.8)	(55.0)	(56.8)
At 30th June 2009	<u>169.2</u>	<u>106.7</u>	<u>5.4</u>	<u>(122.1)</u>	<u>159.2</u>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
for the six months ended 30th June 2009

**10. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS**

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

	<u>Trading</u>	<u>30.6.09</u> <u>Hedging</u>	<u>Total</u>	<u>31.12.08</u> <u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	268.7	3,719.3	3,988.0	4,311.7
Options purchased	-	-	-	13.8
Options written	-	-	-	13.8
	<u>268.7</u>	<u>3,719.3</u>	<u>3,988.0</u>	<u>4,339.3</u>
Interest rate contracts:-				
Interest rate swaps and swaptions	2,608.0	1,865.2	4,473.2	5,143.9
Forward rate agreements	-	29.0	29.0	-
Options, caps and floors purchased	24.3	-	24.3	24.3
Options, caps and floors written	24.3	-	24.3	24.3
	<u>2,656.6</u>	<u>1,894.2</u>	<u>4,550.8</u>	<u>5,192.5</u>
Credit contracts:-				
Protection sold	109.0	-	109.0	159.0
Other contracts:-				
Total return swaps	-	-	-	20.0
<b>Total</b>	<u><b>3,034.3</b></u>	<u><b>5,613.5</b></u>	<u><b>8,647.8</b></u>	<u><b>9,710.8</b></u>

At 30th June 2009, the Value-at-Risk of the foreign exchange, interest rate, credit and other derivative trading contracts analysed in the table above was US\$0.1 million, US\$0.2 million, US\$0.8 million and nil respectively (31st December 2008: US\$0.2 million, US\$0.2 million, US\$1.1 million and US\$1.0 million 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**

	<u>30.6.09</u>	<u>31.12.08</u>
	US\$ millions	US\$ millions
Direct credit substitutes	271.7	334.6
Transaction-related contingent items	960.4	1,147.2
Short-term self-liquidating trade-related contingent items	307.2	546.4
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	1,449.7	1,609.3
	<u>2,989.0</u>	<u>3,637.5</u>

**12. 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</u>		<u>Six months ended</u>	
	<u>30.6.09</u>	<u>30.6.08</u>	<u>30.6.09</u>	<u>30.6.08</u>
Net (loss) / income (US\$ millions)	(65.4)	49.8	(22.5)	72.5
Weighted average number of shares in issue (millions)	2,500.0	2,500.0	2,500.0	2,500.0
Basic and diluted earnings per share	<u>(0.03)</u>	<u>0.02</u>	<u>(0.01)</u>	<u>0.03</u>

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
for the six months ended 30th June 2009**

**13. 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>At 30.6.09</u> US\$ millions	<u>At 31.12.08</u> US\$ millions
<b>Assets</b>		
Cash and other liquid assets	184.3	154.3
Placements with banks	1,557.3	943.4
Due from shareholders	-	4,832.0
Trading securities	96.2	174.6
Investment securities	2,045.3	2,219.8
Investments in subsidiaries	238.3	228.6
Loans and advances	11,097.8	13,009.5
Other assets	322.9	407.7
<b>Total assets</b>	<b>15,542.1</b>	<b>21,969.9</b>
<b>Liabilities</b>		
Deposits from banks	2,533.6	3,262.8
Deposits from customers	7,265.2	11,876.8
Securities sold under agreements to purchase	727.8	1,464.8
Other liabilities	316.7	458.5
Senior term financing	2,302.6	2,431.5
Subordinated term financing	550.0	550.0
<b>Total liabilities</b>	<b>13,695.9</b>	<b>20,044.4</b>
<b>Total equity</b>	<b>1,846.2</b>	<b>1,925.5</b>
<b>Total liabilities &amp; equity</b>	<b>15,542.1</b>	<b>21,969.9</b>

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

	<b>Six months ended 30.6.09</b> US\$ millions	<b>Six months ended 31.6.08</b> US\$ millions
Net interest income	105.0	139.5
Fee and commission income	10.2	23.0
Net trading income / (loss)	9.9	(9.5)
Realised (losses) / profits on investment securities	(0.4)	9.9
Other income	0.4	8.7
<b>Total income</b>	<b>125.1</b>	<b>171.6</b>
Operating expenses	39.6	51.2
<b>Net income before provisions and tax</b>	<b>85.5</b>	<b>120.4</b>
Provisions for investment securities	41.2	(35.2)
Provisions for loans and advances	(151.6)	5.5
<b>Net (loss) / income before tax</b>	<b>(24.9)</b>	<b>90.7</b>
Taxation charge on overseas activities	(1.4)	(0.4)
<b>Net (loss) / income</b>	<b>(26.3)</b>	<b>90.3</b>