



GULF INTERNATIONAL BANK
THE GULF'S OWN MERCHANT BANK

Interim Consolidated Financial Statements

30th June 2008



GULF INTERNATIONAL BANK B.S.C.
2008 FIRST HALF
CONSOLIDATED FINANCIAL STATEMENTS



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Independent report on review of interim consolidated financial statements

The Directors
Gulf International Bank BSC
PO Box 1017
Manama
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20 July 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 June 2008, and the related condensed consolidated statements of income, changes in equity and cash flows for the six-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 30.6.08</u> US\$ millions	<u>At 31.12.07</u> US\$ millions
ASSETS			
Cash and other liquid assets		200.3	532.7
Due from brokers		-	243.3
Placements with banks		6,521.2	5,629.1
Trading securities		358.6	1,342.6
Available-for-sale securities	6	7,313.8	8,070.7
Loans and advances	7	13,161.1	12,601.8
Other assets		482.0	1,533.8
Total assets		<u>28,037.0</u>	<u>29,954.0</u>
LIABILITIES			
Deposits from banks		5,213.9	5,970.7
Deposits from customers		13,611.9	13,674.0
Securities sold under agreements to repurchase		3,965.8	4,141.5
Securities sold but not yet purchased		-	233.2
Other liabilities		424.2	511.5
Senior term financing		2,560.7	2,657.8
Subordinated term financing		550.0	550.0
Total liabilities		<u>26,326.5</u>	<u>27,738.7</u>
EQUITY			
Share capital		1,500.0	1,500.0
Proposed increase in share capital	8	1,000.0	1,000.0
Share premium		7.6	7.6
Reserves	9	(467.7)	109.6
Retained earnings		(329.4)	(401.9)
Total equity		<u>1,710.5</u>	<u>2,215.3</u>
Total liabilities & equity		<u>28,037.0</u>	<u>29,954.0</u>

The interim consolidated financial statements were approved on 20th July 2008 and signed on behalf of the Board of Directors 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		Six months ended	
		30.6.08 US\$ millions	30.6.07 US\$ millions	30.6.08 US\$ millions	30.6.07 US\$ millions
Interest income		297.3	364.2	650.7	704.5
Interest expense		222.5	285.6	502.3	555.8
Net interest income		74.8	78.6	148.4	148.7
Fee and commission income	3	21.6	24.8	41.4	41.8
Trading income / (loss)	4	2.8	6.5	(30.7)	19.3
Profits on available-for-sale securities		4.3	2.7	9.9	10.6
Other income	5	4.9	2.6	8.9	3.8
Total income		108.4	115.2	177.9	224.2
Staff expenses		26.8	27.6	55.0	55.2
Premises expenses		2.5	2.4	5.1	4.8
Other operating expenses		7.9	7.4	15.2	14.2
Total operating expenses		37.2	37.4	75.3	74.2
Net income before provisions and tax		71.2	77.8	102.6	150.0
Provisions for available-for-sale securities	6	25.2	1.6	35.2	1.4
Provisions for loans and advances	7	(4.9)	(3.7)	(5.5)	(4.9)
Net income before tax		50.9	79.9	72.9	153.5
Taxation charge on overseas activities		(1.1)	(1.4)	(0.4)	(3.2)
Net income		49.8	78.5	72.5	150.3
<i>Earnings per share</i>		<i>US\$0.03</i>	<i>US\$0.05</i>	<i>US\$0.05</i>	<i>US\$0.12</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

	Six months ended 30.6.08	Six months ended 30.6.07
	US\$ millions	US\$ millions
OPERATING ACTIVITIES		
Net income	72.5	150.3
Adjustments to reconcile net income to net cash inflow from operating activities:		
Provisions for securities	35.2	1.4
Provisions for loans and advances	(5.5)	(4.9)
Profit on available-for-sale securities	(9.9)	(10.6)
Amortisation of available-for-sale securities	1.1	0.8
Decrease in accrued interest receivable	129.8	59.9
Decrease in accrued interest payable	(195.6)	(12.8)
Decrease / (increase) in other net assets	60.4	(149.8)
Net decrease in trading securities	984.0	152.6
Net cash inflow from operating activities	1,072.0	186.9
INVESTING ACTIVITIES		
Net decrease in due from brokers	243.3	215.8
Net increase in placements with banks	(892.1)	(542.5)
Net increase in loans and advances	(553.8)	(2,522.8)
Purchase of available-for-sale securities	(350.0)	(820.9)
Sale and maturity of available-for-sale securities	472.6	743.7
Net cash outflow from investing activities	(1,080.0)	(2,926.7)
FINANCING ACTIVITIES		
Net (decrease) / increase in deposits from banks	(756.9)	349.5
Net (decrease) / increase in deposits from customers	(62.1)	1,860.3
Net decrease in securities sold under agreements to repurchase	(175.1)	(401.5)
Net decrease in securities sold but not yet purchased	(233.2)	(164.9)
Net (decrease) / increase in senior term financing	(97.1)	692.7
Increase in share capital	1,000.0	500.0
Dividend paid	-	(127.7)
Net cash (outflow) / inflow from financing activities	(324.4)	2,708.4
Decrease in cash and cash equivalents	(332.4)	(31.4)
Cash and cash equivalents at 1st January	532.7	268.2
Cash and cash equivalents at 30th June	200.3	236.8

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	-	-	-	(626.2)	-	(626.2)
- Cash flow hedges:						
net fair value losses	-	-	-	(2.3)	-	(2.3)
Transfers in the period:-						
- Transfers to statement of income	-	-	-	51.2	-	51.2
Net losses recognised directly in equity	-	-	-	(577.3)	-	(577.3)
Net income for the period	-	-	-	-	72.5	72.5
At 30th June 2008	1,500.0	1,000.0	7.6	(467.7)	(329.4)	1,710.5

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 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 six months ended 30th June 2008 have been prepared in compliance with International Accounting Standard 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 2007.

3. FEE & COMMISSION INCOME

	Three months ended		Six months ended	
	30.6.08	30.6.07	30.6.08	30.6.07
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Fee and commission income				
Investment banking and management fees	14.7	19.0	27.1	31.0
Commissions on letters of credit and guarantee	6.4	4.7	12.9	8.9
Loan commitment fees	0.7	1.2	1.8	2.2
Other fee and commission income	0.3	0.6	0.7	0.9
Total fee and commission income	22.1	25.5	42.5	43.0
Fee and commission expense	(0.5)	(0.7)	(1.1)	(1.2)
Net fee and commission income	21.6	24.8	41.4	41.8

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. TRADING INCOME / (LOSS)

	Three months ended		Six months ended	
	30.6.08	30.6.07	30.6.08	30.6.07
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange	3.5	1.5	6.4	5.1
Interest rate derivatives	0.1	0.9	0.7	0.3
Equity securities	0.2	(1.7)	(0.6)	(0.6)
Managed funds	(1.3)	9.8	(11.8)	14.0
Debt securities	0.3	(4.0)	(25.4)	0.5
	2.8	6.5	(30.7)	19.3

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.

The loss on debt securities during the six months ended 30th June 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 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. AVAILABLE-FOR-SALE SECURITIES

Provisions for impairment

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

	<u>2008</u>	<u>2007</u>
	US\$ millions	US\$ millions
At 1st January	985.0	63.9
Exchange rate movement	3.8	0.1
Amounts utilised	(3.2)	(0.1)
Charge for the period	35.2	1.4
	<hr/>	<hr/>
At 30th June	1,020.8	65.3

7. LOANS AND ADVANCES

	<u>30.6.08</u>	<u>31.12.07</u>
	US\$ millions	US\$ millions
Gross loans and advances	13,228.1	12,677.2
Provisions for impairment	(67.0)	(75.4)
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Net loans and advances	13,161.1	12,601.8

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)	(0.6)
Release for the period	(5.5)	(4.9)
	<hr/>	<hr/>
At 30th June	67.0	77.3

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 2008**

8. PROPOSED INCREASE IN 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 has been classified as a proposed increase in share capital pending the completion of the relevant legal formalities, following which it will be transferred to issued 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	169.2	106.7	1.1	(167.4)	109.6
Arising in the period:-					
- Available-for-sale securities: net fair value losses	-	-	-	(625.9)	(625.9)
- Cash flow hedges: net fair value gains	-	-	2.9	-	2.9
Transfers in the period:-					
- Transfers to statement of income	-	-	(2.6)	48.3	45.7
Net gains / (losses) recognised directly in equity	-	-	0.3	(577.6)	(577.3)
At 30th June 2008	169.2	106.7	1.4	(745.0)	(467.7)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 2008**

10. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

	Trading US\$ millions	30.6.08 Hedging US\$ millions	Total US\$ millions	31.12.07 Total US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	1,931.8	4,408.2	6,340.0	5,193.5
Options purchased	21.4	55.3	76.7	82.6
Options written	21.4	-	21.4	27.3
	1,974.6	4,463.5	6,438.1	5,303.4
Interest rate contracts:-				
Futures	-	-	-	162.4
Interest rate swaps and swaptions	2,676.5	4,549.4	7,225.9	6,851.3
Options, caps and floors purchased	24.3	-	24.3	24.3
Options, caps and floors written	24.3	-	24.3	1,255.8
	2,725.1	4,549.4	7,274.5	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	4,858.7	9,012.9	13,871.6	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 June 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\$0.1 million, US\$0.4 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

	30.6.08 US\$ millions	31.12.07 US\$ millions
Direct credit substitutes	352.4	2,269.2
Transaction-related contingent items	1,533.8	1,505.1
Short-term self-liquidating trade-related contingent items	881.8	588.9
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	2,261.8	2,898.7
	5,029.8	7,261.9

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 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 30.6.08</u> US\$ millions	<u>At 31.12.07</u> US\$ millions
Assets		
Cash and other liquid assets	105.4	505.5
Placements with banks	3,565.9	2,191.2
Trading securities	327.3	398.4
Available-for-sale securities	7,303.2	8,058.1
Investments in subsidiaries	248.2	250.6
Loans and advances	13,190.4	12,533.3
Other assets	432.2	1,452.9
Total assets	25,172.6	25,390.0
Liabilities		
Deposits from banks	5,167.7	5,924.2
Deposits from customers	10,814.1	9,473.5
Securities sold under agreements to purchase	3,965.8	4,112.8
Other liabilities	403.8	456.4
Senior term financing	2,560.7	2,657.8
Subordinated term financing	550.0	550.0
Total liabilities	23,462.1	23,174.7
Total equity	1,710.5	2,215.3
Total liabilities & equity	25,172.6	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>Six months ended 30.6.08</u> US\$ millions	<u>Six months ended 30.6.07</u> US\$ millions
Net interest income	139.5	136.0
Fee and commission income	23.0	22.1
Trading (loss) / income	(9.5)	16.1
Profits on available-for-sale securities	9.9	10.6
Dividend received from GIBUK	-	14.1
Other income	8.7	2.8
Total income	171.6	201.7
Total operating expenses	51.2	47.3
Net income before provisions and tax	120.4	154.4
Provisions for available-for-sale securities	35.2	1.5
Provisions for loans and advances	(5.5)	(4.9)
Net income before tax	90.7	157.8
Taxation charge on overseas activities	(0.4)	(1.3)
Net income	90.3	156.5