

GULF INTERNATIONAL BANK B.S.C.
2007 FIRST QUARTER
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
Kingdom of Bahrain

29 April 2007

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 31 March 2007, and the related condensed consolidated statements of income, changes in equity and cash flows for the three-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*.

KPMG
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Consolidated Balance Sheet

	<i>Note</i>	<u>At 31.3.07</u> US\$ millions	<u>At 31.12.06</u> US\$ millions
ASSETS			
Cash and other liquid assets		228.1	268.2
Due from brokers		749.5	950.9
Placements with banks		5,220.2	4,322.5
Trading securities		2,008.1	2,186.1
Available-for-sale securities	6	8,356.8	8,422.9
Loans and advances	7	9,049.5	8,145.0
Other assets		538.8	491.6
Total assets		<u>26,151.0</u>	<u>24,787.2</u>
LIABILITIES			
Deposits from banks		5,276.5	5,704.0
Deposits from customers		12,610.4	11,163.7
Securities sold under agreements to repurchase		2,294.1	2,219.6
Securities sold but not yet purchased		719.6	862.7
Other liabilities		590.3	563.5
Senior term financing		1,823.1	1,867.1
Subordinated term financing		550.0	550.0
Total liabilities		<u>23,864.0</u>	<u>22,930.6</u>
EQUITY			
Share capital		1,500.0	1,000.0
Share premium		7.6	7.6
Reserves	8	352.2	365.9
Retained earnings		427.2	483.1
Total equity		<u>2,287.0</u>	<u>1,856.6</u>
Total liabilities & equity		<u>26,151.0</u>	<u>24,787.2</u>

The interim consolidated financial statements were approved by the Board of Directors on 29th April 2007 and signed on their behalf by:-

Ebrahim Bin Khalifa Al Khalifa
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

		Three months ended 31.3.07	Three months ended 31.3.06
	<i>Note</i>	US\$ millions	US\$ millions
Interest income		340.3	223.7
Interest expense		270.2	167.9
Net interest income		70.1	55.8
Provisions for securities	6	(0.2)	1.4
Provisions for loans and advances	7	(1.2)	(0.4)
Net interest income after provisions		71.5	54.8
Fee and commission income	3	17.0	15.8
Trading income	4	12.8	22.7
Profits on available-for-sale securities		7.9	13.2
Other income	5	1.2	1.3
Total income		110.4	107.8
Staff expenses		27.6	20.2
Premises expenses		2.4	2.0
Other operating expenses		6.8	8.3
Operating expenses		36.8	30.5
Net income before tax		73.6	77.3
Taxation charge on overseas activities		1.8	1.8
Net income after tax		71.8	75.5
<i>Earnings per share</i>		<i>US\$0.07</i>	<i>US\$0.08</i>

Ebrahim Bin Khalifa Al Khalifa
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

	Three months ended 31.3.07	Three months ended 31.3.06
	US\$ millions	US\$ millions
OPERATING ACTIVITIES		
Net income	71.8	75.5
Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:		
Provisions for securities	(0.2)	1.4
Provisions for loans and advances	(1.2)	(0.4)
Profit on available-for-sale securities	(7.9)	(13.2)
Amortisation of available-for-sale securities	0.3	0.6
Increase in accrued interest receivable	0.3	4.6
Decrease in accrued interest payable	(10.9)	(9.3)
(Decrease) / increase in other net assets	(2.9)	26.5
Net decrease / (increase) in trading securities	178.0	(284.2)
Net cash inflow / (outflow) from operating activities	227.3	(198.5)
INVESTING ACTIVITIES		
Net decrease / (increase) in due from brokers	201.4	(29.8)
Net increase in placements with banks	(897.7)	(2,429.4)
Net increase in loans and advances	(903.3)	(580.2)
Purchase of available-for-sale securities	(307.9)	(377.0)
Sale and maturity of available-for-sale securities	361.2	406.7
Net cash outflow from investing activities	(1,546.3)	(3,009.7)
FINANCING ACTIVITIES		
Net (decrease) / increase in deposits from banks	(427.5)	949.8
Net increase in deposits from customers	1,446.7	2,430.7
Net increase in securities sold under agreements to repurchase	74.5	91.2
Net (decrease) / increase in securities sold but not yet purchased	(143.1)	21.5
Net decrease in term financing	(44.0)	(21.0)
Increase in share capital	500.0	-
Dividend paid	(127.7)	(101.5)
Net cash inflow from financing activities	1,278.9	3,370.7
(Decrease) / increase in cash and cash equivalents	(40.1)	162.5
Cash and cash equivalents at 1st January	268.2	345.4
Cash and cash equivalents at 31st March	228.1	507.9

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

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Reserves	Retained earnings	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2006	1,000.0	7.6	334.6	376.1	1,718.3
Arising in the year:-					
- Available-for-sale securities:					
net fair value gains	-	-	0.7	-	0.7
- Cash flow hedges:					
net fair value losses	-	-	(2.0)	-	(2.0)
Transfers in the year:-					
- Transfers to net income	-	-	(14.4)	-	(14.4)
Net losses recognised directly in equity	-	-	(15.7)	-	(15.7)
Dividend for 2005	-	-	-	(101.5)	(101.5)
Net income for the year	-	-	-	255.5	255.5
Transfers from retained earnings	-	-	47.0	(47.0)	-
At 31st December 2006	1,000.0	7.6	365.9	483.1	1,856.6
Arising in the period:-					
- Available-for-sale securities:					
net fair value losses	-	-	(10.4)	-	(10.4)
Transfers in the period:-					
- Transfers to net income	-	-	(3.3)	-	(3.3)
Net losses recognised directly in equity	-	-	(13.7)	-	(13.7)
Share issue	500.0	-	-	-	500.0
Dividend for 2006	-	-	-	(127.7)	(127.7)
Net income for the period	-	-	-	71.8	71.8
At 31st March 2007	1,500.0	7.6	352.2	427.2	2,287.0

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2007**
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 2007 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 2006.

3. FEE & COMMISSION INCOME

	Three months ended	Three months ended
	31.3.07	31.3.06
	US\$ millions	US\$ millions
Fee and commission income		
Investment banking and management fees	11.6	11.0
Commissions on letters of credit and guarantee	4.2	3.7
Loan commitment fees	1.0	0.9
Other fee and commission income	0.7	0.6
Total fee and commission income	17.5	16.2
Fee and commission expense	(0.5)	(0.4)
Net fee and commission income	17.0	15.8

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

	Three months ended	Three months ended
	31.3.07	31.3.06
	US\$ millions	US\$ millions
Foreign exchange	3.6	2.6
Debt securities	4.5	11.0
Equity securities	1.1	0.7
Interest rate derivatives	(0.6)	0.6
Managed funds	4.2	7.8
	12.8	22.7

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.

Equity securities includes equities, equity convertibles, and contracts for differences.

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2007**

5. OTHER INCOME

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

6. AVAILABLE-FOR-SALE SECURITIES

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

	<u>2007</u> US\$ millions	<u>2006</u> US\$ millions
At 1st January	63.9	71.6
Exchange rate movement	-	0.2
Amounts utilised	-	(5.4)
(Release) / charge for the period	(0.2)	1.4
At 31st March	63.7	67.8

7. LOANS AND ADVANCES

	<u>31.3.07</u> US\$ millions	<u>31.12.06</u> US\$ millions
Gross loans and advances	9,131.2	8,228.0
Provisions for impairment	(81.7)	(83.0)
Net loans and advances	9,049.5	8,145.0

a) Provision for impairment

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

	<u>2007</u> US\$ millions	<u>2006</u> US\$ millions
At 1st January	83.0	104.9
Exchange rate movement	(0.1)	(0.1)
Amounts utilised	-	(14.6)
Release for the period	(1.2)	(0.4)
At 31st March	81.7	89.8

At 31st March 2007 there was no accrued but uncollected interest on impaired loans included in interest income (31st December 2006: nil).

b) Past due loans

The gross and net book values of loans for which either principal or interest were over 90 days past due were as follows:-

	<u>31.3.07</u>		<u>31.12.06</u>	
	Gross US\$ millions	Net book value US\$ millions	Gross US\$ millions	Net book value US\$ millions
Corporate	8.2	0.2	8.4	0.3
Financial institution	9.7	-	10.3	-
	17.9	0.2	18.7	0.3

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2007

8. RESERVES

	<u>Compulsory reserve</u> US\$ millions	<u>Voluntary reserve</u> US\$ millions	<u>Cash flow hedge reserve</u> US\$ millions	<u>Available-for- sale securities revaluation reserve</u> US\$ millions	<u>Total</u> US\$ millions
At 1st January 2006	145.7	83.2	(1.8)	107.5	334.6
Arising in the year:-					
- Available-for-sale securities net fair value gains	-	-	-	0.7	0.7
- Cash flow hedges: net fair value losses	-	-	(2.0)	-	(2.0)
Transfers in the year:-					
- Transfers to net income	-	-	2.6	(17.0)	(14.4)
Net gains / (losses) recognised directly in equity	-	-	0.6	(16.3)	(15.7)
Transfers from retained earnings	23.5	23.5	-	-	47.0
At 31st December 2006	169.2	106.7	(1.2)	91.2	365.9
Arising in the period:-					
- Available-for-sale securities: net fair value losses	-	-	-	(10.4)	(10.4)
Transfers in the period:-					
- Transfers to net income	-	-	0.6	(3.9)	(3.3)
Net gains / (losses) recognised directly in equity	-	-	0.6	(14.3)	(13.7)
At 31st March 2007	169.2	106.7	(0.6)	76.9	352.2

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2007

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

	Trading	31.3.07 Hedging	Total	31.12.06 Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	2,378.6	2,042.2	4,420.8	5,212.4
Options purchased	74.4	-	74.4	169.4
Options written	74.4	-	74.4	169.4
	2,527.4	2,042.2	4,569.6	5,551.2
Interest rate contracts:-				
Futures	1,066.0	-	1,066.0	3,893.5
Interest rate swaps and swaptions	2,118.7	4,822.6	6,941.3	7,250.0
Options, caps and floors purchased	4,827.1	13.3	4,840.4	3,796.3
Options, caps and floors written	6,060.4	-	6,060.4	5,122.4
	14,072.2	4,835.9	18,908.1	20,062.2
Equity contracts:-				
Contracts for differences	0.5	-	0.5	1.7
Credit contracts:-				
Protection bought	514.7	-	514.7	391.1
Total	17,114.8	6,878.1	23,992.9	26,006.2

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 31st March 2007 the Value-at-Risk of the foreign exchange, interest rate, equity and credit derivative trading contracts analysed in the table above was US\$1.1 million, US\$1.0 million, nil, and US\$2.0 million respectively (31st December 2006: US\$0.5 million, US\$0.5 million, nil and US\$0.6 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.

10. CREDIT-RELATED FINANCIAL INSTRUMENTS

	31.3.07	31.12.06
	US\$ millions	US\$ millions
Direct credit substitutes	322.4	398.7
Transaction-related contingent items	1,027.2	969.5
Short-term self-liquidating trade-related contingent items	560.8	409.2
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	2,262.1	2,317.1
	4,172.5	4,094.5

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31st March 2007

11. PARENT COMPANY

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

a) Condensed Balance Sheet

	<u>At 31.3.07</u> US\$ millions	<u>At 31.12.06</u> US\$ millions
Assets		
Cash and other liquid assets	171.5	178.3
Placements with banks	2,512.4	2,445.3
Trading securities	375.9	377.1
Available-for-sale securities	8,337.4	8,402.4
Investment in GIBUK	338.0	346.6
Loans and advances	9,049.5	8,144.9
Fixed & other assets	398.0	397.2
Total assets	21,182.7	20,291.8
Liabilities		
Deposits from banks	5,218.5	5,611.4
Deposits from customers	8,855.4	7,928.1
Securities sold under agreements to purchase	2,061.2	2,056.1
Other liabilities	387.5	422.3
Senior term financing	1,823.1	1,867.1
Subordinated term financing	550.0	550.0
Total liabilities	18,895.7	18,435.0
Total equity	2,287.0	1,856.8
Total liabilities & equity	21,182.7	20,291.8

The investment in GIBUK is accounted for at fair value. Gains and losses arising from changes in the fair value of the investment are accounted for in equity.

b) Condensed Statement of Income

	<u>Three months ended</u> <u>31.3.07</u> US\$ millions	<u>Three months ended</u> <u>31.3.06</u> US\$ millions
Net interest income	63.8	50.5
Provisions for securities	(0.1)	2.0
Provisions for loans and advances	(1.2)	(0.4)
Net interest income after provisions	65.1	48.9
Fee and commission income	8.9	9.6
Profits on available-for-sale securities	7.9	13.1
Trading income	5.8	9.8
Dividend received from GIBUK	14.1	6.4
Other income	0.6	0.9
Total income	102.4	88.7
Operating expenses	23.1	15.8
Net income before tax	79.3	72.9
Taxation (credit) / charge on overseas activities	(0.1)	1.8
Net income after tax	79.4	71.1