

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

11 July 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 30 June 2007, 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 30.6.07</u> US\$ millions	<u>At 31.12.06</u> US\$ millions
ASSETS			
Cash and other liquid assets		236.8	268.2
Due from brokers		735.1	950.9
Placements with banks		4,865.0	4,322.5
Trading securities		2,033.5	2,186.1
Available-for-sale securities	6	8,396.2	8,422.9
Loans and advances	7	10,672.8	8,145.0
Other assets		621.3	491.6
Total assets		<u>27,560.7</u>	<u>24,787.2</u>
LIABILITIES			
Deposits from banks		6,053.5	5,704.0
Deposits from customers		13,024.0	11,163.7
Securities sold under agreements to repurchase		1,818.1	2,219.6
Securities sold but not yet purchased		697.8	862.7
Other liabilities		550.2	563.5
Senior term financing		2,559.8	1,867.1
Subordinated term financing		550.0	550.0
Total liabilities		<u>25,253.4</u>	<u>22,930.6</u>
EQUITY			
Share capital		1,500.0	1,000.0
Share premium		7.6	7.6
Reserves	8	294.0	365.9
Retained earnings		505.7	483.1
Total equity		<u>2,307.3</u>	<u>1,856.6</u>
Total liabilities & equity		<u>27,560.7</u>	<u>24,787.2</u>

The interim consolidated financial statements were approved by the Board of Directors on 11th July 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

	<i>Note</i>	Three months ended		Six months ended	
		30.6.07	30.6.06	30.6.07	30.6.06
		US\$ millions	US\$ millions	US\$ millions	US\$ millions
Interest income		364.2	348.3	704.5	572.0
Interest expense		285.6	285.0	555.8	452.9
Net interest income		78.6	63.3	148.7	119.1
Provisions for securities	6	1.6	(0.6)	1.4	0.8
Provisions for loans and advances	7	(3.7)	(1.9)	(4.9)	(2.3)
Net interest income after provisions		80.7	65.8	152.2	120.6
Fee and commission income	3	24.8	14.0	41.8	29.8
Trading income	4	6.5	0.7	19.3	23.4
Profits on available-for-sale securities		2.7	11.1	10.6	24.3
Other income	5	2.6	1.6	3.8	2.9
Total income		117.3	93.2	227.7	201.0
Staff expenses		27.6	24.7	55.2	44.9
Premises expenses		2.4	1.9	4.8	3.9
Other operating expenses		7.4	8.4	14.2	16.7
Operating expenses		37.4	35.0	74.2	65.5
Net income before tax		79.9	58.2	153.5	135.5
Taxation charge on overseas activities		1.4	2.1	3.2	3.9
Net income after tax		78.5	56.1	150.3	131.6
<i>Earnings per share</i>		<i>US\$0.05</i>	<i>US\$0.06</i>	<i>US\$0.12</i>	<i>US\$0.13</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

	Six months ended 30.6.07	Six months ended 30.6.06
	US\$ millions	US\$ millions
OPERATING ACTIVITIES		
Net income	150.3	131.6
Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:		
Provisions for securities	1.4	0.8
Provisions for loans and advances	(4.9)	(2.3)
Profit on available-for-sale securities	(10.6)	(24.3)
Amortisation of available-for-sale securities	0.8	1.5
Decrease / (increase) in accrued interest receivable	59.9	(10.6)
Decrease in accrued interest payable	(12.8)	(12.9)
(Decrease) / increase in other net assets	(149.8)	70.0
Net decrease / (increase) in trading securities	152.6	(278.7)
Net cash inflow / (outflow) from operating activities	186.9	(124.9)
INVESTING ACTIVITIES		
Net decrease / (increase) in due from brokers	215.8	(517.0)
Net (increase) / decrease in placements with banks	(542.5)	1,086.7
Net increase in loans and advances	(2,522.8)	(1,460.8)
Purchase of available-for-sale securities	(820.9)	(803.0)
Sale and maturity of available-for-sale securities	743.7	625.6
Net cash outflow from investing activities	(2,926.7)	(1,068.5)
FINANCING ACTIVITIES		
Net increase in deposits from banks	349.5	425.3
Net increase in deposits from customers	1,860.3	2,445.9
Net decrease in securities sold under agreements to repurchase	(401.5)	(980.4)
Net (decrease) / increase in securities sold but not yet purchased	(164.9)	138.7
Net increase / (decrease) in senior term financing	692.7	(82.4)
Net decrease in subordinated term financing	-	(100.0)
Increase in share capital	500.0	-
Dividend paid	(127.7)	(101.5)
Net cash inflow from financing activities	2,708.4	1,745.6
(Decrease) / increase in cash and cash equivalents	(31.4)	552.2
Cash and cash equivalents at 1st January	268.2	345.4
Cash and cash equivalents at 30th June	236.8	897.6

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	-	-	(67.0)	-	(67.0)
Transfers in the period:-					
- Transfers to net income	-	-	(4.9)	-	(4.9)
Net losses recognised directly in equity	-	-	(71.9)	-	(71.9)
Share issue	500.0	-	-	-	500.0
Dividend for 2006	-	-	-	(127.7)	(127.7)
Net income for the period	-	-	-	150.3	150.3
At 30th June 2007	1,500.0	7.6	294.0	505.7	2,307.3

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 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 six months ended 30th June 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		Six months ended	
	30.6.07	30.6.06	30.6.07	30.6.06
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Fee and commission income				
Investment banking and management fees	18.6	8.3	30.2	19.3
Commissions on letters of credit and guarantee	4.7	4.1	8.9	7.8
Loan commitment fees	1.2	1.3	2.2	2.2
Other fee and commission income	1.0	1.1	1.7	1.7
Total fee and commission income	25.5	14.8	43.0	31.0
Fee and commission expense	(0.7)	(0.8)	(1.2)	(1.2)
Net fee and commission income	24.8	14.0	41.8	29.8

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		Six months ended	
	30.6.07	30.6.06	30.6.07	30.6.06
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Managed funds	9.8	(6.0)	14.0	1.8
Foreign exchange	1.5	2.0	5.1	4.6
Debt securities	(4.0)	6.4	0.5	17.4
Interest rate derivatives	0.9	(0.8)	0.3	(0.2)
Equity securities	(1.7)	(0.9)	(0.6)	(0.2)
	6.5	0.7	19.3	23.4

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.

Debt securities includes debt instruments, credit derivatives, and fund products managed by the Group.

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 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>	<u>2006</u>
	US\$ millions	US\$ millions
At 1st January	63.9	71.6
Exchange rate movement	0.1	0.8
Amounts utilised	(0.1)	(5.4)
Charge for the period	1.4	0.8
At 30th June	65.3	67.8

7. LOANS AND ADVANCES

	<u>30.6.07</u>	<u>31.12.06</u>
	US\$ millions	US\$ millions
Gross loans and advances	10,750.1	8,228.0
Provisions for impairment	(77.3)	(83.0)
Net loans and advances	10,672.8	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>	<u>2006</u>
	US\$ millions	US\$ millions
At 1st January	83.0	104.9
Exchange rate movement	(0.2)	0.4
Amounts utilised	(0.6)	(14.6)
Release for the period	(4.9)	(2.3)
At 30th June	77.3	88.4

At 30th June 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>30.6.07</u>		<u>31.12.06</u>	
	Gross	Net book value	Gross	Net book value
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Corporate	7.8	-	8.4	0.3
Financial institution	7.4	-	10.3	-
	15.2	-	18.7	0.3

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 2007
8. 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 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	-	-	-	(67.0)	(67.0)
Transfers in the period:-					
- Transfers to net income	-	-	0.6	(5.5)	(4.9)
Net gains / (losses) recognised directly in equity	-	-	0.6	(72.5)	(71.9)
At 30th June 2007	169.2	106.7	(0.6)	18.7	294.0

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 2007

9. DERIVATIVES AND FOREIGN EXCHANGE INSTRUMENTS

	<u>Trading</u> US\$ millions	<u>30.6.07 Hedging</u> US\$ millions	<u>Total</u> US\$ millions	<u>31.12.06 Total</u> US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	2,179.5	1,956.8	4,136.3	5,212.4
Options purchased	169.3	-	169.3	169.4
Options written	164.4	-	164.4	169.4
	<u>2,513.2</u>	<u>1,956.8</u>	<u>4,470.0</u>	<u>5,551.2</u>
Interest rate contracts:-				
Futures	270.7	-	270.7	3,893.5
Interest rate swaps and swaptions	1,968.9	4,742.0	6,710.9	7,250.0
Options, caps and floors purchased	24.3	13.5	37.8	3,796.3
Options, caps and floors written	37.8	-	37.8	5,122.4
	<u>2,301.7</u>	<u>4,755.5</u>	<u>7,057.2</u>	<u>20,062.2</u>
Credit contracts:-				
Protection bought	536.1	-	536.1	391.1
Protection sold	382.4	-	382.4	390.1
	<u>918.5</u>	<u>-</u>	<u>918.5</u>	<u>781.2</u>
Equity contracts:-				
Contracts for differences	3.9	-	3.9	1.7
Total	<u>5,737.3</u>	<u>6,712.3</u>	<u>12,449.6</u>	<u>26,396.3</u>

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 2007 the Value-at-Risk of the foreign exchange, interest rate, credit and equity derivative trading contracts analysed in the table above was US\$1.5 million, US\$0.4 million, US\$2.0 million and US\$0.1 million respectively (31st December 2006: US\$0.5 million, US\$0.5 million, US\$0.6 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

10. CREDIT-RELATED FINANCIAL INSTRUMENTS

	<u>30.6.07</u> US\$ millions	<u>31.12.06</u> US\$ millions
Direct credit substitutes	373.7	200.6
Transaction-related contingent items	1,199.3	969.5
Short-term self-liquidating trade-related contingent items	508.8	409.2
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	3,500.3	2,317.1
	<u>5,582.1</u>	<u>3,896.4</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30th June 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 30.6.07</u> US\$ millions	<u>At 31.12.06</u> US\$ millions
Assets		
Cash and other liquid assets	218.8	178.3
Placements with banks	2,009.5	2,445.3
Trading securities	430.7	377.1
Available-for-sale securities	8,377.3	8,402.4
Investment in GIBUK	338.8	346.6
Loans and advances	10,672.8	8,144.9
Other assets	418.4	397.2
Total assets	22,466.3	20,291.8
Liabilities		
Deposits from banks	5,998.4	5,611.4
Deposits from customers	8,988.4	7,928.1
Securities sold under agreements to purchase	1,705.1	2,056.1
Other liabilities	357.3	422.3
Senior term financing	2,559.8	1,867.1
Subordinated term financing	550.0	550.0
Total liabilities	20,159.0	18,435.0
Total equity	2,307.3	1,856.8
Total liabilities & equity	22,466.3	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>Six months ended 30.6.07</u> US\$ millions	<u>Six months ended 30.6.06</u> US\$ millions
Net interest income	136.0	108.1
Provisions for securities	1.5	2.0
Provisions for loans and advances	(4.9)	(2.3)
Net interest income after provisions	139.4	108.4
Fee and commission income	22.1	17.4
Trading income	16.1	4.7
Profits on available-for-sale securities	10.6	24.1
Dividend received from GIBUK	14.1	6.4
Other income	2.8	1.8
Total income	205.1	162.8
Operating expenses	47.3	37.6
Net income before tax	157.8	125.2
Taxation charge on overseas activities	1.3	3.8
Net income after tax	156.5	121.4