



**Gulf International Bank B.S.C.**

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**For the nine months ended 30<sup>th</sup> September 2013**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the nine months ended 30<sup>th</sup> September 2013**Table of contents****Independent auditors' review report to the Board of Directors**

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## **Independent auditors' report on review of condensed consolidated interim financial information**

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

18 October 2013

### **Introduction**

We have reviewed the accompanying 30 September 2013 condensed consolidated interim financial information of Gulf International Bank BSC (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2013;
- the condensed consolidated income statements for the three month and nine month periods ended 30 September 2013;
- the condensed consolidated statements of comprehensive income for the three month and nine month periods ended 30 September 2013;
- the condensed consolidated statements of changes in equity for the nine month period ended 30 September 2013;
- the condensed consolidated statements of cash flows for the nine month period ended 30 September 2013; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information 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 30 September 2013 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

## Consolidated statement of financial position

	<i>Note</i>	<u>30.9.13</u> US\$ millions	<u>31.12.12</u> US\$ millions
<b>ASSETS</b>			
Cash and other liquid assets		1,185.5	1,107.4
Securities purchased under agreements to resell		1,890.4	1,010.8
Placements		4,960.1	4,479.7
Trading securities		79.6	100.5
Investment securities	7	3,734.2	3,560.1
Loans and advances	8	8,384.8	7,110.3
Other assets		381.3	336.0
<b>Total assets</b>		<u>20,615.9</u>	<u>17,704.8</u>
<b>LIABILITIES</b>			
Deposits from banks		1,637.3	2,222.4
Deposits from customers		12,759.5	9,471.9
Securities sold under agreements to repurchase		804.5	597.7
Other liabilities		361.1	372.1
Senior term financing		2,332.9	2,432.7
Subordinated term financing		477.8	477.8
<b>Total liabilities</b>		<u>18,373.1</u>	<u>15,574.6</u>
<b>EQUITY</b>			
Share capital		2,500.0	2,500.0
Reserves	9	359.7	328.2
Retained earnings		(616.9)	(698.0)
<b>Total equity</b>		<u>2,242.8</u>	<u>2,130.2</u>
<b>Total liabilities &amp; equity</b>		<u>20,615.9</u>	<u>17,704.8</u>

The condensed interim consolidated financial statements were approved by the Board of Directors on 18<sup>th</sup> October 2013 and signed on its behalf by:-

**Jammaz bin Abdullah Al-Suhaimi**  
Chairman

**Abdullah bin Hassan Alabdulgader**  
Chairman of Board Audit Committee

**Yahya bin Abdullah Alyahya**  
Chief Executive Officer

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

## Consolidated statement of income

	Note	Three months ended		Nine months ended	
		30.9.13 US\$ millions	30.9.12 US\$ millions	30.9.13 US\$ millions	30.9.12 US\$ millions
Interest income		78.3	76.6	223.2	218.6
Interest expense		34.8	35.3	103.5	109.8
Net interest income		43.5	41.3	119.7	108.8
Fee and commission income	3	17.5	13.1	45.7	40.7
Foreign exchange income	4	3.5	9.1	15.2	20.0
Trading income	5	(1.1)	6.2	6.6	11.4
Other income	6	18.2	3.9	24.0	12.5
<b>Total income</b>		<b>81.6</b>	<b>73.6</b>	<b>211.2</b>	<b>193.4</b>
Staff expenses		25.1	22.5	72.6	64.7
Premises expenses		3.4	2.6	9.4	7.6
Other operating expenses		9.0	8.1	24.4	23.4
<b>Total operating expenses</b>		<b>37.5</b>	<b>33.2</b>	<b>106.4</b>	<b>95.7</b>
<b>Net income before provisions and tax</b>		<b>44.1</b>	<b>40.4</b>	<b>104.8</b>	<b>97.7</b>
Provision release for investment securities	7	-	-	-	11.3
Provision (charge) / release for loans and advances	8	(3.0)	0.4	(0.9)	(9.3)
<b>Net income before tax</b>		<b>41.1</b>	<b>40.8</b>	<b>103.9</b>	<b>99.7</b>
Taxation charge on overseas activities		(0.2)	(1.8)	(2.4)	(2.7)
<b>Net income</b>		<b>40.9</b>	<b>39.0</b>	<b>101.5</b>	<b>97.0</b>
<i>Earnings per share</i>	14	<i>US\$0.02</i>	<i>US\$0.02</i>	<i>US\$0.04</i>	<i>US\$0.04</i>

Jammaz bin Abdullah Al-Suhaimi  
Chairman

Abdullah bin Hassan Alabdulgader  
Chairman of Board Audit Committee

Yahya bin Abdullah Alyahya  
Chief Executive Officer

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

## Consolidated statement of comprehensive income

	Three months ended		Nine months ended	
	30.9.13 US\$ millions	30.9.12 US\$ millions	30.9.13 US\$ millions	30.9.12 US\$ millions
<b>Net income</b>	<b>40.9</b>	39.0	<b>101.5</b>	97.0
<b>Other comprehensive income:-</b>				
<b>Items that may subsequently be reclassified to consolidated statement of income:</b>				
Cash flow hedges:				
- net changes in fair value	0.2	(0.1)	0.2	0.1
- net amount transferred to consolidated statement of income	-	(0.3)	(1.4)	(1.5)
	<u>0.2</u>	<u>(0.4)</u>	<u>(1.2)</u>	<u>(1.4)</u>
<b>Items that will not be reclassified to consolidated statement of income:</b>				
Investment securities:				
- net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	11.5	(2.0)	32.7	(7.8)
- realised gains / (losses) on equity investments classified as fair value through other comprehensive income	(0.1)	0.1	0.4	(0.1)
- remeasurement of defined benefit pension fund	(0.7)	-	1.7	-
	<u>10.7</u>	<u>(1.9)</u>	<u>34.8</u>	<u>(7.9)</u>
<b>Total other comprehensive income</b>	<u>10.9</u>	<u>(2.3)</u>	<u>33.6</u>	<u>(9.3)</u>
<b>Total comprehensive income</b>	<u>51.8</u>	<u>36.7</u>	<u>135.1</u>	<u>87.7</u>

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

## Consolidated statement of changes in equity

	<i>Note</i>	<b>Share capital</b> US\$ millions	<b>Reserves</b> US\$ millions	<b>Retained earnings</b> US\$ millions	<b>Total</b> US\$ millions
<b>At 1<sup>st</sup> January 2013</b>		<b>2,500.0</b>	<b>328.2</b>	<b>(698.0)</b>	<b>2,130.2</b>
Transition adjustment on adoption of IAS 19	2	-	-	(22.5)	(22.5)
<b>At 1<sup>st</sup> January 2013 - restated</b>		<b>2,500.0</b>	<b>328.2</b>	<b>(720.5)</b>	<b>2,107.7</b>
Net income for the period		-	-	101.5	101.5
Other comprehensive income for the period		-	31.5	2.1	33.6
Total comprehensive income for the period		-	31.5	103.6	135.1
<b>At 30<sup>th</sup> September 2013</b>		<b>2,500.0</b>	<b>359.7</b>	<b>(616.9)</b>	<b>2,242.8</b>
<b>At 1<sup>st</sup> January 2012</b>		<b>2,500.0</b>	<b>324.4</b>	<b>(798.0)</b>	<b>2,026.4</b>
Net income for the period		-	-	97.0	97.0
Other comprehensive income for the period		-	(9.2)	(0.1)	(9.3)
Total comprehensive income for the period		-	(9.2)	96.9	87.7
<b>At 30<sup>th</sup> September 2012</b>		<b>2,500.0</b>	<b>315.2</b>	<b>(701.1)</b>	<b>2,114.1</b>

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.

## Consolidated statement of cash flows

	Nine months ended 30.9.13 US\$ millions	Nine months ended 30.9.12 US\$ millions
<b>OPERATING ACTIVITIES</b>		
Net income	101.5	97.0
Adjustments to reconcile net income to net cash inflow from operating activities:		
Provisions for investment securities	-	(11.3)
Provisions for loans and advances	0.9	9.3
Realised profits on debt investment securities	(0.2)	(0.4)
Amortisation of investment securities	14.8	16.1
Amortisation of senior term financing	0.2	-
Net increase in statutory deposits with central banks	(39.2)	(28.8)
Net increase in securities purchased under agreements to resell	(879.6)	(131.0)
Net increase in placements	(480.4)	(513.8)
Net decrease / (increase) in trading securities	20.9	(14.5)
Net increase in loans and advances	(1,275.4)	(47.0)
Decrease / (Increase) in accrued interest receivable	5.6	(14.8)
(Decrease) / Increase in accrued interest payable	(2.4)	6.1
Net (increase) / decrease in other net assets	(56.9)	29.8
Net (decrease) / increase in deposits from banks	(585.1)	973.5
Net increase in deposits from customers	3,287.6	1,053.5
<b>Net cash inflow from operating activities</b>	<b>112.3</b>	<b>1,423.7</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities	(574.5)	(1,114.2)
Sale and maturity of investment securities	394.3	894.8
<b>Net cash outflow from investing activities</b>	<b>(180.2)</b>	<b>(219.4)</b>
<b>FINANCING ACTIVITIES</b>		
Net increase in securities sold under agreements to repurchase	206.8	84.0
Net decrease in senior term financing	(100.0)	(1,223.5)
<b>Net cash inflow / (outflow) from financing activities</b>	<b>106.8</b>	<b>(1,139.5)</b>
<b>Increase in cash and cash equivalents</b>	<b>38.9</b>	<b>64.8</b>
<b>Cash and cash equivalents at 1<sup>st</sup> January</b>	<b>1,030.7</b>	<b>814.2</b>
<b>Cash and cash equivalents at 30<sup>th</sup> September</b>	<b>1,069.6</b>	<b>879.0</b>

The notes on pages 6 to 13 form part of these condensed interim consolidated financial statements.



**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the nine months ended 30<sup>th</sup> September 2013

**1. Incorporation and registration**

The parent company of 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 24<sup>th</sup> 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 Bank and its subsidiaries (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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The condensed interim consolidated financial statements for the nine months ended 30<sup>th</sup> September 2013 have been prepared in compliance with International Accounting Standard (IAS) No. 34: Interim Financial Reporting. The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, as set out in the consolidated financial statements for the year ended 31<sup>st</sup> December 2012, except for the adoption of applicable new accounting standards with effect from 1<sup>st</sup> January 2013 as referred to below.

**IAS 19 - Employee Benefits (revised)**

The Group adopted the revisions to IAS 19 on 1<sup>st</sup> January 2013. The most significant amendment relates to the accounting for changes in defined benefit pension plan obligations and assets. IAS 19 (revised) requires the recognition of changes in defined benefit pension plan obligations and in the fair value of plan assets when they occur, and hence eliminates the corridor approach permitted previously and accelerates the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension plan asset or liability to reflect the full value of the plan surplus or deficit.

The new accounting policy has been applied to the opening balances of the current period. The transition impact of adopting IAS 19 (revised) on the opening balances at 1<sup>st</sup> January 2013 was to reduce the pension plan deferred asset by US\$19.2 million and to recognise an expected future obligation to the pension plan of US\$3.3 million, resulting in an overall reduction in retained earnings of US\$22.5 million.

The revisions to IAS 19 have an immaterial impact on the comparative numbers presented in the Group's condensed interim consolidated financial statements and have therefore not been applied retrospectively to periods before 1<sup>st</sup> January 2013.

**IFRS 10 - Consolidated Financial Statements**

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. IFRS 10 has been applied retrospectively and has had no impact on the Group's condensed interim consolidated financial statements.

**IFRS 12 - Disclosure of Interests in Other Entities**

IFRS 12 brings together into a single standard all the disclosure requirements relating to an entity's interests in subsidiaries and other entities. IFRS 12 has been applied prospectively and has had no impact on the Group's condensed interim consolidated financial statements.

**IFRS 13 - Fair Value Measurement**

IFRS 13 provides a single source of guidance on how fair value is measured. The adoption of IFRS 13 has resulted in the Group providing fair value disclosures for its financial instruments measured at fair value in these condensed interim consolidated financial statements. The required disclosures have been included in note 12.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the nine months ended 30<sup>th</sup> September 2013

**3. Fee and commission income**

	Three months ended		Nine months ended	
	30.9.13	30.9.12	30.9.13	30.9.12
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
<b>Fee and commission income</b>				
Commissions on letters of credit and guarantee	8.4	6.5	23.3	21.9
Investment banking and management fees	8.3	5.7	19.5	17.0
Other fee and commission income	1.2	1.3	4.0	2.9
Total fee and commission income	17.9	13.5	46.8	41.8
<b>Fee and commission expense</b>	(0.4)	(0.4)	(1.1)	(1.1)
<b>Net fee and commission income</b>	17.5	13.1	45.7	40.7

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, initial public offerings, and mergers and acquisitions.

Fee and commission expense principally comprises security custody fees.

**4. Foreign exchange income**

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

**5. Trading income**

	Three months ended		Nine months ended	
	30.9.13	30.9.12	30.9.13	30.9.12
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Managed funds	0.5	1.0	7.7	2.7
Equity securities	-	-	0.9	-
Interest rate derivatives	0.1	0.3	0.2	0.8
Debt securities	(1.7)	4.9	(2.2)	7.9
	(1.1)	6.2	6.6	11.4

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.

Income on managed funds included an amount of US\$5.9 million in relation to a recovery of an underlying investment in a fund managed by the Group. The amount was written off in a previous year.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
For the nine months ended 30<sup>th</sup> September 2013

6. Other income

	Three months ended		Nine months ended	
	30.9.13	30.9.12	30.9.13	30.9.12
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Recoveries on previously written off assets	15.1	-	15.5	1.4
Dividends on equity investments classified as FVTOCI	3.1	3.7	8.3	8.5
Net realised profits on investment debt securities	-	0.2	0.2	0.4
Recognition of dividend income arising on the adoption of IFRS 9	-	-	-	2.2
	<b>18.2</b>	<b>3.9</b>	<b>24.0</b>	<b>12.5</b>

Recoveries on previously written off assets principally comprised a US\$15.0 million recovery arising on the liquidation of a structured investment vehicle that was written off in 2007.

7. Investment securities

a) Composition

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:-

	30.9.13		31.12.12	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	2,918.7	85.4	2,901.3	88.7
BBB+ to BBB- / Baa1 to Baa3	455.9	13.3	349.3	10.7
Other debt securities	43.4	1.3	19.3	0.6
Total debt securities	<b>3,418.0</b>	<b>100.0</b>	3,269.9	100.0
Equity investments	316.2		290.2	
	<b>3,734.2</b>		3,560.1	

Investment securities principally comprise investment-grade rated debt securities issued by major international financial institutions and government-related entities.

Debt securities are classified as investment securities at amortised cost and equity investments are classified as FVTOCI.

b) Provisions for impairment

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

	2013	2012
	US\$ millions	US\$ millions
At 1 <sup>st</sup> January	7.7	19.0
Release for the period	-	(11.3)
At 30 <sup>th</sup> September	<b>7.7</b>	<b>7.7</b>

At 30<sup>th</sup> September 2013, the provisions for the impairment of investment securities entirely comprised non-specific provisions for debt investment securities determined on a collective basis.

8. Loans and advances

a) Composition

	30.9.13	31.12.12
	US\$ millions	US\$ millions
Gross loans and advances	8,972.6	7,736.0
Provisions for impairment	(587.8)	(625.7)
Net loans and advances	<b>8,384.8</b>	<b>7,110.3</b>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
For the nine months ended 30<sup>th</sup> September 2013

8. Loans and advances (continued)

b) Provisions for impairment

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

	Specific	Non-specific	Total	Specific	Non-specific	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1 <sup>st</sup> January	436.7	189.0	625.7	409.2	210.0	619.2
Exchange rate movements	0.1	-	0.1	0.3	-	0.3
Amounts utilised	(38.9)	-	(38.9)	(2.7)	-	(2.7)
Amounts reallocated	15.0	(15.0)	-	21.0	(21.0)	-
Charge for the period	0.9	-	0.9	9.3	-	9.3
At 30 <sup>th</sup> September	<b>413.8</b>	<b>174.0</b>	<b>587.8</b>	437.1	189.0	626.1

Amounts utilised during the nine months ended 30<sup>th</sup> September 2013 and 30<sup>th</sup> September 2012 represented provisions utilised on the settlement or sale of the related loans. No incremental losses arose on the settlement or sale of the loans.

9. Reserves

	Share premium	Compulsory reserve	Voluntary reserve	Cash flow hedge reserve	Investment securities revaluation reserve	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1 <sup>st</sup> January 2013	7.6	196.8	134.3	1.4	(11.9)	328.2
Net fair value gains on cash flow hedges	-	-	-	0.2	-	0.2
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	32.7	32.7
Transfers to consolidated statement of income	-	-	-	(1.4)	-	(1.4)
Net (decrease) / increase	-	-	-	(1.2)	32.7	31.5
At 30 <sup>th</sup> September 2013	<b>7.6</b>	<b>196.8</b>	<b>134.3</b>	<b>0.2</b>	<b>20.8</b>	<b>359.7</b>
At 1 <sup>st</sup> January 2012	7.6	187.9	125.4	3.5	-	324.4
Net fair value gains on cash flow hedges	-	-	-	0.1	-	0.1
Net fair value losses on equity investments classified as FVTOCI	-	-	-	-	(7.8)	(7.8)
Transfers to consolidated statement of income	-	-	-	(1.5)	-	(1.5)
Net decrease	-	-	-	(1.4)	(7.8)	(9.2)
At 30 <sup>th</sup> September 2012	<b>7.6</b>	<b>187.9</b>	<b>125.4</b>	<b>2.1</b>	<b>(7.8)</b>	<b>315.2</b>

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
For the nine months ended 30<sup>th</sup> September 2013

10. Derivatives and foreign exchange instruments

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

	Trading	Hedging	30.9.13 Total	31.12.12 Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	6,161.5	2,612.5	8,774.0	8,881.4
Options purchased	450.5	-	450.5	377.8
Options written	450.5	-	450.5	377.8
	<u>7,062.5</u>	<u>2,612.5</u>	<u>9,675.0</u>	<u>9,637.0</u>
Interest rate contracts:-				
Interest rate swaps	1,223.7	7,298.6	8,522.3	7,006.8
Cross currency swaps	-	533.3	533.3	533.3
Options, caps and floors purchased	24.3	-	24.3	24.3
Options, caps and floors written	24.3	-	24.3	24.3
	<u>1,272.3</u>	<u>7,831.9</u>	<u>9,104.2</u>	<u>7,588.7</u>
Credit contracts:-				
Protection sold	-	-	-	25.0
	<u>8,334.8</u>	<u>10,444.4</u>	<u>18,779.2</u>	<u>17,250.7</u>

At 30<sup>th</sup> September 2013, the Value-at-Risk of the foreign exchange, interest rate and credit derivative trading contracts analysed in the table above was US\$0.1 million, US\$0.3 million and nil respectively (31<sup>st</sup> December 2012: nil, nil 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 data set.

11. Credit-related financial instruments

	30.9.13 Notional principal amount	31.12.12 Notional principal amount
	US\$ millions	US\$ millions
Direct credit substitutes	508.7	386.1
Transaction-related contingent items	2,545.0	2,559.8
Short-term self-liquidating trade-related contingent items	679.1	591.0
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	1,368.6	808.2
	<u>5,101.4</u>	<u>4,345.1</u>

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 30<sup>th</sup> September 2013, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US\$910.4 million (31<sup>st</sup> December 2012: US\$849.6 million).

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**12. Fair value of financial instruments**

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments. By contrast, the fair value represents the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices or to the pricing prevailing for similar financial instruments and the use of estimation techniques such as discounted cash flow analysis.

The valuation methodologies applied are outlined below.

**a) Trading securities**

The fair values of trading securities are based on quoted prices or valuation techniques.

**b) Investment securities**

The fair values of equity investment securities are based on quoted prices or valuation techniques. The fair values of debt investment securities are based on market prices and approximate the carrying values.

**c) Loans and advances**

The fair values of loans held for trading are based on quoted market prices. The fair values of other loans on a floating interest rate basis are principally estimated at book value less provisions for impairment. The fair values of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the interest rate at the inception of the loan. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality.

**d) Term financing**

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values of senior term financing and subordinated term financing at 30<sup>th</sup> September 2013 approximate their respective book values.

**e) Other on-balance sheet items**

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet financial assets and liabilities approximate their respective book values due to their short-term nature.

**f) Credit-related contingent items**

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Specific provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

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**12. Fair value of financial instruments** (continued)

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:-

	Quoted prices (level 1) <u>US\$ millions</u>	Valuation based on observable market data (level 2) <u>US\$ millions</u>	Other valuation techniques (level 3) <u>US\$ millions</u>
<b>At 30<sup>th</sup> September 2013</b>			
Financial assets:			
Trading securities	79.6	-	-
Investment securities - equities	180.9	-	135.3
Derivative financial instruments	-	148.8	-
Financial liabilities:			
Derivative financial instruments	-	169.7	-

Quoted prices include prices obtained from lead managers, brokers and dealers. Investment securities valued based on other valuation techniques comprise private equity investments that have been valued based on price / earnings and price / book ratios for similar entities, discounted cash flow techniques or other valuation methodologies.

During the period ended 30<sup>th</sup> September 2013, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) increased by US\$6.0 million. The increase principally comprised changes in assigned valuations as recognised in other comprehensive income. No transfers out of, or into, the level 3 measurement classification occurred during the period ended 30<sup>th</sup> September 2013.

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

**13. Segmental information**

For financial reporting purposes, the Group is organised into four main operating segments:-

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers, and the provision of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.
- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Group's balance sheet, including funding.
- Financial markets: the provision of asset and fund management services.
- Corporate and support units: income arising on the investment of the Group's net free capital funds and expenses incurred by support units.

The results reported for the business segments are based on the Group's internal financial reporting systems, which report interest revenue and interest expense on a net basis. The accounting policies of the segments are the same as those applied in the preparation of these condensed interim consolidated financial statements. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. Liabilities reported for corporate and support units comprise senior and subordinated term finance facilities and related accrued interest, the cost of which is recharged to the relevant operating business segments.

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For the nine months ended 30<sup>th</sup> September 2013

13. **Segmental information** (continued)

The business segment analysis is as follows:-

	<u>Wholesale banking</u>	<u>Treasury</u>	<u>Financial markets</u>	<u>Corporate and support units</u>	<u>Total</u>
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
<b>Nine months ended 30.9.13</b>					
Net interest income	41.6	46.9	-	31.2	119.7
Total income	79.4	76.3	18.4	37.1	211.2
Segment result	46.7	68.4	14.1	(25.3)	103.9
Taxation charge on overseas activities					(2.4)
Net income after tax					101.5
<b>Nine months ended 30.9.12</b>					
Net interest income	29.3	48.0	-	31.5	108.8
Total income	64.7	78.4	12.8	37.5	193.4
Segment result	18.7	70.4	7.9	2.7	99.7
Taxation charge on overseas activities					(2.7)
Net income after tax					97.0
<b>30.9.13</b>					
Segment assets	8,576.0	11,646.1	119.3	274.5	20,615.9
Segment liabilities	-	15,394.9	107.0	2,871.2	18,373.1
Total equity					2,242.8
Total liabilities and equity					20,615.9
<b>31.12.12</b>					
Segment assets	7,286.2	10,097.1	76.4	245.1	17,704.8
Segment liabilities	-	13,007.1	80.7	2,486.8	15,574.6
Total equity					2,130.2
Total liabilities and equity					17,704.8

14. **Earnings per share**

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of shares in issue during the period.

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30.9.13</b>	30.9.12	<b>30.9.13</b>	30.9.12
Net income (US\$ millions)	40.9	39.0	101.5	97.0
Weighted average number of shares in issue (milli)	2,500.0	2,500.0	2,500.0	2,500.0
<b>Basic earnings per share</b>	<b>US\$0.02</b>	US\$0.02	<b>US\$0.04</b>	US\$0.04

The diluted earnings per share is equivalent to the basic earnings per share set out above.