

Gulf International Bank B.S.C.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st March 2013

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For the three months ended 31st March 2013

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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
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25 April 2013

Introduction

We have reviewed the accompanying 31 March 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 31 March 2013;
- the condensed consolidated income statement for the three month period ended 31 March 2013;
- the condensed consolidated statement of comprehensive income for the three month period ended 31 March 2013;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2013;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 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 31 March 2013 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

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Consolidated statement of financial position

	Note	31.3.13 US$ millions	31.12.12 US$ millions
ASSETS			
Cash and other liquid assets		**1,579.8**	1,107.4
Securities purchased under agreements to resell		**1,018.6**	1,010.8
Placements		**5,629.9**	4,479.7
Trading securities		**106.3**	100.5
Investment securities	*7*	**3,743.6**	3,560.1
Loans and advances	*8*	**7,365.8**	7,110.3
Other assets		**355.2**	336.0
Total assets		**19,799.2**	17,704.8
LIABILITIES			
Deposits from banks		**2,109.4**	2,222.4
Deposits from customers		**11,761.2**	9,471.9
Securities sold under agreements to repurchase		**487.2**	597.7
Other liabilities		**400.6**	372.1
Senior term financing		**2,432.9**	2,432.7
Subordinated term financing		**477.8**	477.8
Total liabilities		**17,669.1**	15,574.6
EQUITY			
Share capital		**2,500.0**	2,500.0
Reserves	*9*	**327.6**	328.2
Retained earnings		**(697.5)**	(698.0)
Total equity		**2,130.1**	2,130.2
Total liabilities & equity		**19,799.2**	17,704.8

The condensed interim consolidated financial statements were approved by the Board of Directors on 25th April 2013 and signed on its behalf by:-

Jammaz bin Abdullah Al-Suhaimi	**Abdullah bin Hassan Al-Abdulgader**	**Yahya bin Abdullah Alyahya**
Chairman	Chairman of Board Audit Committee	Chief Executive Officer

The notes on pages 6 to 12 form part of these condensed interim consolidated financial statements.

Consolidated statement of income

	Note	Three months ended 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
Interest income		69.8	70.3
Interest expense		34.5	38.4
Net interest income		35.3	31.9
Fee and commission income	*3*	13.9	15.4
Foreign exchange income	*4*	6.5	2.7
Trading income	*5*	7.4	5.4
Other income	*6*	1.0	6.4
Total income		64.1	61.8
Staff expenses		23.3	20.6
Premises expenses		2.7	2.4
Other operating expenses		7.8	7.1
Total operating expenses		33.8	30.1
Net income before provisions and tax		30.3	31.7
Provisions for investment securities	*7*	-	5.3
Provisions for loans and advances	*8*	(3.0)	(4.7)
Net income before tax		27.3	32.3
Taxation charge on overseas activities		(0.8)	(0.5)
Net income		26.5	31.8
Earnings per share	*13*	*US$0.01*	*US$0.01*

Jammaz bin Abdullah Al-Suhaimi	**Abdullah bin Hassan Al-Abdulgader**	**Yahya bin Abdullah Alyahya**
Chairman	Chairman of Board Audit Committee	Chief Executive Officer

The notes on pages 6 to 12 form part of these condensed interim consolidated financial statements.

Consolidated statement of comprehensive income

	Three months ended 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
Net income	**26.5**	31.8
Other comprehensive income:-		
Items that may subsequently be reclassified to statement of income:		
Cash flow hedges:		
- net changes in fair value	**-**	0.1
- net amount transferred to consolidated statement of income	**(1.2)**	(0.1)
	(1.2)	-
Items that will not be reclassified to statement of income:		
Investment securities:		
- net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	**0.6**	26.1
- realised gains / (losses) on equity investments classified as fair value through other comprehensive income	**0.2**	(0.2)
- remeasurement of defined benefit pension fund	**(3.7)**	-
	(2.9)	25.9
Total other comprehensive income	**(4.1)**	25.9
Total comprehensive income	**22.4**	57.7

The notes on pages 6 to 12 form part of these condensed interim consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital US$ millions	Reserves US$ millions	Retained earnings US$ millions	Total US$ millions
At 1st January 2013		**2,500.0**	**328.2**	**(698.0)**	**2,130.2**
Transition adjustment on adoption of IAS 19	*2*	-	-	(22.5)	(22.5)
At 1st January 2013 - restated		**2,500.0**	**328.2**	**(720.5)**	**2,107.7**
Net income for the period		-	-	26.5	26.5
Other comprehensive income for the period		-	(0.6)	(3.5)	(4.1)
Total comprehensive income for the period		-	(0.6)	23.0	22.4
At 31st March 2013		**2,500.0**	**327.6**	**(697.5)**	**2,130.1**
At 1st January 2012		**2,500.0**	**324.4**	**(798.0)**	**2,026.4**
Net income for the period		-	-	31.8	31.8
Other comprehensive income for the period		-	26.1	(0.2)	25.9
Total comprehensive income for the period		-	26.1	31.6	57.7
At 31st March 2012		**2,500.0**	**350.5**	**(766.4)**	**2,084.1**

The notes on pages 6 to 12 form part of these condensed interim consolidated financial statements.

Consolidated statement of cash flows

	Three months ended 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
OPERATING ACTIVITIES		
Net income	26.5	31.8
Adjustments to reconcile net income to net cash inflow from operating activities:		
Provisions for investment securities	-	(5.3)
Provisions for loans and advances	3.0	4.7
Realised profits on debt investment securities	-	(0.2)
Amortisation of investment securities	5.0	5.4
Amortisation of senior term financing	0.2	-
Net increase in statutory deposits with central banks	(23.1)	(10.4)
Net increase in securities purchased under agreements to resell	(7.8)	-
Net increase in placements	(1,150.2)	(1,271.9)
Net increase in trading securities	(5.8)	(4.7)
Net (increase) / decrease in loans and advances	(258.5)	443.9
Increase in accrued interest receivable	(6.9)	(17.0)
Increase in accrued interest payable	9.7	11.6
Net (increase) / decrease in other net assets	(15.1)	4.5
Net (decrease) / increase in deposits from banks	(113.0)	264.1
Net increase in deposits from customers	2,289.3	1,308.8
Net cash inflow from operating activities	753.3	765.3
INVESTING ACTIVITIES		
Purchase of investment securities	(292.6)	(510.0)
Sale and maturity of investment securities	99.1	125.1
Net cash outflow from investing activities	(193.5)	(384.9)
FINANCING ACTIVITIES		
Net decrease in securities sold under agreements to repurchase	(110.5)	(14.4)
Net cash outflow from financing activities	(110.5)	(14.4)
Increase in cash and cash equivalents	449.3	366.0
Cash and cash equivalents at 1st January	1,030.7	814.2
Cash and cash equivalents at 31st March	1,480.0	1,180.2

The notes on pages 6 to 12 form part of these condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The condensed interim consolidated financial statements for the three months ended 31st March 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 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 2012, except for the adoption of applicable new accounting standards with effect from 1st January 2013 as referred to below.

IAS 19 - Employee Benefits (revised)

The Group adopted the revisions to IAS 19 on 1st 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 1st 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 1st 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
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3. Fee and commission income

	Three months ended 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
Fee and commission income		
Commissions on letters of credit and guarantee	7.4	8.2
Investment banking and management fees	5.3	6.9
Other fee and commission income	1.5	0.7
Total fee and commission income	14.2	15.8
Fee and commission expense	(0.3)	(0.4)
Net fee and commission income	13.9	15.4

Investment banking and management fees comprised 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 comprised security custody fees.

4. Foreign exchange income

Foreign exchange income principally comprised 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 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
Managed funds	6.8	1.7
Debt securities	0.5	3.6
Interest rate derivatives	0.1	0.1
	7.4	5.4

Trading income comprised 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.

6. Other income

	Three months ended 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
Dividend income on equity investments	1.0	2.6
Recognition of dividend income arising on the adoption of IFRS 9	-	2.2
Recoveries on previously written-off loans	-	1.4
Net realised profits on investment debt securities	-	0.2
	1.0	6.4

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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:-

	31.3.13		31.12.12	
	US$ millions	%	US$ millions	%
AAA to A- / Aaa to A3	**3,096.4**	**89.6**	2,901.3	88.7
BBB+ to BBB- / Baa1 to Baa3	**340.3**	**9.8**	349.3	10.7
Other debt securities	**19.3**	**0.6**	19.3	0.6
Total debt securities	**3,456.0**	**100.0**	3,269.9	100.0
Equity investments	**287.6**		290.2	
	3,743.6		3,560.1	

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

b) Classification

Investment securities were classified as follows:-

	31.3.13	31.12.12
	US$ millions	US$ millions
Debt securities:		
- At amortised cost	**3,456.0**	3,269.9
Equity investments:		
- At FVTOCI	**287.6**	290.2
	3,743.6	3,560.1

c) Provisions for impairment

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

	2013	2012
	US$ millions	US$ millions
At 1st January	**7.7**	19.0
Release for the period	**-**	(5.3)
At 31st March	**7.7**	13.7

At 31st March 2013, the provisions for the impairment of investment securities entirely comprised non-specific provisions for debt investment securities determined on a collective basis.

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8. Loans and advances

a) Composition

	31.3.13 US$ millions	31.12.12 US$ millions
Gross loans and advances	7,993.4	7,736.0
Provisions for impairment	(627.6)	(625.7)
Net loans and advances	**7,365.8**	7,110.3

b) Provisions for impairment

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

	2013			2012		
	Specific US$ millions	Non-specific US$ millions	Total US$ millions	Specific US$ millions	Non-specific US$ millions	Total US$ millions
At 1st January	436.7	189.0	625.7	409.2	210.0	619.2
Exchange rate movements	(1.1)	-	(1.1)	0.5	-	0.5
Amounts utilised	-	-	-	(2.7)	-	(2.7)
Amounts reallocated	15.0	(15.0)	-	14.3	(14.3)	-
Charge for the period	3.0	-	3.0	4.7	-	4.7
At 31st March	453.6	174.0	627.6	426.0	195.7	621.7

9. Reserves

	Share premium US$ millions	Compulsory reserve US$ millions	Voluntary reserve US$ millions	Cash flow hedge reserve US$ millions	Investment securities revaluation reserve US$ millions	Total US$ millions
At 1st January 2013	**7.6**	**196.8**	**134.3**	**1.4**	**(11.9)**	**328.2**
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	0.6	0.6
Transfers to consolidated statement of income	-	-	-	(1.2)	-	(1.2)
Net decrease	-	-	-	(1.2)	0.6	(0.6)
At 31st March 2013	**7.6**	**196.8**	**134.3**	**0.2**	**(11.3)**	**327.6**
At 1st 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 gains on investments classified as FVTOCI	-	-	-	-	26.1	26.1
Transfers to consolidated statement of income	-	-	-	(0.1)	-	(0.1)
Net increase	-	-	-	-	26.1	26.1
At 31st March 2012	**7.6**	**187.9**	**125.4**	**3.5**	**26.1**	**350.5**

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10. Derivatives and foreign exchange instruments

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

	Trading	Hedging	31.3.13 Total	31.12.12 Total
	US$ millions	US$ millions	US$ millions	US$ millions
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	7,146.3	2,994.3	10,140.6	8,881.4
Options purchased	439.4	-	439.4	377.8
Options written	439.4	-	439.4	377.8
	8,025.1	2,994.3	11,019.4	9,637.0
Interest rate contracts:-				
Interest rate swaps	1,386.7	5,858.7	7,245.4	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
	1,435.3	6,392.0	7,827.3	7,588.7
Credit contracts:-				
Protection sold	25.0	-	25.0	25.0
	9,485.4	9,386.3	18,871.7	17,250.7

At 31st March 2013, the Value-at-Risk of the foreign exchange, interest rate and credit derivative trading contracts analysed in the table above was nil, nil and nil respectively (31st 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

	31.3.13 Notional principal amount	31.12.12 Notional principal amount
	US$ millions	US$ millions
Direct credit substitutes	460.6	386.1
Transaction-related contingent items	2,680.9	2,559.8
Short-term self-liquidating trade-related contingent items	497.9	591.0
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	797.4	808.2
	4,436.8	4,345.1

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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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 31st March 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) US$ millions	Valuation based on observable market data (level 2) US$ millions	Other valuation techniques (level 3) US$ millions
At 31st March 2013			
Financial assets:			
Trading securities	106.3	-	-
Investment securities - equities	157.2	-	130.4
Derivative financial instruments	-	153.5	-
Financial liabilities:			
Derivative financial instruments	-	200.4	-

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 ratios for similar entities, discounted cash flow techniques or other valuation methodologies.

During the period ended 31st March 2013, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) increased by US$1.1 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 31st March 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. **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.

	Three months ended 31.3.13 US$ millions	Three months ended 31.3.12 US$ millions
Net income (US$ millions)	26.5	31.8
Weighted average number of shares in issue (millions)	2,500.0	2,500.0
Basic earnings per share	**US$0.01**	US$0.01

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